



## Russia Claims That Another Oil Price Collapse Will Occur

### Description

In a surprise announcement, Russia's Finance Ministry has warned that oil prices could collapse. This is despite the recent run-up in crude, which sees the North American benchmark West Texas Intermediate (WTI) trading at over US\$74 a barrel and the international benchmark Brent above US\$79 per barrel.

This view appears contrary to the commentary of many industry analysts who have predicted that higher crude is here to stay and that [emerging supply constraints](#), notably in the Middle East, could push it to over US\$80 a barrel.

### Now what?

Key to the thesis put forward by the Russians is that the equilibrium for oil prices sits somewhere between US\$50 and US\$60 per barrel. That is significantly lower than the current spot price for both benchmarks, indicating that if Moscow is right, crude could fall by well over 50% in a relatively short period.

This certainly accords with many of the forecasts made by analysts and industry insiders at the end of 2017, when they were forecasting an average annual price for 2018 of somewhere between US\$50 and US\$65 a barrel.

Nonetheless, given recent events, it is difficult to see Moscow's musings occurring.

While Saudi Arabia boosted June 2018 production to a record high of 10.7 million barrels daily, it has had little impact on the price of Brent. Nor did the announcement that OPEC and Russia plan to add up to one million barrels daily back to global energy markets.

In fact, Brent is rallying once again to see it climbing ever closer to the psychologically important US\$80-a-barrel mark. There is every sign that oil could keep rising over the remainder of 2018. This is because of the twin effects of emerging supply constraints and stronger than expected demand growth because of the global economic upswing currently underway.

Many of those [supply constraints](#) relate to OPEC, where members such as Venezuela and Libya are battling operational outages. Then there is Trump's plan to reimpose sanctions on Iran and choke off the nation's oil exports. Some analysts have even speculated that this could add up to US\$50 a barrel to the price of Brent.

There are also questions about whether the oil industry is capable of supplying growing global energy demand.

You see, significant underinvestment because of the prolonged slump in crude combined with the fast decline rates of shale oil and growing infrastructure constraints in the U.S. shale patch are preventing the industry from expanding as fast it once was.

It is even unlikely that Saudi Arabia can expand production sufficiently to fill the short-fall in supply, even with analysts estimating that the kingdom has spare capacity of up to two million barrels daily. Russia is also limited in its options to boost oil output. Citibank analysts believe that there is only around 400,000 barrels daily of idle capacity, meaning that Russia is also incapable of filling the gap left by these supply constraints.

For these reasons, it is implausible that Moscow's prediction will become reality.

### So what?

That is good news for Canada's energy patch, even more so when it is considered that the price differential between WTI and Brent is converging, giving Canadian light oil producers access to higher prices. It will be particularly beneficial for **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which has gained less than 1% over the last month compared to almost 13% for WTI.

The driller is in the process of implanting a strategy to unlock value and take advantage of higher oil. This includes divesting itself of non-core assets, such as the sale of properties in the Williston Basin for \$280 million, which will be used to bolster its balance sheet. A stronger balance sheet, lower financing costs, and improved operational efficiencies will boost Crescent Point's profitability, creating an opportunity for investors seeking exposure to higher crude.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

### PARTNER-FEEDS

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

**Category**

1. Energy Stocks
2. Investing

**Date**

2025/08/15

**Date Created**

2018/07/10

**Author**

mattdsmith

default watermark

default watermark