



Drone Attacks in Saudi Arabia Boosted Energy Stocks

Description

The drone attacks on Saudi Arabia's oil production infrastructure last weekend have rattled the global oil market. Saudi Arabia is the world's largest oil producer. The drone attacks on the country's substantial facilities have led to the producer cutting half of the oil production.

With Saudi Arabia producing more than five million barrels a day, halving production means 5% of the global oil supply can cease to exist in the market. This event is the single most massive disruption to hit the oil industry.

The hit on Saudi oil production saw oil prices respond accordingly. The oil market is still sorting out how far-reaching the effects of this attack will be on the global oil supply. Here is what the situation looks like right now.

A hit that shook the world

The drone attacks hit the Abqaiq Saudi Aramco oil-processing facility as well as an oil field nearby. The attack destroyed part of the world's most extensive oil-processing facilities, knocking out 5.7 million barrels of daily supply offline. The stock market does not like uncertainty, and crude oil prices spiked after the attack.

Saudi Arabia has decreased oil production by half in the wake of the attack. The country hopes to reach full capacity soon, but it is something that could take several weeks to accomplish. The fact that there is no definitive proof of who is behind the attack makes things even more uncertain. Saudi Arabia pointing fingers at Iran has raised tensions in the Middle East and could result in war — something even scarier than the current situation.

The impact on oil prices

If Saudi Arabia can recover from the damage and get the facility back up to its full capacity soon, crude oil prices might not increase further. The possibility of another attack, however, will still keep crude oil

prices higher than they were before the attack.

If things worsen and Saudi Arabia attacks Iran, it will affect the global supply, since Iran will be likely to shut down the Strait of Hormuz — an event like that can send crude oil prices skyrocketing even further.

Where is Canadian oil during all this?

While Canada is not the largest oil producer in the world, it is one of the most significant. Increased oil prices boosted the Canadian energy sector on Monday. The benchmark prices for oil jumped by over 14% on Monday but gave up some of the gains by Tuesday.

The CEO of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) says that [his company](#) is not relying on higher cash flow as a result of the attack. Analysts, however, expect a “risk premium” on crude oil prices due to the strike. Mark Little says that the attack does improve the market for Canadian oil producers.

Managing director of oil and gas equity research at BMO Capital Markets Randy Ollenberger weighed in on the issue. He believes that Canadian oil and gas companies were inexpensive before. The movement in oil price is a little bit of risk premium creeping into it. Stronger oil prices worldwide mean gasoline prices in Canada will likely increase in the coming weeks.

Canadian energy companies posted double-digit increases with **Canadian Natural Resources** among them [up 13%](#).

It is not clear how long the disruption in Saudi oil production will last or how Saudi Arabia will respond. My take on the short-term outlook of the situation is that Canadian crude oil could be considered a safer option.

In terms of possible investments, I think it is as good a time as any to consider Canadian energy stocks right now.

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