



Oil Reaches \$70: Why Aren't Oil and Gas Stocks Taking Off?

Description

Since July of last year, oil prices have been on rising and have reached levels not seen for years. Brent crude oil prices have reached \$70 this month, while West Texas Intermediate (WTI) has soared to \$65. Neither Brent nor WTI have been this high since late 2014, and with supply cuts [extended until possibly the end of this year](#), we could see even more of a rally in the months to come.

While that is great news for the struggling industry, the problem is that we haven't seen oil and gas stocks see the same success.

Baytex Energy Corp. ([TSX:BTE](#))([NYSE:BTE](#)) is up 40% in the past six months, but at just over \$4 a share, it is a far cry from the ~\$20 level it was trading at in early 2015. **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) is also trading much lower than it was three years ago when it was priced at over \$60 a share. **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) has come a long way from hitting all-time lows in 2017, but the share price would have to double to reach its three-year high.

Let's take a closer look at what might be behind these sluggish stocks.

Many companies have cut back on capital spending

Despite rising oil prices, we've recently heard Cenovus say that it would be even [more aggressive in its cost cutting](#) in an attempt to strengthen its financials. Meanwhile, Enbridge has been able to secure a lot of traffic on its planned pipeline, but it may not be enough, as there are still many companies in the industry that aren't quite ready to make long-term commitments.

If oil prices can stay at this level for a longer period of time, then we may see more of an influx of capital. However, in the long term, there might be even greater concerns.

Will there be enough demand to support a high price of oil?

Many countries are waiting in anticipation for when supply cuts will be lifted, and at that point, production levels will likely go into overdrive, as producers will likely look to make up for lost time.

The problem is that we are seeing consumers demand cleaner sources of energy and the evolution of electric vehicles, and in the long term, there may not be the same level of demand for oil as there has been in years past.

Although this is a long-term concern, it's a valid one that could make producers opt for a wait-and-see approach that encourages a more flexible business model that does away with high costs and long-term agreements.

Bottom line

There's still a feeling of uncertainty in the industry, despite the strong rally in oil prices. After all, a big reason behind it is that supply cuts are still in effect, and that has kept prices artificially high. However, when that ends, we could see a big correction take place as supply could quickly outpace demand once again.

Although investors may see opportunities to scoop up some undervalued oil stocks, these are not investments that would be safe for the long term.

CATEGORY

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