This Chart Can Help You Time When to Buy Key Oil Names

Description

Perhaps one of the only things oil investors can count on each year is that oil prices exhibit seasonality; that is to say, certain time periods throughout the year show recurring patterns in price (some periods show seasonal strength, and others show seasonal weakness). These patterns aren't definite. Equityclock.com, for example, shows that crude oil typically has a fairly weak October, showing positive gains only 40% of the time.

What is the seasonal pattern for oil? As shown in the chart below, oil is typically weakest from August through February (a pattern that shows on both the five-, 10-, and 15-year charts), and then strongest from February through to the end of July. Oil has actually tracked this pattern fairly well this year.

The seasonality in oil prices is mostly due to demand from refineries, which goes in seasonal cycles. Typically, demand from refineries peaks in July, which coincides with the summer driving season. As the summer driving season winds down into August and September, gasoline demand falls, and, as a result, refiners use this period to engage in shutdowns for maintenance. The end result is that between July and October each year, demand for oil typically drops 1.2 million barrels per day (the five-year average for this period).

This leads to a predictable slump in oil prices. The end result is that investors should typically consider using the fall as a period to accumulate oil names. Of course, there are numerous other factors other than seasonal refinery demand that influences oil prices, and this year these factors seem more likely to amplify the normal seasonal downturn in prices, giving investors an even better buying window.

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The outlook for oil this fall is bearish

There are a few factors at play, and the first is inventory levels. As of the EIA's last weekly report (Sept. 8) , there were 511 million barrels of crude oil in storage. These are concerning levels; they are 53.4

million barrels higher than they were a year ago and about 130 million barrels above the five-year average of 380 million barrels.

Even more concerning is that this year oil inventories managed to increase from mid-July to mid-August during a period when inventories almost always seasonally drop due to strong demand from refineries.

According to Art Berman, no real recovery in oil prices is possible until oil inventories come down by at least 125 million barrels to something approaching the five-year average. This is because the main issue in the oil market is no longer oversupply (oversupply for the past few months has only been about 500,000 bpd, which is fairly normal).

Refinery maintenance season is just starting and set to rise through September and October, taking hundreds of thousands of barrels of demand out, which should lead to builds in inventories rather than declines. This should keep a lid on oil prices and possibly lead to even more downside, at least until refinery maintenance season winds down in late October.

Adding to this downside is the fact that the upcoming OPEC meeting is unlikely to lead to any sort of freeze since Iran wants to restore its production to levels it had before sanctions.

Crescent Point is setting up for a strong buying opportunity

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is a market leader in terms of assets (it has some of the shortest payback assets in North America), technology (it has been using waterflooding to continually drive down decline rates of its wells and reduce capital expenditures), and free cash flow. Further weakness in oil could lead to a buying opportunity.

Crescent Point shares just plunged to the low $17-per-share range (on news that they are issuing equity to grow production as well as due to the recent weakness in oil prices). Oil analyst Eric Nuttall recently stated that if Crescent Point got down to the high $18 range or low $19 range, it would be a buy. The next few months will be a good chance to buy more.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

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