Why Is Oil Inching Lower Yet Again?

Description

Despite the oil bulls claiming that US$100 a barrel crude was on the way, prices have pulled back as the spectre of a marked step-up in global supply arises once again.

You see, Saudi Arabia (thought to have spare capacity of up to two million barrels daily) has offered extra crude to existing export customers. Then there are Trump's plans to tap into the U.S. Strategic Petroleum Reserve as domestic political pressures over rising gasoline prices intensify. While it is highly unlikely that crude will fall to the lows witnessed in 2016, when it plunged to under US$30 a barrel, it is also unlikely to soar into triple figures, as some industry insiders and analysts have claimed.

Now what?

Already Moscow has flagged that oil will collapse once again, while Riyadh has seized the opportunity to use its pre-eminent position in OPEC and massive spare productive capacity to manage prices. Earlier this year, the speculation was that the sweet spot for Saudi Arabia and many OPEC members is around US$80 a barrel, as the oil dependent budgets break even at that price.

Riyadh has publicly stated that the kingdom's break-even price is US$74.40 for 2018, which is a significant decrease compared to US$106 per barrel in 2014. This can be attributed to the significant fiscal reforms made by Saudi Arabia since the price of crude weakened sharply at the end of 2014. Economists and analysts speculate that Saudi Arabia's break-even price will be below US$55 a barrel by 2021.

Trump is also pressuring OPEC to bolster production, which culminated in an agreement between Saudi Arabia and Russia to add one million barrels daily back onto global supply.

Prices are also retreating after announcements from the Trump administration that it plans to release anywhere from 5 million to 30 million barrels from the strategic reserve to make up for supply constraints elsewhere and cool prices.

While these events will weigh on oil, there are still plenty of factors supporting higher prices. These include OPEC supply constraints, notably in Venezuela and Libya, bottlenecks in the Permian Basin that are preventing shale oil from expanding at the expected rapid rate and Trump’s plans to choke Iranian oil exports.

So what?

What this means is that the outlook for crude will remain volatile for some time and likely won’t rally into triple figures by the end of 2018. That doesn’t mean that investors should refrain from investing in the energy patch, however. There are plenty of attractively valued drillers, which because of the efficiencies introduced at the peak of the oil slump, are free cash flow positive with West Texas Intermediate (WTI) at US$55 per barrel.

Upstream oil producer **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) estimates that its break-even price per barrel of oil produced will be US$40. Amid an operating environment that sees WTI hovering at around US$70 per barrel, Crescent Point Energy’s operations are highly profitable.

The driller expects to be free cash flow positive with WTI at US$55 per barrel, further indicating that its earnings will receive a healthy bump in an operating environment in which WTI has averaged around US$65 a barrel since the start of the year. Those characteristics in combination with the fact that Crescent Point has lagged behind WTI since the start of 2018 make it an attractive investment in the current market.

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
2025/07/02
Date Created
2018/07/16
Author
mattdsmith