OPEC Extends Supply Cuts: Should You Invest in Oil and Gas Stocks?

Description

Some of the world's largest oil- and gas-producing countries agreed on Thursday to extend production cuts to the end of next year. The original agreement was set to end in March, but OPEC and non-OPEC producers saw a need to extend that agreement, given that oil prices haven't risen to the levels many had hoped.

However, both West Texas Intermediate (WTI) and Brent oil prices are getting close to three-year highs. Although the oil prices are well improved from earlier lows, WTI's price of $58 on Friday is still a long ways away from the +$100 range it was in back in 2014. Similarly, Brent oil is over $63, and in 2014 it was at highs of more than $110.

Where could oil prices go from here?

Since the agreement between OPEC and non-OPEC producers doesn't include everyone, it isn't a guarantee to see a major increase in oil prices. After all, the cuts have been in place for one year now, and prices haven't had a significant jump.

A year ago, Brent oil was trading at $44 and has since increased more than 40%, while WTI was not much higher at $45 and has since grown nearly 30%. If we see similar impacts over the next year, then that would mean Brent could return to nearly $90, while WTI would could reach $75.

However, it's not that simple of an exercise to assume we should see a similar impact. After all, last year we initially saw oil prices get a boost, only to come crashing down afterward. If not for this latest recovery, which we've seen start in the summer months, the impact of the cuts would have been negligible.

Why this might not provide a big boost to oil prices

As long as demand chips away at the excess oil supply, then we should see some steady increase in the price of oil. However, there are a few problems that could offset some of that progress.

First, many analysts were already expecting oil cuts to continue, and so the current price of oil already has factored in these changes.

Second, U.S. shale production last year increased significantly and kept oil prices from rising more and rising sooner. If we see that trend continue, that could limit the opportunity for oil prices to grow once again. The U.S. is a big wildcard in this, and since it's not part of this agreement, it could grow its production.

Lastly, the deal depends on compliance. Many countries dependent on oil might need to start pumping more oil out of necessity if economic conditions demand it. The new agreement has indicated that we could see the cuts ended if the market were to "overheat."

There is likely a price point that countries want to see oil reach, and that might not be consistent from one country to the next.

Should you invest in oil and gas stocks?

The cuts are encouraging news for oil and gas investors, and as we see companies continue to produce strong results amid low prices, the supply cuts could make the industry an attractive option again.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) are just two of the many companies that could benefit from rising oil prices, and their shares could start to take off on this news.

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