



Oil Price Hits \$130: What Comes Next?

Description

Oil prices have hit a fresh high, as tensions in Eastern Europe escalate. The ongoing invasion of Ukraine is putting strain on supply, while new sanctions on Russian energy could magnify the problem.

Here's what investors need to know about what comes next.

Oil price

At the time of writing, West Texas Intermediate (WTI) crude is trading at US\$128 a barrel. Brent crude is trading at US\$132. Global prices for the black liquid have skyrocketed to record highs. There could be more pain ahead.

On Tuesday, the Biden administration intends to add new sanctions on Russian energy. The United States is the world's largest energy consumer and purchases 700,000 barrels per day of Russian crude and petroleum products. Such a sanction would compel the U.S. to seek supply elsewhere, straining the market.

Canada and U.K. have already banned Russian energy imports.

Meanwhile, the European Union has published a plan to wean itself off Russian energy. The plan includes measures to seek alternative supplies of natural gas, load up reserves by October every year and improve energy efficiency standards. Altogether, these moves should lower the bloc's dependence on Russian energy by 66% by the end of the year.

However, Russian leaders don't think these plans are viable. Deputy Prime Minister Alexander Novak said the price of each barrel could exceed \$300 if Russian energy is sanctioned in this way.

In either case, investors should be prepared for a messy road ahead.

Safe havens

Canadian oil sands could serve as a safe haven during this crisis. With record-high prices, oil and gas giants such as **Suncor** ([TSX:SU](#))([NYSE:SU](#)) could see further upside. The stock is already up 28% year to date and 90% over the past six-and-a-half months.

Despite this surge, the stock trades at a [reasonable valuation](#). Suncor trades at just 1.6 times book value and 1.4 times sales. The price-to-earnings ratio is 15, while the dividend yield is 4%. Suncor's stock hasn't priced in the energy crisis. In fact, the stock is cheaper today than it was in 2018 or 2011, when gas prices were not nearly as high.

That could mean there's more upside potential here. If you're worried about the economic outlook and energy shortage over the next few months, Suncor stock could be an ideal target. It's a safe haven. However, you could also consider a contrarian bet.

Contrarian bets

The market is focused on oil, gas, commodities, and even gold. These themes are all based on the ongoing panic. However, investors with an appetite for risk and a time horizon that stretches further could make a contrarian bet. Instead of oil and gas, renewable energy could be an interesting play here.

Brookfield Renewable Partners ([TSX:BEP.UN](#))([NYSE:BEP](#)) is up 22% since February. The European Union's plan to significantly boost clean energy in the near future could benefit this global infrastructure developer. E.U. climate chief Frans Timmermans recently said the continent should "...dash into renewable energy at lightning speed." Some of that lightning could power BEP's stock over the next few years.

Keep an eye on this underrated segment of the global energy market.

Bottom line

Oil prices are at record highs and could surge further. Add Canadian energy stocks for safety or renewable energy stocks for long-term growth.

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