

Why This Is a Big Week for Oil and Gas Investors

Description

Oil prices have made a strong recovery since the downturn that started back in 2014. And although prices have not returned to their previous highs, the rise in commodity prices has been enough to justify a discussion about possibly ending restrictions on output, which have been in place since 2016.

OPEC and Russia are scheduled to meet in Vienna later this week, where we'll likely find out if output restrictions are lifted or remain in place. There have been many rumours swirling that we'll see production ramp up, but until we see an actual announcement on the topic, markets will be on edge waiting for the final word.

Oil prices could see a big adjustment

Investor expectations are behind a lot of things, especially prices, and commodities are no exception to that. If we see the sides agree to an increase in production, or perhaps the supply restrictions are lifted entirely (which seems unlikely at this point), oil prices will likely drop in price, the only question being by how much.

After all, supply cuts have been the driving force behind stronger oil prices, and without those restrictions, it's very possible that prices drop down to under US\$50/barrel again. The industry has been a very fragile one, and investors need only to look as far as **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) as evidence of that.

Even though oil prices have been rising, a troubling political climate in Canada has kept Enbridge's share price from increasing. The company has been able to provide strong results for investors, but that [hasn't been enough](#) of a reason for the stock's value to rise, as pessimism in the industry remains rampant and a drop in the price of oil will only make matters worse.

However, one thing we've seen lately from OPEC is that it has been taking a wait-and-see approach, and for that reason, I expect a gradual increase in production rather than a sudden one.

Producers don't want to shock the market and will likely be monitoring the fallout of the decision to see how big of an impact an increase to production will have (assuming that's the route that has been chosen), and will budget for an adjustment down the road if necessary.

Do we need a high price of oil anymore?

One of the benefits we've seen from the downturn is that many companies have simply had to find ways to be more efficient and profitable at a lower price of oil. Those that haven't have closed up shop. A good example is **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), which announced earlier this year that it would be deploying [autonomous trucks](#) at its operations in an effort to increase profitability.

The days of US\$100 oil may be long gone unless we see a shock in supply that triggers a higher price, but over the long term that's becoming less and less likely as we see companies move away from

plastics and toward greener technologies. The key question is how long it will take for those changes to have a significant impact on demand.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date

2025/08/28

Date Created

2018/06/19

Author

djagielski

default watermark

default watermark