What All Canadian Investors Should Know About Saudi Oil Strikes

Description

The global war over oil continued over the weekend when coordinated strikes on critical Saudi Arabian oil infrastructure reduced production capacity by 50%, representing 5% of the world's oil supply.

The news sent oil stocks on the Toronto Stock Exchange flying on Monday. Share prices on **Encana**, **Canadian Natural Resources**, and **Cenovus Energy** surged over 10% on market open. **Enbridge** (TSX:ENB)(NYSE:ENB) experienced a modest 2% spike to around $47 per share on the news.

Canadian oil futures opened relatively flat. Meanwhile, U.S. oil futures surged by over 10%, trading at more than $79 per barrel.

How the Saudi attacks affect Canadian investors

The reduction in oil production will likely cause a modest rise in gas prices throughout the rest of the year. This is good news for shareholders of Enbridge, as it means larger profit margins. Enbridge currently boasts a profit margin of 10.21%, levered free cash flow of negative $571 million, and unchanged gross profit from four years ago.

Also standing to win on the price increase are up to seven smaller Canadian oil exploration and production corporations, including **Kelt** and **Peyto** that face potential de-listing from the TSX. Kelt and Peyto have lost nearly 60% of their value in the past year and now trade for under $4 per share. The North American oil industry is struggling — and these stocks may be some of the first to go.

Canadians without oil stocks in their portfolio should worry about how rising oil prices will impact other investments like consumer cyclical stocks. Reduced disposable income available for non-essential goods and services like entertainment may harm these industries.

Yemen Houthi rebels responsible for attacks

Although Yemen's Houthi rebels have already claimed responsibility for the attacks, the United States government denies their confession. Instead, U.S. leadership is speculating on Iranian involvement. The state of Iran is a historical oil competitor against the powerful OPEC and North American oil interests.

OPEC struggles to gain cooperation from Iran to restrict production and set prices at artificially high prices. As a result, lower world oil prices weigh heavily on the less cost-competitive North American oil titans like Enbridge.

North American oil struggles to compete against Iran

Trade sanctions have done wonders in the past to protect OPEC and North American oil from Iran's belligerence. Former U.S. president Ronald Reagan first led the way for sanctions against Iran in 1987. In 2006, the United Nations Security Council passed a resolution to impose sanctions against Iran in response to accusations of excessive uranium enrichment.

The U.N., along with former U.S. president Obama, revoked Iranian sanctions in 2016. Consumers were ecstatic to see their receipts at the pump when Iran began flooding the oil market with low-priced gasoline. North American oil companies were not as happy, and there were rumours that the low oil prices would cause less cost-competitive firms to fail.

Was Iran involved in the attacks?

Iran may not have much to gain from an attack on Saudi oil interests. OPEC had already conceded to Iranian production earlier this year when it gave Iran a symbolic exemption from its collusive supply cuts. North American oil interests, however, may have more to gain from blaming Iran for the attack on Saudi oil infrastructure than Yemen.

Regardless of the real culprit, Canadian investors should be cautious where they put their money. Betting on less cost-competitive North American oil is a volatile gamble. Geopolitics determines the profits of Enbridge — not traditional, free-market capitalism. The direction world leaders will take our geopolitically sensitive investments is too difficult to tell.

Instead, Canadians should look into high-dividend banking, insurance, and consumer defensive stocks. Rising oil prices may be a sign that recession fears could become a reality. Thus, Canadian investors should ensure their portfolios are stocked with more resilient industries.

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