



Why Natural Gas Prices Are Soaring, and How Investors Could Play the Rally

Description

While equities at large struggle to find a direction, energy commodities are consistently rising. Russia's invasion of Ukraine has made things all the more chaotic in the global energy markets. Crude oil prices have jumped 60% in the last 12 months, while natural gas prices are up a mind-numbing 142% in the same period.

Why natural gas prices are soaring

The Benchmark U.S. natural gas futures [touched](#) US\$6.5/MMBtu this week — its highest level since January. In Europe, the situation is much grimmer, as gas prices have swelled by six times this year relative to 2021.

Natural gas is a fossil fuel that's prominently used for heating homes and electricity generation. Notably, it is a relatively cheap and clean-burning fossil fuel. Natural gas prices are a function of demand and supply in the market. The price will rise during economic growth or due to a supply disruption caused by a hurricane. Moreover, storage volumes as well as the availability and price of alternative fuels also drive its prices.

So, what's driving natural gas prices higher this time?

There's a host of reasons! Natural gas production in Europe has declined notably in the last few years, driven by stricter environmental regulations and plant maintenances. This only increased Europe's dependence on Russia for natural gas.

However, a new layer of sanctions from Europe could include banning Russian energy commodities. For example, Lithuania has been the first country in the continent to announce ceasing imports of Russian gas. Though it imports only 8% of its total gas needs from Russia, this certainly puts pressure on bigger European countries to follow suit.

Russia-Ukraine war and energy markets

If a large chunk of Russian gas goes out of the market, which is a remote possibility, it will significantly disturb the energy demand-supply equation. These increased uncertainties will further boost prices in the near future. As a result, higher [energy prices](#) will stoke inflation, which is already at a multi-decade high, ultimately insinuating an imminent recession.

Canada is the fourth-largest producer of natural gas and exports it to only one customer — the U.S. Notably, the latest disarray in the global energy markets put Canada in the spotlight with its low-cost energy production.

[Canadian energy companies](#) are already in a sweet spot with record financial growth. The rallying oil and gas prices will continue to strengthen their balance sheets, at least in 2022.

Top TSX natural gas stock to consider

One prominent player to play the natural gas rally is the country's biggest producer, **Tourmaline Oil** ([TSX:TOU](#)). It has 4.2 billion barrels of oil equivalent of 2P (proven + probable) reserves, implying over 75 years of drilling inventory. It aims to produce 500,000 boepd this year.

TOU stock is sitting on a handsome 140% gain in the previous 12 months. It saw substantial earnings expansion in the last few quarters, driven by higher gas prices. The company is flush with cash and has paid special dividends twice in the last six months. Interestingly, despite repaying debt and issuing specials multiple times, Tourmaline is still sitting on a hoard of cash, implying higher dividends for its shareholders.

Tourmaline looks well placed to play the gas price rally, mainly because of its scale. In addition, superior free cash flow growth and undervalued stock could keep delighting investors this year and beyond.

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Author

vinitkularni20

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