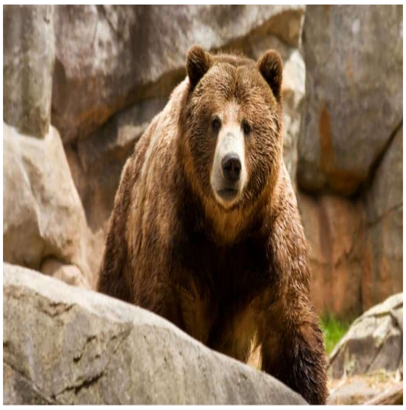

Bear Scenario: A Super Spike Above US$100 Before the Next Oil Slump

Description

The double-digit drop of the **S&P/TSX Composite Index** on February 23, 2022, extended its losing streak to five trading days. In the U.S., the Dow Jones Industrial is down 10% from early January and is now in correction territory. Canada's primary stock exchange widened its year-to-date loss to 2.26%, although the energy sector is still up 21.05%.

Market analysts worry about the impact of the Russia-Ukraine border crisis on oil prices and the energy sector. **Goldman Sachs's** commodity strategist Jeffrey Currie said, "The oil market feels like a runaway train speeding toward US$100 a barrel." After Brent crude came 50 cents close to US$100, industry experts say the price could hit US$125.

While oil traders around the world scream buy, buy, buy, Ed Morse, **Citigroup's** head of commodity analysis, advised clients to sell oil. His bear scenario is that a price super spike will happen, and oil producers will be under pressure to pump more. There could be a sea change as the market shifts into surplus.

Less supply than demand

Energy stocks are red hot since 2021, when oil rebounded from its slump in 2020. Saudi Arabia and Russia were in an oil price war before the pandemic. Global demand for oil fell thereafter fell due to border closures and travel restrictions. The result was catastrophic for oil companies.

The oversupply in April 2020 led to the unprecedented collapse of oil prices. OPEC and partner countries had to cut production to decrease global supply and stabilize the price. Oil prices are surging in 2022, because OPEC+ pumps less oil than global demand. It might stay high if Russia constrains it oil exports in response to economic sanctions by the West.

Strong tailwinds

Higher oil prices were the tailwinds in 2021 for battered energy stocks. **Suncor Energy** (TSX:SU)(NYSE:SU

) lost its Dividend Aristocrat status after Q1 2020 when it slashed its dividend by 55% to preserve cash and protect the balance sheet. Fast forward to 2022, and the oil bellwether's dividend yield is back to pre-pandemic levels.

The $53.25 billion integrated energy company restored investors' confidence by increasing its dividends by 100% in Q4 2021. Suncor paid a total of $3.9 billion to shareholders in 2021, including $1.6 billion, which represents the dividend increase in the fourth quarter. Net earnings for the year reached $4.11 billion compared to the $4.31 billion net loss in 2020.

Mark Little, president and CEO of Suncor, said, “In 2021, we reduced our debt at the highest annual pace in the company's history and maximized the returns to our shareholders through accelerated share repurchases and dividends.” According to Little, the strategy enabled Suncor to exit 2021 with a strengthened balance sheet.

The erstwhile Dividend Aristocrat is among the top picks in the energy sector in 2022. Suncor trades at $37.09 per share and pays a 4.53% dividend. Current investors are also up 17.19% year to date. If the favourable pricing environment sustains, the price forecast of $43.65 (+17.7%) in 12 months by market analysts could materialize.

Potential supply surprise

No one can say how high global oil prices will reach under the present circumstances. Still, Mr. Morse foresees a supply surprise by year-end that could prompt an oil crash like in 2008.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew
2. kduncombe

Category

1. Energy Stocks
2. Investing

Date
2025/08/21
Date Created
2022/02/25
Author
cliew