

## Oil and Gas Investors: Could We See an End to Supply Cuts?

### Description

Oil prices are starting to slide amid talks that supply cuts may start to be phased out. For nearly a year and a half, we've seen OPEC and Russia restrict output in an effort to lift oil prices, which had dropped sharply since 2014 after an excess of supply brought the commodity down to less than half of its peak price. However, with U.S. production continuing to rise, the cuts have had a limited effect.

We've seen some momentum in the past year, with oil prices recently reaching levels not witnessed since 2014, when the downturn began. The concern, however, is that when supply cuts are lifted and production increases again, we could see oil prices start to fall, which is what we've begun to see at the mere mention of supply cuts being reduced.

Although oil prices are stronger and nothing has yet been confirmed, it's a bit surprising that this is a possibility given that earlier this year, there was a suggestion that the opposite might come to fruition: [a long-term supply agreement](#).

### Should investors be concerned?

The silver lining in is that the oil and gas industry would be less impacted by a drop in price now because of the efficiencies that companies have had to create in order to just stay afloat, as those that haven't have had to close up shop for good. However, that doesn't mean it has been all rosy for companies with oil prices being stronger, as many have still struggled.

Even during this latest recovery, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) has not seen the improvement in its share price that others in the industry have experienced. A rising price of oil has not been enough for the stock to take off, as a difficult political climate in Canada has held many oil and gas companies back as pipelines continue to see obstacles, which is a real concern for growth in the industry, particularly in this country.

Last year, **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) saw its share price hit a new [all-time low](#), but it has started to recover, with year-to-date returns climbing to over 16%. However, if we look to the past three years, Cenovus is still down more than 33%. Oil and gas stocks are still far removed from the levels seen just a few years ago, as the industry has still not gained back the confidence of investors.

### Reason for optimism

Despite all the doom and gloom that comes with oil and gas lately, there's a big reason that investors shouldn't be too worried: Saudi Aramco. With the company's IPO expected in 2019, Saudi Arabia is going to want the company to do well, and a low price of oil is not the way to do it. The country has a big say in what happens with production cuts, given how fragile the industry has been, I'd be surprised to see production ramp back up.

It is still too early to tell what will happen, and this could just be a way for OPEC to test the waters and gauge the market's reaction.

## CATEGORY

1. Energy Stocks
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