Oil Prices Surge: What Should Energy Stock Investors Do?

### Description

On the weekend, drone attacks on key oil infrastructures, the Abqaiq processing facility and the Khurais oil field, took more than half (or 5.7 million barrels per day) of Saudi Arabia's oil production offline. This equates to roughly 7% of the global crude and condensate production.

This unexpected turn of events sent oil prices jumping high on Monday — and with it many Canadian energy stocks that were trading at dirt-cheap valuations.



Specifically, WTI climbed +13% to roughly US$62 per barrel, and Brent spiked +14% to approximately US$69 per barrel — the biggest one-day rise in more than 10 years.

## Is the oil price rally sustainable?

Whether oil prices will stay high comes down to supply and demand. As of today, Saudi Arabia has about 25 days of inventory for crude exports. Consequently, if Saudi Arabia can fix the Abqaiq facility in about a month, there should be little impact on the global crude supply.

Moreover, other crude exporters, such as the United States and Russia, can ramp up their production to make up for some of the lost 5.7 million barrels-per-day production.

Some believe that it was Iran which was behind the drone attack. If an all-out war were to break out between Saudi Arabia and Iran, oil prices would rally higher, as oil supply from Saudi Arabia would become even more uncertain.

## Big movers in energy stocks on Monday

Here are some of the biggest movers in energy stocks on the TSX on Monday:

- **Encana** and **Baytex Energy** spiked +16%
- **Canadian Natural Resources** jumped +12%
- **Whitecap Resources** rose +11%
- **Crescent Point Energy** and **Surge Energy** climbed +10%



## What should energy stock investors do?

On one hand, more leveraged oil and gas producers like Baytex will experience the most spectacular rallies should oil prices continue their march higher. On the other hand, if the global oil supply can be stabilized by the forces at play, the oil prices could retreat as quickly as they rose.

Besides, if oil prices kept their elevation or climbed even higher, some fear that this would trigger a global recession.

If you currently hold energy stocks, you should revisit your initial goals of buying them.

If you bought energy stocks, specifically oil and gas producers, for price appreciation, you should review your holdings and consider this rally (however long it might last) as an opportunity to take profit.

If you bought energy infrastructure stocks, such as **Enbridge** and **TC Energy**, or other diversified large-cap names such as CNQ and **Suncor** for dividend income, you can choose to continue holding them, as their dividends are kept safe and growing because of their strong cash flow generation. That said, CNQ and Suncor both participated in the rally, so you might also consider taking profit opportunistically.

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kayng