



Is it Time to Oil Up Your Portfolio?

Description

Weakening global prices for crude oil have largely been a function of supply/demand fundamentals which have been increasingly bearish over the past two years. With oil prices largely fluctuating in the \$40-55 band over the past months, investors hoping for a breakout on the higher end of the spectrum, or bears warning of a drop below the lower resistance level have largely been disappointed.

News on Monday of reduced shipments of crude from Saudia Arabia, the world's largest producer of oil, to Asian buyers as well as the United states in July boosted crude price higher by approximately 1%. The volume cuts to the U.S. market have been estimated to be in the 35% range by experts.

The rising price of crude has positively impacted oil production companies and refining companies alike, boosting the overall outlook for improved margins and profits for such companies should these cuts hold for a reasonable amount of time.

This news is a welcome surprise, as recent reports of increased global stockpiles, particularly in the U.S., have led to a drop in the price of crude by approximately 5% last week. Analysts are now expecting that some of the commodity price drop seen last week will be recovered this week as inventories are drawn down. The build-up of inventory last week of 3.3 million barrels was dwarfed by the draw-down of inventory in the prior two weeks in which more than 10 million barrels of oil were drawn down; however, it appears the market has factored in inventory increases much more heavily than decreases, say analysts.

Companies such as **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) have been the day's big winners, seeing stock gains in excess of the oil-related gains on hopes of a continued rebound in the price of oil. With the direction of the price of oil currently remaining very uncertain, investors have largely flocked to some of the world's safest and largest companies to ride out a lower-for-longer commodity price environment which may or may not materialize over time.

Bottom line

In the world of commodities, news flies fast and prices can change dramatically based on data and trends which may be nearly impossible to spot ahead of time. Fundamentally, it appears the price of oil

has reached levels of resistance on the upside as well as the downside, providing investors with some sort of security that investments made in oil companies which are able to operate well in such environments will continue to do well over the medium term.

Stay Foolish, my friends.

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