Can Geopolitical Tensions Drive Oil to $80?

Description

Back in November, I'd discussed the political strife in Saudi Arabia that saw crown prince Mohammed bin Salman purge high-ranking officials in an apparent drive for major reform. This bold stroke by the second-largest oil producer in the world shook investors and drove up oil prices over the month. The rally drove up the stock prices of **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), **Encana Corporation** (TSX:ECA)(NYSE:ECA), and other oil and gas producers.

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Since the political purge, Saudi Arabia seems to have maintained internal stability, while also continuing to wage a violent war in neighbouring Yemen. The Organization for Petroleum Exporting Countries (OPEC) met on November 30 and opted to continue its production cut through 2018. Some analysts projected that this move would establish stability around the $60 mark for oil in the next year.

Oil finally pushed above the $60 mark in late December for the first time since June 2015. Markets were responding to the mass protests that had engulfed Iran. The protests were in response to rising food prices, joblessness, and continuing austerity implemented by the Iranian government. Social and political problems in the country have also been exacerbated by sanctions imposed by the United Nations in response to its uranium enrichment program. The program was discontinued in 2015 when a deal was struck between Iran, the U.S., the United Kingdom, Russia, France, China, and Germany.

The future of the agreement was immediately put into question upon the election of Donald Trump. Trump had been extremely critical of the agreement throughout his campaign and hinted at decertification early on. In early October, Trump opted to decertify the agreement and passed a decision to Congress over whether to implement more sanctions on Iran going forward. The move pushed oil prices up $5 per barrel over the course of October.

Geopolitics had a marked effect on oil prices in 2017, but will the trend continue in 2018? Tensions between Iran and Saudi Arabia are unlikely to dissipate going forward. U.S. foreign policy should also have a significant impact as the Trump administration telegraphs a more aggressive tone to begin the year. The administration has said that it will withhold over $250 million in aid to Pakistan, accusing the country of playing a "double game" in the "fight against terrorism."

In late December, I'd suggested that investors gear up to stash Canadian energy stocks after what was a volatile 2017 for some companies. **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) stock fell 12% in 2017 but has started off hot this year — up 2.89% in 2018 as of close on January 8.

The spot price of oil rose above the $62 mark late on January 8 with traders still optimistic regarding OPEC production cuts. A slight drop in U.S. rig counts also fueled the bump. However, rig counts are still much higher at 742 than a count that was under 350 midway through 2016. Canadian energy stocks, especially high-yielding dividend stocks such as Enbridge, remain an attractive buy-and-hold investment to begin the year.

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