



Why Energy Stocks Are Crashing This Fall

Description

Oil and gas prices have sharply corrected over the past month. The price of WTI Crude was at \$54 as of the early morning on November 22. Western Canadian Select, which has suffered huge declines in 2018, dropped to \$11 on November 20. The crisis is real for Canadian energy giants, as demonstrated by the decline in share prices.

The **iShares S&P/TSX Capped Energy ETF** has dropped 10% month over month as of close on November 21. It is down 17% in 2018 so far.

Crescent Point Energy (TSX:CPG)(NYSE:CPG), a Calgary-based oil and gas company, has seen its stock plummet 33% over the past month. In September, the company announced that it would cut 17% of its workforce as part of its strategic effort to reduce its debt by \$1 billion.

The record-low prices of Western Canadian Select (WCS) are putting tremendous pressure on the Albertan oil and gas industry. Crescent Point projected that its restructuring would result in \$50 million in cost savings starting in Q4 2018. The company also confirmed its November 30, 2018, dividend of \$0.03 per share last week. This represents a significant 7.8% yield.

Baytex Energy (TSX:BTE)(NYSE:BTE) is another Calgary-based oil and gas company. Its stock had dropped 17% month over month as of close on November 21. Shares were down 34% in 2018 so far.

Baytex reported a strong third quarter on November 2. The company posted adjusted funds flow of \$171 million, or \$0.46 per basic share, and produced approximately 97,000 boe/d in October. In the first nine months of 2018, Baytex has reported a \$94 million net loss compared to a net gain of \$11 million in the previous year. The company had already faced major headwinds due to volatile prices earlier in the year, but now price weakness has reached a critical stage. Baytex boasts an RSI of 41, which puts it outside oversold territory.

What is behind the weakness in oil and gas prices?

Back in mid-October, I'd [discussed](#) the diplomatic crisis that emerged in the aftermath of the murder of Saudi-born journalist Jamal Khashoggi. A CNBC report had indicated that the Saudis could move to

lower prices in order to placate the Trump administration and avoid major backlash. In the weeks following the report oil and gas prices have plummeted. President Trump took to **Twitter** this week to praise the Saudis for helping to push gas prices lower, referring to it as a “tax cut” for Americans and “the World.”

Surging U.S. production has also put intense pressure on prices. However, OPEC members are set to meet in Vienna on December 6. There is a good chance that the organization will choose to [cut production](#) to combat this steep rout. This could give oil prices some support heading into the final weeks of 2018.

Meanwhile, Canadian policymakers have been put on high alert, especially with a federal election year looming in 2019. The Liberals announced a package that would deliver tax breaks for businesses effective November 20. Finance Minister Bill Morneau has said there is no “magic bullet” for the energy sector, but there is increasing pressure on federal and provincial governments to push for more pipeline construction.

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