



Why Is the Spread Between West Texas Intermediate and Brent Widening?

Description

In a surprise development, the latest oil rally has seen the price differential between West Texas Intermediate (WTI) and Brent [widen once again](#) to be just under US\$8 per barrel compared to less than US\$4 a barrel near the start of 2018. There are various reasons for this, including growing U.S. shale oil production and emerging supply constraints in the Middle East.

What this means is that those upstream oil producers capable of accessing international Brent pricing will gain a handy financial advantage over their North American counterparts. This includes Colombian oil producers **Parex Resources** ([TSX:PXT](#)) and **Gran Tierra Energy** ([TSX:GTE](#))(NYSE:GTE), which can access Brent pricing.

Now what?

A key driver of the recent divergence of WTI and Brent has been a sharp uptick in U.S. oil production. Shale oil, despite emerging infrastructure constraints, continues to beat estimates. According to the U.S. Energy Information Administration (EIA), U.S. shale oil output will reach 7.6 million barrels daily next month, which represents a 1% increase over this month. It also should be considered that U.S. oil production hit a record high of 324 million barrels in March, and even after falling by just over 1%, total production came to 320 million barrels for June.

These factors — along with an expectation that refinery utilization will fall in coming months — as well as pipeline and infrastructure constraints are keeping pressure on WTI.

Internationally, there are a range of emerging supply constraints that are helping to bolster Brent in an environment where demand growth for crude remains firm. The most notable of these constrictions is the soon-to-be-reinstated sanctions on Iran, which — along with further disruptions in Libya and the catastrophic collapse of Venezuela's oil industry — could trigger an international supply deficit.

It is even speculated by some industry analysts that these supply issues may lead to a shortage of light oil deliveries to Europe. These complications are bolstering the price of Brent and will continue to do so for some time for as long as a range of geopolitical risks continue to exist.

So what?

The ability of Parex and Gran Tierra to access Brent pricing gives them a significant financial advantage over those counterparts solely operating in North America. For the second quarter 2018, Parex realized an average sale price of US\$61.96 per barrel, and for Gran Tierra it was US\$64.50, which is greater than many upstream oil producers operating in Canada. North American light and medium oil producer **Whitecap Resources** only received an average of US\$58 a barrel for that period, while for **Crescent Point** it was just under US\$59 per barrel.

The premium applied to Brent bolstered Parex's and Gran Tierra's profitability, as illustrated by their higher operating netbacks for the second quarter, which were US\$44.97 and US\$47.99 per barrel produced, respectively. In the case of Whitecap, its operating netback was US\$24.45 a barrel and Crescent Point's came to \$31 per barrel.

Furthermore, Parex and Gran Tierra's production is heavily weighted to crude, which significantly reduces their exposure to [weaker natural gas](#) prices, further bolstering their profitability. They also possess solid balance sheets, which, in conjunction with Brent pricing and growing production, makes them an appealing way of gaining exposure to the increasingly optimistic outlook for oil.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSEMKT:GTE (Gran Tierra Energy Inc.)
2. TSX:GTE (Gran Tierra Energy Inc.)
3. TSX:PXT (PAREX RESOURCES INC)

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Date

2025/09/29

Date Created

2018/09/20

Author

mattdsmith

default watermark