



Crescent Point Energy Corp.: Will OPEC Cut Production?

Description

Oil prices have ticked up recently on speculation that the Organization for Petroleum Exporting Countries (OPEC) may finally cut production. Such news would be outstanding for a company like **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which needs higher oil prices to fund its dividend over the long term.

What are the odds of this happening?

Some background

As we all know, OPEC's decisions are primarily driven by Saudi Arabia, the world's largest oil producer. And the Saudis have historically been willing to cut production when prices are depressed, helping to stabilize the market. For example, this happened three times in the late 1990s and during the depths of the recent financial crisis.

But the recent fall in oil prices has been different. Increased supply from non-OPEC members (such as American shale producers) has created a global glut, leaving OPEC with relatively little power. After all, if the Saudis decide to cut production, then non-OPEC members would simply steal market share. Thus it shouldn't surprise anyone that the Saudis have kept the spigots open.

What would need to happen for a production cut?

Put simply, the Saudis would need full cooperation from a host of oil producers (both OPEC and non-OPEC) in order to agree to a production cut. And according to *Reuters*, "a report sourced to a senior OPEC delegate said Saudi Arabia would next year propose a deal to balance oil markets with non-OPEC help."

This means that non-OPEC members such as Russia, Mexico, Oman, and Kazakhstan would have to join in.

Notably, Iran would not join in any production cut. The country is eagerly waiting for its chance to ramp up oil exports as sanctions are lifted. Of course, the American shale producers wouldn't take part either.

The odds are slim

The general consensus is that this will amount to nothing. And I share that belief.

Coordinating a production cut is hard enough when only OPEC states are involved (members tend to produce above their respective quotas) and would be unprecedented if other countries joined in. Making matters even more difficult, Russia is at odds with the Saudis over its role in Syria. And Russia would not want to take any actions that benefit American (and Canadian) oil producers.

So for now at least, we're probably not going to see a quick oil rebound any time soon. That's bad news for Crescent Point as well as its dividend.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Energy Stocks
2. Investing

Date

2025/07/20

Date Created

2015/12/03

Author

bensinclair

default watermark

default watermark