What Roiled the Global Energy Markets This Week?

Description

While almost all sectors and stocks have seen stupendous recoveries in the last few months, the rally in the energy sector stands way taller. Oil went from negative $37 per barrel in April last year to $75 a barrel of crude oil this week, which indeed highlights the massive comeback. However, global energy markets roiled this week, which could change the course of the price of oil in the latter half of the year.

Energy markets rally on reopening hopes

When the pandemic occurred last year, and economies went into lockdowns, the cartel of oil-producing countries restrained oil supply. They collectively cut back 10 million barrels, or 10% of the total oil supply, to balance the demand-supply equation. That somehow worked out pretty well, and we saw a strong crude oil rally, as mentioned above.

Now, after 15-odd months, energy is demand increasing at a fast clip amid reopenings. To again match the demand-supply equation, OPEC+ (Organization of the Petroleum Exporting Countries, including Russia) intends to bring those oil barrels back to markets. However, the oil output talks failed this week after the United Arab Emirates (UAE) refused Saudi Arabia’s proposal to extend curbs for another eight-month period.

Saudi Arabia, the de-facto leader of the cartel, produces more than 12 million barrels of oil per day. On the other hand, UAE produces around 3.2 million barrels of oil per day.

Differences between OPEC members fuel uncertainty in energy markets

The unsuccessful talks of the oil-producer nexus only fuelled the volatility in the crude oil. It jumped beyond $77 a barrel, breaching its three-year high, only to fall back to $73 levels this week.

OPEC+ aims to bring back almost two million barrels of oil per day to markets by December 2021.

The UAE is also upset about its reference production baseline from where its production cuts are calculated. This is because it has significantly increased production capacity in the last three years, while its production reference is still calculated based on its 2018 capacity.

The delay in increasing supply could push oil prices further higher. This may make it a favourable proposition for U.S. shale drillers, ultimately boosting the crude oil supply.

Notably, higher crude oil prices and returning demand could generate abundant free cash for oil giants. However, many global energy bigwigs have shrugged off increasing production for 2021. Instead, they largely aim to strengthen their balance sheets and return cash to shareholders from the excess cash.

Canadian energy giant: Suncor Energy

Canada's biggest oil sands producer **Suncor Energy** (TSX:SU)(NYSE:SU) is no exception. It took a deep dent when oil prices tumbled last year. The integrated energy titan trimmed its dividends by 55% in April 2020 when its liquidity position was deteriorating.

However, coming into 2021, Suncor Energy stock has more than doubled in the last 12 months. It offers stable dividends that yield almost 3% at the moment. Its breakeven point lies well below current oil prices, giving it a big scope for a free cash flow surge this year. Like many peers, Suncor Energy intends to increase its dividends and focus on improving its balance sheet strength.

Bottom line

Recovering global energy demand paints a rosy outlook for global energy players. Although OPEC+ talks have failed this week, they will likely find some common ground soon. After all, oil prices going haywire could be troublesome for them as well.

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