



Will Alberta's Production Cuts Help Oil and Gas Stocks?

Description

Alberta Premier Rachel Notley made headlines recently when she announced that the government would be scaling back on oil and gas production in an effort to boost struggling oil prices.

The cuts won't be effective until January and will result in 325,000 fewer barrels of oil per day, or just less than 9% of the province's total production. However, the province expects the sharp reduction to last for only three months, when it expects that the big gap between supply and demand will shrink, at which point it will reduce the amount of the cuts to just 95,000 barrels.

But haven't oil and gas prices been rising?

While it's true that crude oil prices have been higher for much of the year, the problem is that Western Canada Select (WCS) has been trading at a big discount, which is why Canadian producers have still been struggling.

WCS has been trading north of \$30 a barrel for much of the year, but fell below that in October, and in late November it dropped below even \$12. Since the cuts were announced by the Premier, we've seen WCS bounce back, rising up to nearly \$30 again.

We've seen production [cuts](#) take place in the global markets, but this has not been typical for WCS.

The Premier showed a great deal of concern for the current conditions, stating, "We must act immediately, and we must do it together. I can't promise the coming weeks and months will be easy, but I can promise we will never back down in our fight to protect jobs and the resources owned by all Albertans."

The move underscores another significant concern: the loss of potential jobs in the industry as a result of less production. However, with the cuts expected to go no longer than a year, the risk should be contained, but it's still a sensitive issue in a province that is still struggling to recover from the latest downturn.

Positive reaction from the markets

Cenovus Energy Inc ([TSX:CVE](#))([NYSE:CVE](#)) saw its share price jump by more than 15% over the past five days as the news gave the company renewed hope that things may be a bit brighter in the months ahead.

The stock has struggled, hitting all-time lows recently and it's been hard to justify investing in the company with the outlook on the industry being so bearish. How strong of an impact the cuts will have on the stock remains to be seen, but Cenovus CEO Alex Pourbaix was very happy with the news.

In an interview with BNN, Pourbaix stated, "If the government had not stepped in, not only would Cenovus have massively cut back its winter program, but that would have had knock-on effects to the communities we work in, the contractors that we use."

With Cenovus still trading at a fairly low price and still well below book value, it might be a great buy for investors looking for a stock with a lot of [upside](#). If the production cuts prove to keep WCS prices higher, that will be good news for Cenovus and its peers.

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Date

2025/08/14

Date Created

2018/12/05

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