



Oil Price Rally: Could WTI Surge to US\$100 Again?

Description

Analysts have very different opinions today on where the price of oil is headed in the next few years.

Bull case for oil

Oil bulls point to the drastic drop in output and severe cuts to capital programs, as reason to be bullish on the price of oil over the medium term. Some predictions call for WTI to move back to US\$100 or even US\$150 on a spike.

This is more of a contrarian opinion today. Most market watchers find it tough to imagine such an event in the current environment, but the market doesn't always go the way the majority expects.

A significant drop in exploration and drilling across the industry could potentially trigger an oil shortage. The International Energy Agency (IEA) predicts total global energy investment will fall by US\$400 billion in 2020 compared to last year. Oil and gas investment is taking the largest hit, falling by roughly 33%, or nearly US\$250 billion.

The most dramatic cuts in the oil and gas sector include U.S. shale players, where it is uncertain if the segment will ever recover.

In the IEA's July report, the organization said global oil supply fell by 2.4 million barrels per day (mb/d) in June, hitting a nine-year low of 86.9 mb/d.

Recent trends

Since April, the agency says strong compliance among OPEC+ members to cut output helped move WTI oil futures prices from a brief dip into negative territory to today's price above US\$40 per barrel. Steep production declines by Canadian and U.S. companies added to the supply reductions that have now slashed total global output by 14 mb/d.

Demand fell by 16.4 mb/d in Q2 compared to the same period last year, due to pandemic lockdowns. The gradual reopening of economies in the second half of the year should drive a rebound in oil consumption. China and India saw combined demand increase by 1.8 mb/d in May.

For all of 2020, the IEA expects world oil demand to drop by 7.9 mb/d and then bounce by 5.3 mb/d in 2021.

V-bound impact

In the event a coronavirus vaccine becomes readily available in the early part of 2020, the economic recovery could drive much higher oil consumption in the next two to three years.

Given the dramatic investment cuts by global [producers](#), some analysts see the oil price revisiting US\$100 before producers can get adequate drilling activity up and running again to meet the jump in demand. A few experts even say a spike to US\$150 per barrel might be on the horizon in the next five years.

Should you buy oil and gas stocks?

Oil and gas stocks took a beating in recent months. As such, there is significant upside potential on a strong recovery in the global economy.

One top Canadian energy stock to consider would be **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)). The company has major oil and natural gas assets across the full spectrum of the market. Oil sands, conventional light oil, conventional heavy oil, and offshore oil are all part of the production mix.

In the Q1 2020 report, the board maintained the dividend, saying it is confident the business can meet capital requirements and cover the distribution. The company president indicated in May that the breakeven level is less than US\$31 per barrel.

The stock hit a low near \$11 per share in March and rallied to a closing high above \$29 in June. CNRL's share price is back down to \$23 on renewed economic recovery fears. At this price, contrarian investors can pick up a 7.4% [dividend](#) yield. The stock started the year above \$40, so there is decent upside potential on an oil rally.

The oil industry faces long-term headwinds, as the planet moves toward renewable energy and electric vehicles. In the coming months, investors also have to weigh the risk of a major second wave of the coronavirus and renewed lockdowns.

The bottom line

Investors with a bullish view on oil and the global economy might want to start nibbling on top oil stocks. CNRL appears attractive at the current price, and you get paid well to wait for a recovery.

Investors who see a slow global economic rebound through 2021 and expect WTI oil to be stuck at or

below US\$40 for the next five years should look for other opportunities.

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