Crude Oil Is up 7.7% This Week: A Closer Look at Canada's Energy Sector

Description

The price of West Texas Intermediate Crude oil (WTIC) is up more than 7.7% through the first three days of trading this week, including making a new 52-week high in yesterday's trading.

Traders have pushed the price of crude sharply higher in recent sessions amid the threat of potential military action in the Middle East.

Heading into this week's trading, the energy sector was already one of the hotter sectors in the market and outperforming the broader averages, meaning there's probably more to the recent price action than solely the threat of geopolitical tension, making now an opportune time to revisit Canada's energy sector.

When the price of oil spikes, it's usually the exploration and production (E&P) companies that benefit the most, as they are directly exposed to the price of crude oil prices when they sell their product to end markets.

So, it shouldn't be surprising that one of Canada's preeminent E&P names, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), has seen its share price rise 13.7% in the last five days of trading.

Meanwhile, another, smaller E&P name, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) has seen its share price rise 19.7% since the beginning of the month.

Baytex is one of the most highly leveraged companies in Canada's energy sector, making it among the most sensitive to changes in the price of oil.

While E&P companies have benefited from the recent spike in oil prices, Canada's integrated producers have also performed strongly in 2018 thanks to depressed prices for Canadian oil.

Canada has its own market for oil prices, separate from U.S. prices, and thanks to an oversupply in the Canadian market, this has held domestic prices back as compared to prices in the U.S.

That's bad news for companies like Crescent Point and Baytex, and while its not good news for anyone, integrated producers like **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), and **Imperial Oil Ltd.** (TSX:IMO)(NYSE:IMO) hold the advantage of being somewhat insulated from unfavourable swings in the price of crude.

Thanks to the nature of their operations, these integrated producers sell the crude oil product to themselves, so when oil prices are depressed, just as they have been to start 2018, this essentially acts to lower the integrated producers input costs associated with their refining operations.

Cenovus has outperformed in 2018 with shares up 40% since the beginning of March. Suncor's shares are up a still impressive 19.3% over the same period. Meanwhile, Imperial Oil has found itself lagging the pack with shares down 9.3% since the start of the year.

Bottom line

Recent geopolitical tension out of the Middle East has provided a short-term catalyst for oil prices and energy companies.

While the recent action may prove to be short-lived, there remain other factors at play right now that could lead to 2018 being a comeback year for oil and commodities prices.

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