# 1 Little-Known Factor Pointing to Higher Oil in 2018

## Description

After a prolonged slump that caused many energy companies to file for bankruptcy or come close to failure, crude has rallied strongly in recent weeks, and the international benchmark Brent is hovering around the US$70-per-barrel mark. This has been a boon for beaten-down energy stocks, with many finally recovering from the lows sparked by fears that sub-US$50-per-barrel oil was here to stay. While traditional analysts remain focused on predicting the outlook for oil by looking at supply and demand fundamentals, there is one key widely ignored factor pointing to higher oil: geopolitical risk.



**Now what?**

Almost every oil slump or spike has been driven by geopolitical events.

You only need to look back to the oil shocks of the 1970s to see this, or even oil's slump triggered by OPEC and, more specifically, Saudi Arabia's decision to cease being a swing producer and leave the spigots open in 2014 to disrupt the U.S. shale oil boom.

A deteriorating global geopolitical landscape as we enter 2018 has increased the geopolitical risk premium attached to the price of oil, and there is the very real likelihood of a range of geopolitical crises pushing crude higher. This is particularly the case for the international benchmark Brent, as about two-thirds of oil contracts globally are benchmarked to Brent.

Much of the risk is centered on the Middle East; it's long been a powder keg due to long-running regional rivalries, internal conflict, terrorism, and its importance as a petroleum-producing region. The risks aren't restricted to the Middle East, and conflict as well sectarian tensions occur in Iraq, Saudi Arabia, and Iran.

The African nation of Nigeria is the latest OPEC nation to have its oil production threatened with militants recently stating they will target offshore oil facilities as part of their campaign against the government. In 2016, militant attacks on oil infrastructure were responsible for dislocating up to one million barrels from Nigeria's oil output.

The ongoing civil war in Libya continues to disrupt that nation's oil output, with pipeline attacks in

December 2017 causing production to drop by 12% as well as disrupting loadings at its largest port terminal Es Sider.

Trump's tough stance on Iran, which could see new sanctions imposed, will curtail Teheran's plans to boost oil production to fund much-needed economic development. While they would likely be less encompassing than those that existed prior to the nuclear deal, they could reduce the country's oil output by up to one million barrels daily.

Venezuela's economic crisis is deepening, causing its oil output to fall to catastrophically low levels. If civil war eventually breaks out, it could be enough to cause the deeply embattled Latin American nation's oil industry to collapse, taking up to 1.8 million barrels daily offline.

**So what?**

For as long as geopolitical risk remains high, there is every possibility that global oil supplies could be constrained by further crises. In an environment where demand is rising because of stronger global growth, any disruption could give oil prices a solid boost.

While most investors look at larger energy stocks and integrated oil majors as being the best means for profiting from higher oil, it's the smaller drillers that will benefit the most. One that stands out is **Raging River Exploration Inc.** (TSX:RRX), which has dipped by 17% over the last year, leaving it attractively priced.



It has a long history of unlocking value with production growth per share since 2012 having a 47% compound annual growth rate (CAGR), while its oil reserves have a 34% CAGR. Raging River's production is more than 90% weighted to oil, and this means it will avoid the impact of the protracted slump in natural gas on its earnings. Because production is forecast to expand by ~8% during 2018, this — in conjunction with higher oil — will give its earnings a healthy bump, lifting its stock.

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