



## Why a Trump Presidency Could Be Bad for the Energy Patch

### Description

Trump's surprise ascendancy to the White House has put a rocket under commodities; iron ore, copper, and coking coal are all surging after his victory. Oil remains on the skids, plummeting by 1.5% in the last week to US\$43 per barrel because OPEC reported record monthly production for October.

There are signs that, despite the bounce in other commodities, oil will continue to languish for some time because Trump's policies are likely to apply further pressure to the price of crude.

### Now what?

Trump's main slogan throughout the campaign was centred on making America great again. Part of his policy for doing so, along with investing heavily in infrastructure, is to ensure that the U.S. becomes energy independent.

Oil billionaire and chairman as well as CEO of **Continental Resources Inc.** Harold Hamm believes that Trump can achieve this in roughly six years. For that to happen, there would need to be a massive amount of investment in the U.S. shale oil industry. To date, much of that investment has been deterred by complex legislation and the ongoing slump in crude.

Trump plans to remove or at least minimize these barriers by repealing or moderating much of the regulation put in place by President Obama. He also wants to open federal land to drilling and revive the Keystone XL pipeline. If successful, this will only lead to a marked increase in U.S. oil production.

Many industry insiders predict that in the right environment, U.S. shale oil output could easily double over the next two decades.

More surprising is that this will still occur in a harsh operating environment dominated by weak oil prices. The prolonged slump in crude forced shale oil companies to slash costs, and this now means, according to energy consultancy WoodMackenzie, that most shale wells are profitable to drill with oil at US\$50 per barrel.

This represents a threat to Canada's energy patch.

You see, U.S. light tight crude is easier and cheaper to refine than many Canadian crude blends, particularly heavy crude, also known as Western Canadian Select, or WCS, which is extracted from oil sands. A significant increase in shale oil production will not only place pressure on oil prices, but could also cause the price differentials between Canadian crude blends and the benchmark North American price West Texas Intermediate, or WTI, to widen.

This may recreate a phenomenon witnessed earlier this year, where the price of WCS plunged below the cost of production for many heavy oil producers.

This forced troubled upstream oil producer **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) to shutter around 7,500 barrels of daily heavy oil production during the first quarter of this year. If crude remains at about US\$50 per barrel or less for a prolonged period, the company may struggle to survive. Baytex needs WTI to be US\$55 per barrel if it is to be free cash flow positive and capable of funding its exploration and development activities as well as paying down its tremendous amount of debt.

If this weren't enough bad news for a struggling energy patch, the ongoing discord within OPEC could very well derail the cartel's plans to establish production caps and cut oil output. Iran, Iraq, and Libya are all seeking exemptions from any production cuts and are determined to grow their oil output because it is their only viable means of boosting much-needed government revenues.

### So what?

The fallout from Trump's victory may not be as severe as many pundits had investors believe leading up to the election. While his policies may be positive for the vast bulk of commodities, the push for U.S. energy independence will keep a lid on oil prices or even force them lower, sharply impacting the energy patch.

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**Author**

mattsmith

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