Do Trump's Latest Plans Spell the End of Higher Oil Prices?

Description

In a shock move that represents a marked departure from decades of energy policy aimed at ensuring U.S. energy security, the Trump administration has proposed halving the strategic energy reserve as part of draft 2018 budget. This could flood global oil markets an additional ~347 million barrels of crude in an environment where oil is already weighed down by a long-running supply overhang. There are signs that Trump's proposed energy policies could cap the upside for crude over coming months and even cause it to fall once again.

Now what?

The plans to drain the strategic energy reserve have drawn considerable criticism. There are fears that it could leave the U.S. vulnerable to energy shocks similar in nature to those that occurred in the 70s, when OPEC demonstrated its willingness to use crude as an economic weapon. Saudi Arabia has shown that it still regards oil to be an important political lever; according to some commentators, this means that the U.S. could be vulnerable if the volume of oil held in the strategic reserve is significantly reduced.

Furthermore, in the past, Trump has discussed at length plans to make the U.S. energy independent by reducing regulations governing the oil industry, opening federal land to drilling and expanding offshore drilling. According to some analysts, U.S. energy independence could be achieved by as early as 2020.

The latest statements by Interior Secretary Ryan Zinke point to the U.S. not only moving to become energy independent, but a dominant player in the global oil industry. This is because of the massive growth of the shale oil industry, significant technological improvements in drilling technology, and the growing efficiency of energy companies.

Such moves would spark a surge in U.S. oil production, which is already forecast for 2017 to rise by as much as 17% compared to a year earlier to +10 million barrels daily. That certainly doesn't bode well for a global oil market which is suffering from a massive supply overhang that's keeping prices sharply lower.

If the U.S. proceeds down this path, the fallout for the energy industry could be calamitous.

A substantial increase in U.S. oil production would cause prices to plummet, reducing the incentive for OPEC members, especially Saudi Arabia, which is bearing the brunt of reduced OPEC oil output, to maintain their production cuts. If that occurs, then OPEC members and those non-OPEC oil-producing nations which have agreed to join in the deal to reduce oil production could cheat on their quotas or even back out of the agreement.
That wouldn't be a good thing for oil prices, particularly given the emphasis placed on those cuts to support higher prices.

The most vulnerable energy companies to a prolonged bout of weaker prices are those such as **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH), which have based their 2017 budgets on West Texas Intermediate averaging US$55 per barrel.

So what?

Despite the optimism surrounding oil and the belief that when OPEC meets later this week, it will least extend the production cuts, the outlook for any significant increase in oil prices remains muted. If anything, it will take a significant increase in demand for the supply glut, which has existed since 2014, to be eliminated. For that to occur, there would need to be a sharp uptick in global economic activity.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks

2. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2017/05/24
Author
mattdsmith