Will Oil Prices Hit $80 This Year?

Description

This could be a big year for oil prices: we could see oil climb to as high as $80 or tumble back down to $40.

Oil prices have been rebounding since the second half of 2017. At over $60 a barrel, West Texas Intermediate (WTI) has not been this high since 2015. Brent Oil, which is normally higher than WTI, is nearing a three-year high at $67 per barrel.

The big question investors will inevitably ask is this:

Will oil prices continue to rise?

Companies like **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) and **Enbridge Inc** (TSX:ENB)(NYSE:ENB) will benefit significantly from higher oil prices. Higher prices will help accelerate the industry's recovery and could translate into more drilling and more oil transported via pipelines.

As long as excess supply levels continue to decline, it will open the door for oil prices to continue their ascent. Tensions in the Middle East and North Korea also present some instability globally; any conflict could have a dramatic impact on oil prices, especially if it involves oil-producing countries.

In 2017, we saw oil prices start to slide at the beginning of the year only to recover in the latter half of 2017. It's much too early to predict a similar rise this year, but the danger for investors is that ever since the collapse in oil prices, the commodity has been very volatile.

Optimists will tell you that oil prices have been on the rise for two years and that the trend will continue. However, pessimists will point out that oil prices had nowhere to go but up after crashing to under $40 by the end of 2015.

Supply cuts may well be the new normal

Currently, oil prices are being propped up by an agreement to reduce supply, which could be extended until the end of this year depending on how the commodity performs. If oil prices do well and continue to rise this year, we could see that deal abandoned early.

The danger is that once that happens, oil prices will likely decline. How much of a decline will depend on the overall rate of production for each country, as we could see countries trying to make up for lost production as a result of the cuts, which have been in place for over a year.

Without the supply cuts, the price of oil would certainly be lower. The real danger is that oil prices are artificially high, and will be unsustainable at these levels if the industry doesn't keep its commitment to reducing its output. It's hard to envision deep supply cuts becoming the norm, however, as many countries rely heavily on oil, and last year we did witness some non-compliance around the agreed cuts. Petroleum Exporting Countries (OPEC) agreed to cut its output by some 1.2 million barrels a day to end a global glut.

Bottom line

The price of oil could very well continue to rise in 2018, but investors need to be aware that if that does happen and supply cuts are eliminated, we could see a big correction.

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