



Why Did Suncor's (TSX:SU) Stock Skyrocket 92%?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) stock isn't known for its big swings. In fact, from 2006 to 2020, the stock price returned a grand total of 0%. While there were swings along the way, few were as dramatic as what occurred in recent weeks, when shares [zoomed](#) higher by 92%.

What caused such a sudden upturn? Is there still profit to be had for new investors? The answers to these questions have ramifications across the market, whether you own oil stocks or broad-based index funds.

This story is crazy

The world remains captivated by the global COVID-19 crisis, but there's another dramatic storyline playing out in the energy sector, particularly with oil markets.

At the start of 2020, oil prices averaged US\$60 per barrel. Suncor stock was approaching multi-year highs. Months later, prices slid below the US\$20 per barrel mark. At one point, oil futures were in the *negative*, meaning traders had to pay others to unload their contracts. What happened?

The first impact, of course, dealt with the coronavirus pandemic. Planes throughout the world were grounded. Vehicle traffic came to a screeching halt. General demand for energy intensity took a dive. All of this combined resulting in a rapid reduction in oil demand.

Oil supply, meanwhile, can't be modulated quickly. If demand plummets, supply can stay elevated for weeks, months, or even years after the fact. That's why sudden shifts in demand often cause outsized gyrations on oil prices, with Suncor stock following suit.

The crazier factor stemmed from a pricing war between Saudi Arabia and Russia, which began in March.

"Saudi Arabia slashed its export oil prices over the weekend in what is likely to be the start of a price war aimed at Russia but with potentially devastating repercussions for Russia's ally Venezuela, Saudi

Arabia's enemy Iran and even American oil companies," [noted](#) *The New York Times* on March 3.

"If a true price war ensues, there will be plenty of pain in the oil markets," added Badr Jafar, president of Crescent Petroleum. "Many will be bracing for the economic and geopolitical shocks of a low-price environment."

Where will Suncor stock go?

The factors listed above, which influenced both supply *and* demand, created a perfect storm for oil prices. As an oil producer, Suncor was positioned for maximum pain. In March, shares shed more than 50% of their value.

Recent weeks, however, seem to indicate a turning point. Air traffic is picking up, and more people are heading outside for summer trips. We're still a far cry away from former highs, but incremental oil demand seems to be ticking up.

The supply situation is similarly encouraging. Oil ministers from OPEC and other producers including Russia agreed to steep production cuts to balance the market. That agreement was extended late last week. Oil prices are now close to US\$40 per barrel.

It's important to note that, even after a rapid 92% rise, Suncor stock remains 40% below its 2020 peak. If conditions continue to normalize, more upside will come.

The current discount represents an ongoing wariness by the market. Suncor isn't a stock that controls its own destiny.

Its profits fluctuate at the whims of a global virus outbreak and powerful oil-producing countries. Shares may rise in the months to come, but it's a purely speculative bet.

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