Is Oil Hitting an Invisible Price Ceiling?

Description

On September 23, Nansen G. Saleri, president and CEO of Quantum Reservoir Impact, penned an op-ed for *CNBC,* outlining his belief that oil is reaching an “invisible ceiling.” According to Saleri, “Low prices and less volatility are likely to continue.”

Can oil push past US$50 a barrel? Or will Saleri’s vision of low oil prices be realized?

An explosion of renewables pressure oil demand

Saleri’s biggest contention is that we are “witnessing the genesis of a clean energy ecosystem that is more market-driven and less susceptible to non-market forces than ever before.” Oil companies won’t cease to exist, but they will “have to compete in a far more crowded, mixed, and diversified field of energy providers.”

The latest data suggests that he may be right.

A recent International Energy Agency (IEA) report shows that global oil demand growth is slowing at a faster pace than initially predicted.

“For 2016, a gain of 1.3 million barrels a day is expected,” the IEA said. That’s a downgrade of 100,000 barrels a day from its previous forecast. “Momentum eases further to 1.2 mb/d in 2017 as underlying macroeconomic conditions remain uncertain.” Its forecast for 2018 was also cut.

So, despite historically low oil prices, demand expectations still seem to be falling. That’s where Saleri’s renewable argument gains credibility.

For the first time ever, investments in new renewable energy sources was more than enough to cover rising global electricity demand. Nearly 70% of electricity generation spending is going towards building renewable projects.

The IEA is describing it as a “reorientation of the energy system.”

Others agree

Saleri isn’t the only one predicting trouble for crude prices.

According to Steve Williams, CEO of **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), oil markets will remain volatile and difficult to predict. He listed “uncertain growth in demand” as a chief concern.

Exxon Mobil Corporation (NYSE:XOM) CEO Rex Tillerson has an ever more bearish take on oil prices. Speaking at a conference last year, Tillerson predicted that oil prices would remain subdued for the next several years. So far, he’s right.

Ryan Lance, the CEO of **ConocoPhillips** (NYSE:COP), believes that even if oil prices spike, they’re bound to come down. “If $80-90 [per barrel] comes back, there’s a good chance that $50-60 comes back as well because of all the new oil that will come online from completed wells,” he said. “Boom, bust, boom, bust.”

How should you invest?

If you’re invested in energy, choose companies that can grow earnings even if headline oil prices remain weak.

For example, **Husky Energy Inc.** (TSX:HSE) just settled a contract dispute with **CNOOC Ltd.** (NYSE:CEO) and is looking to grow substantially over the next year or two. Even at US$50 crude, management anticipates generating $800 million in annual free cash flow. With a market cap of just $15.1 billion, that would be a sizable amount.

Husky Energy allows you to gain access to the oil space without necessarily betting on a major rebound.

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