Sorry Oil Shorts: Non-OPEC Countries Have Just Agreed to Output Cuts

Description

It looks like the oil bears had their weekends ruined last Saturday, following a surprising announcement that non-OPEC nations such as Russia, Mexico Azerbaijan, Kazakhstan, and Oman have also agreed to cut output by a combined figure of about 558,000 barrels per day.

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This latest development, dubbed "shock and awe by Saudi Arabia" by analysts, bodes extremely well for oil bulls as the viability of the earlier announced OPEC production cut was contingent upon nonmember (especially Russia's) cooperation. In response to the news, as of 12:25 p.m. Tokyo time, WTI crude and Brent gained 4.8% and 4.2%, respectively, to their Friday's settlement prices, reaching levels not seen since July.

This latest surprise announcement also points to signs that Saudi Arabia is committed to bringing some sort of normalcy into the oil markets following two years of supply surplus. Moreover, the Saudi oil minister Khalid al-Falih went on record to state that come January 1, the Kingdom was going to cut output with "absolute certainty" below the level 10.07 million bpd level agreed upon on November 30 in Vienna.

Don't expect $60/bbl right away

That being said, even an OPEC and non-OPEC union doesn't necessarily entail $60/bbl oil immediately.

As reported by *Bloomberg*, current inventory figures are well north of current demand, and it will take at least until the second half of 2017 to reach Riyadh's target price–that is, if OPEC doesn't cheat on its self-imposed quotas.

Furthermore, higher oil prices also mean that bruised and battered U.S. and Canadian oil producerswill be looking to increase output, even as OPEC begins to cut. Currently, North American producershave been quick to hedge oil at $50/bbl as they look to ramp up production, driving the crude futurescurve backward: a scenario in which futures contracts with near-term delivery are priced higher thanlonger-dated ones, such as the December 2017 WTI contract being priced higher than the June 2018contract.

Stay or look to go long

But for now, anyway, this latest news further strengthens oil's bullish case, and you can expect the rally in Canadian energy names to continue next week. One such name is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which has gained 20% since I first wrote about it prior to the November 30th announcement.

If you're long Crescent Point, obviously, stay long or add to your position, and if you're not, seriously consider the stock on the strength of its improving balance sheet and the series of counter-cyclical acquisitions made during the worst of the downturn.

Unfortunately, if you're short, it might be prudent to cover now as institutional speculation is overwhelmingly net long as commodity trade desks wind down for the year. Moreover, no fund manager will be looking to give up on a clear alpha-generating position in the last days of 2016 as fundamental factors are pointing to a bullish thesis for oil, at least until OPEC proves otherwise.

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