Alert: Oil Could Hit $100 Soon

Description

Crude oil prices are spiking this morning to levels not seen for years. Brent crude is trading at US$93.2, while West Texas Intermediate is trading at US$92.5. Energy analysts believe the price could hit triple digits soon. Here's what's driving the commodity higher and how investors can bet on it.

Oil price catalysts

Simple supply-demand factors are driving the price of oil higher. For one, the entire industry has underinvested in production for the past seven years. Ever since the oil market dipped in 2015, the industry has been reluctant to invest in drilling facilities. However, demand is surging back now that the world is reopening and economic activity heats up across the world.

Meanwhile, geopolitics plays a role, too. The tensions in Eastern Europe have a direct impact on the energy market. Russia is one of the largest oil and natural gas producers in the world. Some strategists worry that it could use energy supply as a bargaining chip if war breaks out. That would push oil substantially higher.

Canadian oil and gas companies should see the benefits of this. But if you're looking for a convenient way to bet on this theme an exchange-traded fund could be a better option.

Crude oil ETF

Horizons Crude Oil ETF (TSX:HUC) is a quick and convenient way to bet on rising oil prices. The ETF doesn't bet on oil companies. Instead, 100% of its portfolio is deployed into long-dated call options on crude oil. It tracks the Solactive Light Sweet Crude Oil Winter MD Rolling Futures Index ER. In simple terms — it's betting purely on the market price of oil in the near future.

Over the past year, the ETF is up 64% alongside the global energy market. At the moment, it's trading at 18.95, which is a mild premium to the underlying net asset value of $18.729.

If crude oil keeps surging, Horizons Crude ETF could deliver a massive windfall for shareholders.

Energy ETF

Another way to bet on the rising price of oil is through energy companies that produce, refine, and distribute it. The **BlackRock iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG) is an ideal target for this strategy. XEG holds Canada's largest and most profitable energy companies in its portfolio. Its biggest holdings include **Canadian Natural Resources**, **Suncor**, and **Cenovus**. Some of these stocks have more than doubled over the past year!

XEG, meanwhile, is up 106% over the past 12 months. If the energy crisis persists, this ETF could continue to outperform the rest of the stock market. In fact, it could be an ideal inflation-hedge if the cost of living and consuming energy remains stubbornly high.

I prefer XEG over HUC simply because it's a broader energy play. It's exposed not just to crude oil but also natural gas (which has had a better run) and the record-low borrowing costs for corporations in the oil sector.

Bottom line

Oil prices are surging and could hit $100 shortly. Canadian energy ETFs like HUC and XEG should be on your radar as this theme evolves.

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1. Energy Stocks
2. Investing

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