2017 May Finally Be the Year Oil Investors Have Been Waiting for

Description

According to the latest "Oil Market Report" published on January 19 by the International Energy Agency (IEA), oil prices are expected to strengthen significantly in the first half of 2017. A number of key factors are outlined in this report which have continued to provide support to oil prices; crude prices have been hovering above the $50 mark since the beginning of the year.

Oil investors holding positions (or considering positions) in large Canadian oil companies such as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) stand to potentially reap the rewards of steadily increasing oil prices should the assertions made by the IEA hold water.

Here are a few of the key factors the IEA believes will continue to provide upward pressure on prices in 2017.

Robust demand

Global demand for oil has remained robust since the latter part of last year, and a number of external factors have driven the IEA to increase the outlook for global demand in Q4 2016 and into Q1 2017, such as abnormally cold weather in northern Europe and growth in industrial output from key Asian economies driving global growth.

That said, the anticipated increase in the commodity price for crude oil in 2017 is expected to somewhat hamper demand into the first quarter of this year. The expectation for demand in Q1 2017 remains strong at 1.3 million barrels per day — down from 1.5 million barrels per day in Q4 2016 — driven largely by the expected price increases.

Supply has been dropping globally, and it appears the trend will continue

Economists and various agencies monitoring the price of oil have largely pointed to supply as the primary driver of oil prices of late. Global oil supplies have risen dramatically over the past three years as previously unobtainable oil has been brought to market by new, highly efficient technologies.

Rising production in the U.S., and stable production from other large oil-producing countries, has resulted in companies operating in high-cost environments (such as Canada's oil sands) taking the brunt of the hit in this low-commodity-price environment. Reductions in high-cost operations will continue; however, as oil prices climb it is anticipated that non-OPEC supplies will grow in 2017 and eat into some of the reductions in high-cost production, largely driven by stimulated investments in the United States.

A recent announcement made by OPEC and non-OPEC countries Sunday highlights further cuts to production in the first half of 2017. This announcement supports a previous agreement made on December 10 by OPEC producers to help reduce the global glut of oil in the market and further support the rise of global crude prices. Details of this agreement are still coming out; however, it appears that all 13 OPEC countries and 11 non-OPEC countries have each committed to cutting output. Such a global initiative should help support oil prices through the first half of 2017 at least.

It should be noted that this most recent announcement has not been factored into the IEA report on January 19, and it can be expected that further production cuts should result in an even more bullish report to be released mid-February by the IEA.

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