3 Signs That Suggest the Crude Oil Rally Is Fading: Watch These 3 TSX Stocks

Description

Energy markets have been highly unpredictable in the last few years, driven by volatile crude oil prices. After plunging deep in the negative territory in April, crude oil prices peaked to $40 a barrel recently, marking some of the best recoveries on record.

However, several bullish indicators that supported the massive rally seem to be fading now. Let's take a look at what lies ahead for TSX energy stocks and investors.

Why the crude oil rally seems to be peaking

In May, crude oil soared a massive 85% but has been trading in a narrow range since June. There are several factors that indicate crude oil price rally could be peaking.

Notably, the cartel of oil-producing countries last week decided to taper the production cuts starting next month. They decided to cut back oil production on the back of dwindling oil demand due to the pandemic last quarter. The demand/supply equation, which primarily drives the energy markets, was significantly disrupted before the cuts.

Another important driver that could put substantial pressure on crude oil prices is weakening demand from China. Huge demand from China, the biggest oil importer of the world, has been largely behind the oil price recovery in May.

However, the trend seems to be discontinuing, reverting the demand back to the mean. Declining demand from China and recently approved production cuts tapering could once again disturb the energy markets. This might weigh on crude oil prices in short to intermediate term.

In addition, the recent acceleration of coronavirus active cases across the globe is forcing authorities to again impose or extend lockdowns. This could further dent the oil demand and invalidate the recent green shoots of reviving the global economy.

What’s next for top TSX energy stocks?

Canadian energy giants followed a massive upward momentum in crude oil in the second quarter. Top TSX stocks **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) and **Cenovus Energy** (TSX:CVE)(NYSE:CVE) have soared 140% and 195% since their record lows in March, respectively. This rally could soon evaporate if crude oil reverses its momentum.

Moreover, their second-quarter earnings will be a bigger indicator that should pave the path in the short term. Cenovus plans to report its earnings on July 23, while CNQ will report early next month. A weaker-than-expected earnings, mainly driven by impairment charges and gloomy management commentary, could notably lower these stocks.

Interestingly, both Cenovus Energy and Canadian Natural are expected to report a big loss for the second quarter. However, Canadian Natural seems well placed to emerge stronger from the crisis and is a solid bet for investors. Its solid balance sheet and attractive valuation make it stand tall among peers.

Also, the integrated energy giant maintained its dividend growth this year, unlike its peers. CNQ stock yields a tasty 7%, notably higher than TSX stocks at large. Cenovus Energy suspended dividends, as cash retention became vital for the company.

Apart from CNQ, **Suncor Energy** also looks like an attractive bet for investors who wants to bet in the Canadian energy space. Its downstream operations offset the underperformance of the upstream segment when crude oil price craters.

Investors should note that pandemic-driven challenges and quarterly earnings could weigh on these energy stocks in the short term. However, CNQ’s handsome dividends and diversified product base will likely help it outperform peers in the longer term.

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2. NYSE:CVE (Cenovus Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
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