April Oil Market Report Highlights Potential Buying Opportunity

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is among the largest names in Canadian oil sands production and is also one of the Canadian oil companies most sensitive to commodity price fluctuations and expectations of future fluctuations of global supply and demand.

I'll be looking at the most recent oil market report from the International Energy Agency (IEA), published on April 13, to discuss how the specifics of this report may impact Suncor over the coming quarters and how this report may affect investment decisions in Suncor.

Supply and demand

A significant portion of the oil market report is dedicated to the supply and demand fundamentals of the oil market, breaking down production levels in different regions of the world as well as global consumption trends for oil. A sustained rebound in the price of oil has yet to materialize with prices remaining significantly below the $100-per-barrel level seen as recently as mid-2014.

The report highlights the supply and demand characteristics for crude that have led to this price decline and stabilization at levels approximately half of what they were fewer than three years ago.

We can see a deterioration of the growth rate of demand for oil, beginning around Q3 2014 and continuing to approximately Q2 2015, when the global demand for oil began to pick up again.

At the same time, oil supplies have increased at a rapid rate due to the introduction of new fracking technologies and reduced compliance from OPEC countries. This increase in fracking and extraction efficiencies driven by technological improvements have led to the U.S. becoming one of the largest producers of oil in the world, leading to a situation where new supply has exceeded global demand for every quarter since Q2 2014, except for Q3 2016.

The global oil demand growth forecast by the IEA for 2017 was lowered on Thursday to 1.3 million bbl/day, meaning growth is expected to slow for the second year in a row. However, on the supply side, OPEC countries have increased their compliance rate to 99%, dropping production by 365,000 bbl/day in March — a good sign for future talks of production cuts amid a global need for oil supplies to continue to drop.

Relevance for Suncor

Suncor is a well-diversified company, operating throughout the entire value chain from exploration and development to production, refining, and marketing. This diversified approach helps to mitigate some of the challenges provided by the recent downward pressure on commodity prices; however, operating margins and profit margins are very sensitive to changes in the commodity price of oil.

While Suncor can maintain lower levels of capital expenditures and cut costs in the short term to provide a boost to its balance sheet, the company will need to continue to develop new technologies to compete with other, cheaper forms of oil currently threatening the viability of oil sands production — and therefore threatening Suncor in the long term.

While demand growth appears to be slowing, the IEA appears hopeful that further production cuts from OPEC countries will help lead to a long-term rebound in the price of oil. In my opinion, any oil sands play has too much long-term risk for the potential upside; however, I will keep an eye on future IEA reports for information that may just change the game.

Stay Foolish, my friends.

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