



Suncor Energy Stock: Is the Rally Over?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock has gone on a wild rally this year. Up 23% year to date, it has soundly beaten the TSX Composite Index. Suncor spent most of 2020 and 2021 struggling. Thanks to the low oil prices that pervaded in the worst months of the COVID-19 pandemic, Suncor had many losing quarters. Every single quarter of 2020 saw a significant net loss.

In 2021, things began to turn around. In the third quarter of last year, Suncor eked out positive net income of [\\$877 million](#). By the fourth quarter, that figure had grown to \$1.55 billion. In the same quarters of 2020, net income was negative. The growth, of course, was due to the rise in oil prices that took place over the course of 2021. The higher the price of oil goes, the more Suncor can [charge for gasoline and crude oil](#). The result is higher revenue and, ultimately, profit.

Today, oil prices are much stronger than they were in 2021. As of this writing, WTI crude cost \$112 per barrel in the futures market — a level it never saw last year. So, there is reason to think that Suncor has room to run from here.

With that being said, I'd temper my enthusiasm. Oil prices are trending upward right now, but they've been very volatile. Instead of reaching a permanently high plateau, they are rising and falling rapidly. This suggests significant uncertainty in the market which could tame investor appetite for energy stocks like Suncor.

Why oil prices are volatile

Generally speaking, when the price of a commodity is volatile, it suggests a high level of uncertainty. When there is a strong consensus on how much something is worth its price will be very stable. When investors are unsure, they will do a lot more short-term trades: previous bulls may become future bears in a matter of days. When these flakey buyers manage billions, their buys and sells result in significant volatility.

There are other reasons for volatility, of course. Genuine changes in supply and (end user) demand can have the same effect. But OPEC is keeping its output pretty steady, and demand is rising in a

relatively orderly fashion. So, the volatility we're seeing in the futures market seems to be a product of uncertainty.

That may suggest that oil prices will eventually settle somewhere lower than they are now. Certainly, the war in Ukraine is a big part of why prices are rising this year. If it ends, then traders probably won't scramble as hard to buy oil, compared to today. That could lead to downward pressure on prices.

Possible effect on earnings

What all this volatility means is that Suncor can't just count on blockbuster earnings all year. The fact that oil prices averaged above \$110 in the first quarter implies strong earnings for that period. But the volatility suggests that this rally could fade. The people buying and selling oil futures seem to be very uncertain about where things are headed. Perhaps oil is headed into a secular bull market. But it could just as easily be the opposite.

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