



## Baytex Energy Corp. Surges 15% in 2 Days: Time to Buy?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is picking up a new tailwind, and investors who have been waiting for a chance to buy are wondering if this is the right moment to put the stock in their portfolios.

Let's take a look at the current situation to see if you should make Baytex one of your contrarian bets.

### Oil market

WTI oil hit a 2017 low around US\$43 per barrel in June, but it has since recovered back above the US\$48 mark.

The recent surge is a bit of a surprise given the supply situation in the global market.

What's going on?

OPEC is trying to reduce production by 1.8 million barrels per day in an effort to balance the market and drive prices higher. The group, along with a handful of other producers, including Russia, set the target last November.

Oil traders initially supported the pact, but confidence in the group's ability to meet the target began to wane in March, and WTI oil slipped from the January high of US\$55 to the recent lows.

June production reports from OPEC showed rising output, driven by increased production by Libya and Nigeria, which are exempt from the agreement.

American production is also increasing, despite the lower prices over the past several months. In fact, the EIA recently said U.S. output is at its highest since July 2015.

### Why are prices rising?

A weaker U.S. dollar might be part of the story as well as renewed commitments by Saudi Arabia to stay the course and bring the market back into balance.

Day-to-day price swings are being driven by inventory reports. For example, a drop in U.S. stockpiles just added to the recent bullish sentiment.

At this point, oil looks like it wants to go higher, but more volatility should be expected.

### **Should you buy Baytex?**

Baytex offers some strong upside potential if oil prices are truly headed higher and will stay at elevated levels.

The company has done a good job of reducing costs, and production is increasing, despite the tough market conditions.

Baytex also owns an attractive resource base that should support strong production growth if oil can muster a meaningful recovery.

However, the company is carrying significant debt, and that will continue to weigh on the share price if the recent uptick in oil is simply another head fake before another leg to the downside.

Contrarian investors might want to start nibbling, but I would keep the position small.

### **CATEGORY**

1. Energy Stocks
2. Investing

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1. TSX:BTE (Baytex Energy Corp.)

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