Why Oil Could Spike Significantly Higher Before the Year Ends

Description

Heightened geopolitical risk around the world has made hits to oil supply a real consideration when forecasting the price of oil.

And with oil demand showing unexpected strength in recent months, with an increase of 2.4% in the second quarter of 2017, and the International Energy Agency increasing its 2017 demand growth forecast to 1.7%, we can see that the supply/demand balance is improving.

Venezuelan crisis

In July, Venezuela produced 1.9 million barrels a day of oil, with almost one million barrels a day exported to the United States.

The year has not been good for the Venezuelan people, as the country's political and economic problems continued to be exacerbated by a government that is increasingly exhibiting dictatorship characteristics.

The possibility of an all-out civil war in Venezuela cannot be ruled out, and this combined with the fact that Venezuela owes an estimated $5 billion in outstanding debt payments this year amid soaring inflation spells trouble for the country's oil supply.

Escalating production disruptions in Nigeria

In 2016, oil production in Nigeria was 40% lower than target as "pipeline sabotage" continued to be a problem. And so far in 2017, this problem seems to have escalated.

Nigeria's oil production is at 1.8 million barrels a day, and with civil war becoming a real possibility there as well, this places further pressure on the supply side of the oil equation.

These are two very volatile situations that could erupt any day, sending oil soaring. Here are two stocks that will benefit big time:

Canadian Natural Resources Limited (TSX:CNQ)(NYSE:CNQ)

With a 16% increase in production in the second quarter of 2017, free cash flow of $843 million, and continued investment in its expansion at its Horizon oil sands operation and in optimizing its operations, Canadian Natural Resources is very well positioned to benefit from strengthening oil prices.

With higher oil prices, the company will also be in an even better position to continue to increase its dividend. Recall that management has already given investors their forecast to increase the dividend 17% this year to $1.10 per share. The current dividend yield is 2.65%.

Suncor Energy Inc. (TSX:SU)(NYSE:SU)

Suncor has spent the last few years investing in its business with the goal of increasing efficiencies and driving down costs in order to be increasingly profitable at lower oil prices as well as to ensure it has a good inventory of production growth opportunities.

The stock currently has a dividend yield of 3.05% and raised its dividend by 10% earlier this year.

According to management, a $1.00-per-barrel increase in the price of oil translates into $205 million in annual cash flow for Suncor.

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