



Will We Finally See OPEC Cut Production?

Description

Oil prices rose sharply on Tuesday and were driven mainly by hopes of a new OPEC supply deal. Of course, this news was also positive for Canada's energy stocks. For example, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) saw their shares rally by as much as 6.0% and 6.4%, respectively.

So is there anything to this story? Is there any hope of an OPEC deal? Or is this just another mirage in the desert?

Why there is some optimism

While speaking at a conference in London, OPEC Secretary General Abdullah al-Badri said "Tough times requires tough choices ... It is crucial that all major producers sit down and come up with a solution."

Meanwhile, Leonid Fedun, the vice president of Russian energy giant Lukoil, called on the Russian government to make a deal with OPEC nations. If the Kremlin agrees, it would mark a major shift in policy and would be very positive for oil prices.

There are other reasons to be optimistic. For starters, there are an extreme number of short bets on oil, so if sentiment shifts (or there is an OPEC deal), then we could easily see a short squeeze. Furthermore, low oil prices are resulting in a lack of investment, which may cause shortages in the long term.

Don't get your hopes up too fast

There are a bunch of reasons why an OPEC deal will never happen. First of all, there are too many countries that refuse to cut production, including Iran, another OPEC member. Russia has also refused, partly because its oil companies are privately owned, meaning the Kremlin can't negotiate with OPEC on their behalf.

Of course, if there ever were an agreement, it would benefit the American shale oil producers more

than anyone else. And that wouldn't sit well with countries like Russia and Iran, both of which have a confrontational relationship with the United States.

A short squeeze is much more realistic and could easily propel oil to US\$40 very quickly. In fact, just last week we saw a big rally in oil caused partly by a short squeeze. But here's the problem: American shale oil producers have been very effectively cutting costs and for that reason could easily ramp up their drilling efforts once signs of a pullback emerge. That is what we saw last year during a couple of very brief oil rallies.

Making matters worse, there are some big questions on the demand side, and there's still a massive amount of oil in inventory. All of a sudden, Crescent Point and Canadian Natural Resources don't look so attractive anymore.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:VRN (Veren)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:VRN (Veren Inc.)

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