



Kuwait: Prepare for \$50 Oil

Description

Kuwait, which exports about 2.1 million barrels per day, expects the price of crude oil to rise to \$50 per barrel by the end of 2016, citing “increased demand and shrinking supply” as the reason for the expected rise. While oil bulls will likely pounce on this statement, it’s just another prediction on where oil is headed. For example, the World Bank is expecting oil to average just \$37 a barrel this year. The IMF comes in even more bearish at \$30 a barrel.

Is Kuwait overly optimistic in calling for \$50 oil this year?

Markets are starting to rebalance

The drop in oil was chiefly a supply issue. As shale production exploded following the mass adoption of fracking, the United States nearly doubled its domestic oil production from 2007 to 2015. Because oil imports are negatively correlated with domestic production, imports fell over 50% from their highs of 12 million barrels a day in 2005.

Lower U.S. imports forced major global producers (such as Saudi Arabia) to drop prices. Still, major projects across the world—which were initiated when oil was above \$100 a barrel—started to come online, pushing production higher despite falling prices. Finally, things are starting to rebalance.

Right now, global oil production is about two million barrels per day above consumption. By 2017, the EIA expects this gap to close and be completely eliminated by the end of the year. Importantly, their forecasts still call for higher production that’s increasing at a slower rate.

The biggest non-OPEC production slowdowns should be felt in the U.S., Russia, Mexico, and the U.K. OPEC production, meanwhile, will hold fairly steady—a big reason why the markets won’t rebalance until the end of 2017. However, as long as consumption continues to chug higher, conditions will likely improve considerably. The last time the market was completely balanced, oil was at \$100 a barrel.

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Who wins?

While every oil producer will fare better with higher selling prices, some are more leveraged to an oil rebound. With high-quality assets across numerous low-cost regions, **Encana Corporation** (TSX:ECA)(NYSE:ECA) is one of those companies.

At \$50, most of its major projects would generate annual returns in excess of 30%. And with ample financing in place to survive a continued multi-year downturn, Encana shareholders simply need oil to rebound over the long term. Shares have rallied quite a bit since oil hit \$40 a barrel, but there's reason to believe [more upside is in store](#).

Another winner would be **Whitecap Resources Inc.** ([TSX:WCP](#)). At \$45 oil, free funds flow might double. With oil at \$55, cash generation could jump by almost 400%. With low debt levels, a sustainable 6% dividend, growing production, falling costs, and quality assets, Whitecap shares [have significant upside](#) if oil prices improve.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

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