Goldman Sachs Group Inc.: Oil Set for Another Decline

Description

Crude oil has had a terrific 2016. Thus far, prices have popped over 30% from their lows set in February. According to one major investment bank, however, the run may face stiff resistance in the coming year.

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Another supply glut?

Damien Courvalin, an energy analyst at **Goldman Sachs Group Inc.** (NYSE:GS), is warning that oil markets could face another supply glut by 2017. While his estimates show that prices could go as high as US$51 a barrel by then end of this year (above his previous call of US$45), they will fall back to US$45 in the first three months of 2017 (down from his previous call of US$55).

According to his report, this year's price gains have been "driven by both sustained strong demand as well as sharply declining production." However, many of the supply cuts have been temporary in nature. "Transient but recurring disruptions have more than offset larger than expected Iran and Iraq production," the report says. "And while some of the disruptions will stop such as maintenance, fires and strikes, some are likely systemic, for example in Nigeria, and we now expect production there will remain curtailed for the remainder of the year."

So, deeper than expected supply cuts have boosted oil prices in 2016 above expectations. But once the temporary cuts are brought back online, Courvalin believes prices may hit a ceiling. "In essence, this forecast revision reflects our long-held view that expectation for long-term surpluses can create near-term shortages and leaves us cyclically bullish but long-term bearish," he writes. "We believe that the industry still has further to adjust."

Who feels the pain?

The biggest pain will be felt by oil companies with either high levels of debt, high production costs, or,in many cases, both. With oil prices improving, the share prices of such companies have popped considerably. Any slowdown in bullishness could bring prices back to earth.

For example, shares of **Encana Corporation** (TSX:ECA)(NYSE:ECA), **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), and **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) are all up over 25% since the year began, outpacing oil's return of just 16%. If the pace of the rebound slows, these share gains may prove to be castles in the sky.

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1. Energy Stocks
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1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:GS (Goldman Sachs)
3. TSX:BTE (Baytex Energy Corp.)
4. TSX:CNQ (Canadian Natural Resources Limited)

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