



Why OPEC May Not Matter In the Long-Term

Description

The question of the effectiveness of the Organization of Petroleum Exporting Countries (OPEC) is a debate that has raged for years. As oil prices have somewhat stabilized of late, a number of analysts are pointing to the potential impact OPEC has had on commodity prices looking forward to the futures market and how the market has changed in recent weeks toward one which is trending in an upward direction for the first time in a while.

Here's why I'm not convinced.

The bullish story

A number of analysts are discussing the recent diminishing of the global supply glut which has hampered global crude markets for some time now, hanging over traders' heads as a sort of black cloud or ominous villain. The move by OPEC to further cut production among its member nations (which do not include Canada or the United States), alongside continued draw downs of U.S. crude stock piles, should in theory bolster the case for a rising commodity price for oil over time.

The ability of OPEC member countries to continue to operate at near 100% compliance for production cuts is certainly one positive for the group as a whole and for traders expecting crude commodity prices to continue to climb, with large Canadian companies such as **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) potentially increasing alongside the price of oil as rising prices will potentially boost profitability for such firms.

Why OPEC may not be as relevant as it once was

Companies like Suncor that would certainly benefit from rising oil prices may continue to stagnate, should production continue to rise in non-OPEC regions of the world, including Canada and the U.S. In fact, a significant portion of the OPEC production cuts that are expected to help support oil prices over time are reliant on cuts by Russia, currently a non-OPEC member; cuts which the country has agreed to but which remain uncertain in the long-term.

In a paradoxical sort of way, when Canadian or American firms continue to pump out higher oil

production levels to increase profitability, the supply glut that ensues provides a ceiling to how much oil prices can increase, thereby potentially hurting profitability long-term. With U.S. production breaking through the 9.5 million barrel per day production level, the long-term prognosis for the supply side of the equation is hard to measure currently, and I remain very cautious with respect to recommending any North American oil firms at this point in time for this reason.

Stay Foolish, my friends.

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