# Why You Shouldn’t Expect Oil Prices to Increase

## Description

Oil prices have seen stability in the past year, keeping above $40 for the vast majority it and even holding over $50 for multiple months. Every week there is news regarding oil, discussing if it is over or undersupplied, but ultimately the price of oil has been stuck in a range. Without a major event or crisis, the price of oil is no hurry to go one direction or another.



Despite production cuts from several oil-producing countries, the cuts ultimately only added a temporary boost to the price of oil late last year. Ecuador has recently said it will be increasing production above its agreed targeted amounts because its country needs the money. Russia, meanwhile, is opposed to the deeper cuts that would be necessary to push prices up. Overall compliance from the planned cuts has also been decreasing.

Add to this equation increasing U.S. production that is offsetting the cuts, and you are left with a possibility for prices to decline further if more countries decide not to honour the agreed production levels. If production cuts are not complied with or renewed next year, the support level of $40 could be pulled from under oil and gas companies.

Even the peak summer months (the driving season) that were supposed to push demand and prices up have had little impact. The oil and gas industry is in denial about its reality and is clinging on to the faint hope that prices will rise.

**Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) has struggled mightily this year. Its stock price is down 53% so far. The company’s earnings are due in less than two weeks, and it will be curious to see if Cenovus is able to build on the positive results of its last two quarters.

Cenovus recently announced it would be selling its Weyburn and Palliser oil assets, hoping to get as much as $2.5 billion from the sales. The asset sales were planned when the company announced it was purchasing assets from **ConocoPhillips** as a way to help fund the purchase price. It is crucial for Cenovus to sell these assets to keep its debt levels low in preparation for possibly even worse times ahead.

Cenovus has hedges securing prices of US$49 until the first half of 2018. However, those hedges are only securing a little more than half of the production the company currently has hedged for this year.

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is in a similar boat to Cenovus, as it too recently hit an all-time low in share price and has declined over 50% this year. However, Crescent Point might have a bit more upside than Cenovus only because it hasn't seen as much turmoil with asset purchases and CEO departures that Cenovus has.

The company has earnings coming up as well, and its recent financials have not been good; four of its past five quarters showed losses. The most recent, however, saw an after-tax profit of $119 million and year-over-year revenue growth of almost 60%.

As of April of this year, Crescent Point had 41% of remaining 2017 production hedged at a price of about US$54. However, next year only 13% of the company's expected first half production is hedged.

In the short term, I think Crescent Point offers more potential upside, but in the long term, I would stay away from oil and gas. When the hedging contracts expire and companies go to renew them, the prices will likely be for lower and, given the uncertainty, the contracts won't be as long.

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