Will Oil be The #1 Asset Over The Next Year?

Description

The oil price has soared in recent months. Brent Crude has risen from $46 per barrel in June to over $60 per barrel in recent weeks. This has caught many investors by surprise, since sentiment towards the oil and gas industry has generally remained somewhat cautious in 2017.

However, supply cuts by OPEC members and continued growth in demand have helped to push the price of oil to its highest level in over two years. Could this be the right time to buy into its growth story?

An upbeat outlook?

While green technology is undoubtedly causing demand for oil to come under pressure, it is forecast to remain a key part of the energy mix in future decades. That's especially the case in emerging economies, where oil is expected to remain popular in transportation and other industries. This could mean that the supply surplus of recent years continues to be eroded, and this may be good news for the oil price.

In addition, OPEC's supply cut could be repeated once the current agreement ends. Saudi Arabia stated recently that it remains committed to ending the global supply glut, and this could mean that an extension to the current supply cut could be ahead.

Even if OPEC fails to agree on further supply reductions, the relative lack of exploration spend in recent years across the industry could mean that demand outpaces supply in future years. With the oil price being at a low ebb, many oil majors have reduced capex levels to improve their financial positions. This may mean that there is a reduction of new assets coming onstream in the medium term on a comparative basis.

Potential investment opportunities

Of course, with the oil price being relatively low in recent years, a number of oil and gas companies trade on enticing valuations. Investor sentiment still does not appear to be particularly strong at the present time despite the rise of the oil price in recent months. This could mean that it is possible to obtain a wide margin of safety from stocks operating across the industry. This may provide investors with an optimum risk/reward opportunity for the medium term.

Buying oil and gas companies rather than trading the asset itself may also provide a degree of diversity, since some resources stocks have other, non-oil assets in their asset base. Furthermore, with global inflation potentially rising in future years, the dividends paid by stocks could enhance the possible rise of the oil price over the long run.

Looking ahead

Clearly, the oil price remains highly volatile. Green technology and the prospect of a return to higher OPEC production could keep its growth pegged back to some extent. However, with valuations across the industry generally being low and there being a lack of exploration spend as well as possible future demand rises, now could be a good time to buy oil stocks for the long term.

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