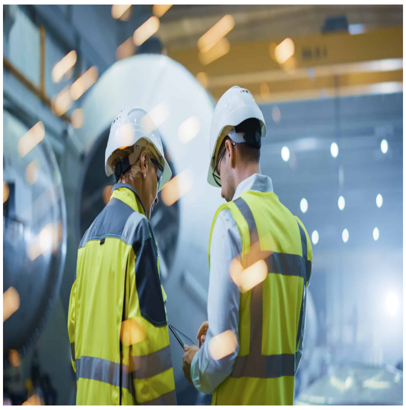

Are TSX Oil Stocks Buys at Their Current Highs as Oil Hits US$115?

Description

Last week, oil stocks surged 4% to US$115/barrel, as Europe starts to feel the effects of its six-month-phased ban on Russian oil imports. Hungary depends heavily on Russian oil and is opposing the ban. Moreover, the Organization of the Petroleum Exporting Countries+ (OPEC) is reluctant to boost oil supply and anger Russia. Without the support of OPEC, the European Union (E.U.) is struggling to find oil alternatives. It is reportedly discussing a temporary exemption of the Russian oil supply via the Druzhba pipeline to persuade Hungary to join the ban.

Should you buy oil stocks at their peaks? I believe in laying down facts and letting you make the call.

A quick history lesson

OPEC is a cartel of the world's largest oil exporters that balance oil demand and supply to ensure a regular flow of income for oil-dependent nations. OPEC claims to own 79.4% of the world's oil reserves and has an incentive to keep oil prices high while maintaining global market share.

There is a huge divide between OPEC and western countries. In 2016, shale oil exploration in the United States reduced oil prices from over US$100/barrel to around US$60-$65/barrel. OPEC suffered a blow but maintained its market share by increasing production. This removed high-cost oil producers from the market. OPEC also suffered a big blow in the pandemic crisis, leading to more oil bankruptcies.

Now, Russia is not a member of OPEC but the member of the allied group OPEC+. When Russia invaded Ukraine, the United States and Europe decided to impose sanctions on Russia. This was a tough decision, especially for Europe, which depends on Russia for almost 25% of its oil imports.

The United States kept pressuring OPEC to increase supply but to no avail. Investec head of commodities Callum Macpherson said, "OPEC+ continues to view this as a problem of the West's own making and not a fundamental supply issue that it should respond to."

OPEC Secretary-General Mohammad Barkindo reiterated that other producers cannot replace Russian exports of more than seven million bpd. How true is this?

OPEC's perspective of the oil crisis

Callum Macpherson believes OPEC's Saudi Arabia and UAE have the capacity to replace Russian oil exports. But they won't increase their supply and tarnish relations with Russia. He said, "If they were to do so, the ensuing falling out with Russia could bring an end to OPEC+."

This was visible in OPEC's April oil output. It added just 10,000 barrels per day (bpd) as against the scheduled target of 274,000 bpd. There is a huge gap between the target and actual output, because Saudi Arabia missed its production target by 100,000 bpd.

OPEC believes oil demand is actually slowing due to Russia's invasion of Ukraine, lockdown in China, and rising inflation from high crude prices. It even lowered its 2022 world oil demand forecast by 480,000 bpd. Saudi Arabia and the UAE believe the supply and demand gap is narrowing, and the current prices are due to panic among oil buyers.

What lies ahead for oil stocks?

This oil mania has divided the west and the east. On the one hand, the ban on Russian oil will likely divert this oil to Asia. On the other hand, the E.U. will compete for the remaining oil supply and Saudi Arabia, and the UAE won't go against Russia and boost supply. This political web could keep oil prices inflated for the rest of 2022. OPEC will continue to rake in profits from the high prices, while the U.S. exhausts its emergency reserve to ease the oil supply.

Canadian oil stocks like **Suncor Energy** and **Canadian Natural Resources** could emerge winners. Although Canada has the third-largest oil sands reserves, it is not a part of OPEC. Thus, it is not under political pressure and can boost its oil supply. The biggest roadblock is the transmission of oil.

Should you buy oil stocks?

Suncor stock surged 56% year to date and is trading at the 2018 level. I do not recommend buying oil stocks at current prices, but global tensions make Suncor a buy at a dip for dividends and as an inflation hedge.

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