



## OPEC May Have Just Given Investors Who Missed the Oil Rally a Second Chance

### Description

On Sunday April 17, OPEC producers—representing about half of global output—met in Doha Qatar to finalize a production freeze pact that was originally discussed in February. The outcome of this meeting was widely expected to cause a large swing in oil prices in either direction, and the news that no agreement was reached did just that—WTI futures are down 3.5% as of writing and are likely to fall lower.

The deal was almost doomed to fail from the start, since Saudi Arabia stated as recently as Friday that no production freeze would be possible if Iran was not willing to take part. On Saturday Iran made it clear that it would not take part and didn't even send a representative to Doha.

From a fundamental perspective, an agreement without Iran would've been useless—the country is set on ramping production to pre-sanction levels of four million bpd by early 2017 (800,000 barrels per day above current levels) with the most other OPEC producers expected to be roughly flat.

This does not mean an agreement (or lack thereof) is unimportant. The dip in oil prices that has already begun means that many Canadian names with crude exposure (including banks and oil producers) could go on sale once again.

### OPEC still has the power to move markets

Even if the Doha group agreed to freeze its production at January levels, this would have been largely meaningless and potentially even negative for oil prices since the largest names in the Doha group have actually seen production fall since January. This includes Iraq and Saudi Arabia, which are producing at lower levels than they were in January. Iraq is close to maxing out its sustainable production capacity, and Saudi Arabia is unlikely to use the rest of its capacity.

An agreement would have still been bullish for oil prices, however, since OPEC still has the power to greatly affect oil market sentiment. The evidence is clear just by looking at recent pivots in the price of oil—OPEC news has almost always been a contributing factor.

In early December, OPEC decided to abandon its production target, which sent prices plunging US\$5 per barrel. Then in early January, news of severing diplomatic relations between Saudi Arabia and Iran (among other things) triggered a massive wave of selling that took oil below US\$30 per barrel.

In mid-February, OPEC agreed to meet in April to discuss a potential freeze, which was the trigger event for a massive rally from US\$26 per barrel lows to around US\$42 per barrel. With the meeting that was responsible for a shift in sentiment around the oil market now failed, traders that were speculating on a deal succeeding may begin to sell.

The failed meeting could also worsen market sentiment and lead investors to focus on near-term fundamentals, which are still fairly bearish. After all, in March the EIA released data that showed there is still a 1.45 million barrel per day oversupply. Oil is still being added to storage, and until regular withdrawals are made, a sustainable rally cannot happen.

### **This is an excellent buying opportunity**

The long-term outlook for oil is still excellent as U.S. production continues to fall, which makes the current pullback a buying opportunity. Names like **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and **Baytex Energy Corp.** ([TSX:BTE](#))([NYSE:BTE](#)) should see weakness if oil continues to move down.

Bank of Nova Scotia is often discounted compared with its peers due to its oil exposure as well as its Albertan exposure. Bank of Nova Scotia has the second-highest exposure to Alberta in its peer group and the highest exposure to oil and gas loans. This means Bank of Nova Scotia could pull back more on the Doha news.

Baytex is also highly leveraged to oil prices. Due to relatively high debt levels (which are no longer a concern due to relaxed debt covenants), investors have stayed away from Baytex. Any pullback is an opportunity to get in on a name with large upside.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:BTE (Baytex Energy Corp.)

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