Is Now the Time to Buy Oil and Gas Stocks?

Description

Things can change on a dime in the oil and gas industry. A price war involving Saudia Arabia and Russia sent the price of oil crashing earlier this year. However, on Sunday, several countries, including OPEC and Russia, agreed to cut production by 9.7 million barrels per day. The cuts will take place in May and June, after which, there will be a steady increase in production.

It's a monumental decision, and it's the steepest cuts that have even been agreed to by oil and gas producers. At the beginning of 2020, the price of West Texas Intermediate (WTI) was over US$60 per barrel. But the price war and concerns that there would be an excess supply sent WTI down to US$20 per barrel. On Monday, WTI was up over US$23, as investors are still a little hesitant to believe that this will work and that oil prices will recover.

Why it may not be enough

The deal is an encouraging one that will help curb output by about 10% of the world's supply. But experts estimate that demand has fallen by even more than that as a result of the coronavirus pandemic. With people staying home and not traveling by either automobile or plane, the demand for oil is going to be limited in the months to come.

And the steep cuts are in place for a limited time as well. Without a long-term commitment, it may be hard to convince investors that the production restrictions will be enough to offset the stalling demand. It'll also be a challenge to get many nations to abide by such steep cuts for a long period of time.

The modest increase in the price of oil on Monday suggests that investors are still a little gun-shy in believing that this latest round of cuts will work. Production cuts aren't new for the industry. And while these are much deeper, they, unfortunately, may not go deep enough or last long enough.

Should investors take a chance on Enbridge?

Enbridge (TSX:ENB)(NYSE:ENB) is trading around $40 per share, and the stock has recently come off a 52-week low. It's generally one of the safer oil and gas stocks in the industry. But it's also dependent on the strength of the industry for there to be demand for the company's pipelines.

But the outlook for the oil and gas industry is not encouraging these days, especially in Canada. Alberta premier Jason Kenney recently said that he believes the unemployment rate in his province, which is largely dependent on oil and gas work, could soar to more than 25% due to COVID-19 as well as a low price of oil.

That's why, despite Enbridge and other oil and gas stocks trading at fairly low prices, there's still simply too much risk involved in the industry to be investing in it. The company may not have suspended its dividend, but it may only be an inevitability at some point this year. Investing in any industry is dangerous amid the coronavirus pandemic. Having to also worry about oil prices only adds to that risk. Whether it's Enbridge or any other stock, investors should stay away from the industry, at least for now.

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