Top 3 Reasons Oil Could Stay Above $100 Throughout 2022

Description

Crude oil is trading above $100 a barrel for the first time in several years. At the time of writing, each unit of West Texas Intermediary (WTI) and Brent Crude are trading for US$104 and US$108.5 respectively. That's causing high inflation and a noticeable uptick in gas prices across the world.

Unsurprisingly, oil stocks like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) have been driven to record highs by this shift in the commodity cycle. Here's why CNQ and crude oil could see further upside throughout 2022.

Rebound in demand

Demand for fuel and energy was subdued for the past two years, as the world grappled with the pandemic. Now, travel restrictions are lifting, and consumers are rushing to "revenge spend." Air traffic has surged beyond the pre-pandemic high. Meanwhile, offices are reopening, which means employees will have to resume their daily commute.

This is why global demand for crude oil and energy is expected to rebound sharply in 2022. The International Energy Agency (IEA) expects oil demand to hit a record high this year.

Tight supply

The world is expected to consume 99.4 million barrels of petroleum and liquid fuels throughout 2022, according to the IEA. That number is higher than in previous years, as the global economy recovers. However, supply has been falling short of this target and could drop further, as the conflict in Eastern Europe continues.

After the oil market crashed in 2014, oil producers took a conservative approach and underinvested in their operations. This means they now have limited capacity to produce more oil to meet demand.

Meanwhile, the Russian invasion of Ukraine has attracted severe sanctions. That means one of the world's largest energy producers is now on a blacklist by most countries. That limits global supply further.

Slow production

Higher prices should encourage producers to ramp up operations. However, that's easier said than done. Energy companies simply aren't willing to take the risk of investing in more production as the ongoing oil rally is unpredictable. Put simply, they would rather spend money on rewarding shareholders than risking another oil market crash in the near future.

Canadian Natural Resources, for instance, has ramped up dividends and implemented a share-buyback policy this year. By March 2023, the company intends to repurchase roughly 101.57 million of its common shares. That represents 10% of its public float at the moment.

Shareholders stand to receive billions of dollars that could have gone to expanding oil output. That means supply could remain tight for longer.

Bottom line

Oil prices have been surging to multi-year highs. As demand rebounds and supply remains constrained, the price could remain elevated throughout 2022. Investors looking for a quick near-term reward should target some of the oil and gas stocks with high dividends and wide buybacks. Canadian Natural Resources could be a top pick for this.

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