Will U.S.-Iran Tensions Send Oil Stocks Higher?

Description

On October 13, U.S. president Donald Trump denounced Iran as a terrorist state and refused to re-certify the Obama-era Iran nuclear accord. This move does not immediately kill the deal, but essentially passes the buck to the U.S. Congress to come up with an alternative solution. The Trump administration signaled its hostility to Iran in its opening weeks as the now-departed National Security Advisor Michael Flynn put Iran "on notice" in an early press conference.

Thus far, Iran has not violated any of the commitments of the agreement, though Trump has accused the nation of violating the "spirit" of the deal. The other signatories of the accord — France, Germany, China, Russia, Britain, and the European Union — were critical of the denunciation and have repeatedly refused to consider re-opening terms of the agreement. Scuttling the agreement will undoubtedly lead to increased tensions in the Middle East.

Goldman Sachs Group Inc. released a note on October 17 in which it projected that increased U.S.-Iran tensions would threaten the global oil supply. The decertification of the nuclear accord also occurs at a time in which Turkey and Iraq have been locked in a political battle with the significant Kurdish populations in both countries.

For its part, the Iranian oil industry has appealed the U.S. government to remove obstacles in order for the U.S. to engage in investment and development in Iran. It is notable that Germany has made significant inroads in its business investment in Iran, adding to its aggravation at the possibility of sanctions being re-imposed and thus forcing a rollback.

After a Kurdish independence referendum, which was immediately denounced by the Iraqi government as illegitimate, the government moved Iraqi armed forces into the oil-rich Kirkuk region. The Kurdish pursuit of an independent state has been the source of increasing tensions, especially as the population has made significant military contributions during the Syrian and Iraqi civil wars.

Oil prices rose following the Trump speech, and now questions abound when it comes to the future of global oil production. The Organization of Petroleum Exporting Countries has yet to make a determination when it comes to its production halt stretching into March 2018. Some members have called for a meeting before 2018 to come to an agreement over whether or not it will be extended.

Will Canadian oil and gas stocks benefit?

Imperial Oil Ltd. (TSX:IMO)(NYSE:IMO) is up 1% week over week as of close on October 18. As the second-largest Canadian integrated oil company, this has the opportunity to reap big rewards in the event of a curb in supply. The stock also offers a dividend of $0.16 per share, representing a dividend yield of 1.6%.

The Calgary-based integrated oil company **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) was up 1.4% week over week at closing on October 18. This stock also offers a dividend of $0.05 per share with a 1.6% dividend yield.

Canadian oil and gas investment has risen in 2017 after seeing significant dips in 2016, as the market still recovers from the oil crash. With Canadian production set to rise next year, a dip in global supply could see domestic producers gain.

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