



What Do the Latest Middle East Tensions Mean for Oil?

Description

Oil has rallied strongly in recent weeks to be trading at well over US\$50 per barrel and close to its highest price since March. This is particularly good news for beaten-down energy stocks — notably, for upstream producers such as **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) and **Pengrowth Energy Corp.** ([TSX:PGF](#))(NYSE:PGH), which budgeted for an average price of US\$55 per barrel for 2017. While there is still considerable uncertainty surrounding the outlook for crude, recent geopolitical events should support higher prices for at least the foreseeable future.

Now what?

A hotbed of religious and nationalist conflict in the strife-torn Middle East never fails to deliver a veritable smorgasbord of geopolitical crises. The latest is the commencement of hostilities in Iraq between the Shiite-dominated national government and the Kurdish peshmerga after Iraqi Kurds recently voted resoundingly for independence. The conflict is centred on the city of Kirkuk, which is home to some of Iraq's oldest oil fields and has the potential to halt 275,000 barrels of daily output.

While that volume could be considered immaterial, there were also threats from Turkey, Iran, and Iraq to block Kurdish oil exports should they obtain greater autonomy, potentially blocking 600,000 barrels of daily oil production. That would certainly be sufficient to constrain supplies and push prices higher.

Trump's latest sabre rattling in the region has also created considerable uncertainty over Middle East oil supplies.

He recently decertified the Iran nuclear deal, which could see sanctions reinstated against Teheran. Not only did that move send a strong message of support to key regional U.S. allies Saudi Arabia and Israel, but it could also derail Teheran's plans to boost oil production as a means of funding the modernization of the economy.

According to data from OPEC, since sanctions were lifted, Iran has expanded its oil output by roughly one million barrels daily. That has boosted government revenues, which Teheran has used to promote economic growth and further its regional interests. This growing regional influence coupled with additional oil revenues expected to boost GDP growth to as high as 9% annually triggered alarm bells

across the region, notably in Saudi Arabia and Israel.

If sanctions against Iran are reinstated, it could cause its oil production to drop by up to one million barrels daily as well as remove the threat of further supply increases, because Teheran is determined to boost production to 4.5 million barrels daily by 2022. That would go a long way to rebalancing global energy markets and supporting a sustained oil rally.

So what?

While crude has pulled back in recent days, these tensions certainly have the potential to disrupt oil supplies from the Middle East, which would support higher price for at least the short term. This would be a boon for Canadian energy stocks, especially those that have considerable debt, such as Baytex and Pengrowth, which have been battling to generate sufficient cash flow to reduce their onerous debt to manageable levels.

Despite the increasingly positive outlook for crude precipitated by the latest developments in the Middle East, investors would do well to regard the current situation with caution. Those tensions only have the potential to trigger minor supply disruptions, and any sustained rebound in oil appears unlikely. The threat of a global supply glut continues to loom large because of the risk of the OPEC deal collapsing, growing U.S. production, which, for July 2017, reached its highest level since October 2015, and a lack of demand growth. That means sharply weaker oil could be here to stay for a lot longer than many pundits anticipated.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/24

Date Created

2017/10/24

Author

mattdsmith

default watermark

default watermark