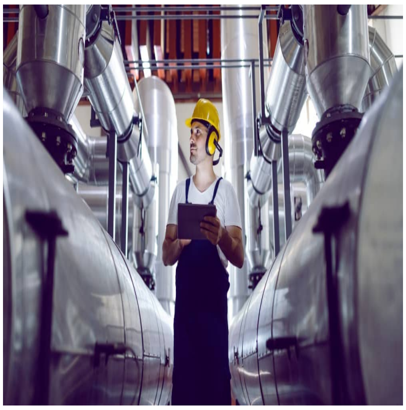

Oil Prices Down 4%: Should You Buy Oil Stocks?

Description

Trading at US$71.81/barrel, WTI crude is at its three-year high. However, the oil price is facing downward pressure since July 5, when the price reached US$75.16/barrel. Now the question is, why is oil price falling? Has the oil price peaked? Is there any upside left? In this article, I will take you through some oil updates, good and bad. How will the recent developments impact oil stocks?

The irony of the oil situation

There are too many variables that are impacting oil prices.

- Firstly, rising cases of COVID-19 variants across many economies are threatening the recovery in oil demand. This is putting downward pressure on the oil price.
- Secondly, the U.S. crude inventories are declining significantly, as people start travelling again, increasing oil demand. This is putting upward pressure on the oil price.
- Thirdly, disputes between Saudi Arabia and the United Arab Emirates over increasing oil supply limited the oil price increase.
- Lastly, Canada's emission-intensive oil sands have come under fire by environmentalists. This is not only impacting oil companies but also pipeline companies that transmit this oil.

The negatives outweigh the positives, sending WTI crude price down 4.4% in July. Different oil companies had different impacts. The biggest blow came to Canadian oil sands companies **Suncor Energy** (TSX:SU)(NYSE:SU) and **Cenovus Energy** (TSX:CVE)(NYSE:CVE). Their stocks fell 12.58% and 17.25%, respectively, between July 5 and 16. Even stocks of other crude oil companies like **BP** and **ExxonMobil** dropped around 10% in June.

Looking at the oil bears, it looks like Warren Buffett saw it coming. Hence, he offloaded some of his oil stocks and completely exited Suncor.

The impact on oil stocks

If you blindly follow Buffett, exit oil stocks. But before you decide, hear me out. The first three factors mentioned above are temporary and will normalize once oil producers come to a common ground.

They might drive oil prices up once again, as pent-up air travel demand and reopening of industries boost oil demand and put pressure on the Organization of the Petroleum Exporting Countries (OPEC) to increase supply.

The problem is the fourth factor targeted at Canadian oil stocks. Canada houses the world's third-largest crude reserves. The oil sands industry represents about 10% of the Canadian economy, but it also accounts for about 10% of Canada's emissions.

Suncor, being the largest integrated oil company in Canada, is the most vulnerable to the fourth factor. Suncor, along with Cenovus, **Canadian Natural Resources**, **Imperial**, and **MEG Energy**, announced the Oil Sands Pathways to Net Zero initiative by 2050. It will cost about $75 billion to achieve net-zero emission from oil sands. Such huge investment will put Canadian companies behind other oil companies in terms of production cost. Hence, oil producers seek government support to make this initiative feasible.

But this is not the first time the oil industry has come under fire for environmental reasons. No matter how serious environmentalists are, there is pent-up demand waiting for Canadian oil companies in the short term. You can't replace oil sands overnight. It is a long process and could take years.

Is it a good time to buy oil stocks?

Suncor and Cenovus present an opportunity to buy oil stocks at a discount before they ride the bull market coming from pent-up oil demand. This situation is like the airline stocks in April 2020. Buffett exited airline stocks over the long-term concerns and missed the 60-70% recovery rally. Similarly, he exited oil stocks over longer-term concerns. But what about the short-term rally?

You can diversify your oil risk by investing in Suncor, Cenovus, and **Enbridge**. Enbridge is not much impacted by the oil prices but will benefit from oil demand.

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Date
2025/07/02
Date Created
2021/07/19
Author
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