



Geopolitics Could Drive Oil Prices for the Rest of 2018

Description

Oil prices have reached three-year highs following a [significant OPEC deal](#). U.S. president Donald Trump has put pressure on members, including Saudi Arabia, to work to reduce prices going forward. “The OPEC Monopoly must remember that gas prices are up and they are doing little to help,” Trump wrote on **Twitter**. “If anything, they are driving prices higher as the United States defends many of their members for very little \$’s.”

“This must be a two way street,” he continued and concluded in all caps. “REDUCE PRICING NOW!”

The comments come off as somewhat bizarre, considering Trump’s decision to [torpedo the Iranian nuclear deal](#). The re-imposition of sanctions will sink Iranian supply into the market, and OPEC has responded quickly by vowing to ramp up production at a recent meeting. The geopolitical situation has driven oil prices over the past year, and investors should probably expect a continuation of this in the second half of 2018.

The Trump administration has laid out a strategy that is designed to cripple the Iranian government from within and provoke regime change. A senior U.S. State Department official said recently that the administration would take measures against any country that did not reduce its oil imports from Iran to nothing by November 4. The Trump administration has said that it will not consider waivers for any country that does not comply.

In addition to crippling Iran’s oil industry, the U.S. also plans to curb global trading in Iranian gold, steel, coal, cars, currency, and debt. Oil sales generate 60% of Iran’s export income and recent moves have caused the Iranian rial to plunge 40%. The Trump administration is likely emboldened by what it has hailed as major progress with North Korea. Although no concrete deal has been achieved, President Trump managed to secure a face-to-face meeting with leader Kim Jong-un after imposing strong sanctions and threatening military action.

However, the U.S. still faces hurdles as it undertakes this unilateral policy. China and India, the two largest purchasers of Iranian oil, have refused to comply with U.S. demands to cut Iranian imports to “zero.” The ongoing trade spat between the U.S. and China adds a new dimension to this push for

regime change.

Canadian energy stocks have continued to perform well following the scuttling of the Iran deal. **Baytex Energy Corp.** ([TSX:BTE](#))([NYSE:BTE](#)) was down 0.91% in late morning trading on July 5. The stock is up 16.4% in 2018 so far. **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) has surged 16.2% over the past month. **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) stock is up 17.1% in 2018 thus far. All three are solid options with oil and gas gaining serious momentum.

The Trump administration is unlikely to deviate from its aggressive push against Iran. It will likely apply pressure on the Saudi regime and other gulf states to reduce prices, but upward pressure should remain with uncertainty in global supply.

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