Oil & Gas Stocks Are Soaring: Should You Be Buying?

Description

Oil prices have jumped as a result of an attack on Saudi Arabia's oil production. It's a big shock to supply, as 5.7 million barrels of oil per day, or 5% of the total global supply, has been disrupted. According to oil analyst Amrita Sen, half of the lost production "could return fairly swiftly," but it may take weeks or months for everything to be completely back online. What that suggests is that the real impact is likely closer to 2.85 million barrels of daily oil production.

Let's take a closer look at whether investors should consider buying oil and gas stocks on this news.

Oil prices are up, but by no means are these highs we haven't seen before

West Texas Intermediate (WTI) is key benchmark in North America, and while it has jumped from around US$54/barrel up to US$62/barrel as a result of the supply shock, back in April and May, it was trading over US$60/barrel. And if we go back to this time last year, prices were over US$70/barrel. While it's possible that we could see prices go higher than where they are now, let's remember that this isn't a massive spike in price that we haven't seen for a long time. The same can be said of Western Canada Select, as it too saw higher numbers earlier this year.

With an oversupply of oil in the markets, the shock in supply is by no means creating a shortage that's going to lead to oil prices rising significantly. OPEC and other producers have already cut production by 1.2 million daily barrels of oil and have recently extended those cuts until March of 2020. If supply was an issue, those cuts could be lifted to help lessen the shortfall in the markets. While on paper the situation looks bad, in reality, it may not prove to have as big of an impact as many investors may be hoping.

Stocks have been rallying

Oil and gas stocks have been doing well as a result of the news. One stock in particular that has done very well in is **Cenovus Energy**, which shouldn't be surprising given that earlier I noted the strong correlation the stock had to WTI prices. Cenovus saw its share price rise 12% on Monday, and it also hit a new 52-week high on the day.

The reality is that unless we see more attacks and uncertainty in the Middle East, this bump up in share price is likely going to be short-lived and not likely lead to a bigger rally. While Cenovus stock is still trading below book value, even after this surge in price, the problems facing Canadian oil and gas stocks are much bigger than just oil prices. Politics have, unfortunately, played a significant role in the industry's struggles in the country, and that's why, although there may be a bit more bullishness on oil and gas stocks for Canadian companies, this may have a more muted effect than investors may have been hoping for.

Bottom line

Ultimately, the supply shock is a temporary one, and it hasn't made Canadian oil and gas stocks more valuable, nor has it fixed the problems facing pipelines in the country. For those reasons, I wouldn't be rushing out to be buying shares of Cenovus or any other oil and gas stock.

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djagielski