



## 2 Reasons Oil Is Rallying This Year — and 1 Reason it Might Fall

### Description

Oil prices are positively flying this year. In a period when the NASDAQ and S&P 500 are down significantly, oil and other commodities are rallying. As of this writing, the price of oil is up 57%, and oil stocks are, in some cases, up more than that.

Even troubled oil companies like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) are rising this year on the strength of oil. SU has faced its share of problems over the last two years, including workplace fatalities, production delays, and demands by an activist investor to unwind its gas station chain. Nevertheless, SU's most recent quarter was a huge beat, with revenue and earnings both exceeding analyst estimates. Its stock rose dramatically after its earnings results were announced.

So, we've got oil prices rising, and oil stocks rising right alongside them. The question is, why? Everybody is talking about a "potential [recession](#)" these days, and the U.S. has already delivered one quarter of negative GDP growth. Normally we expect people to travel and drive less when the economy contracts. Why, then, is the price of oil going up so much?

### Reason #1: Supply chains

The big culprit behind high oil prices this year is supply chain issues. Global supply chains are strained, and that's making oil scarce. The total list of supply chain problems we're seeing this year is too long to fully elaborate on, but here are a few touchstone issues:

- Backlogs at shipping companies
- Not enough pipeline capacity
- A collapse in Russian output due to the [war in Ukraine](#)

There are other issues as well. Companies in many cases stopped drilling for new oil in 2020 due to the collapse in oil prices seen that year. Since then, oil has rallied, but many oil companies still aren't doing a lot of exploration. So, the supply of oil on the market is not what consumers would want it to be.

## Reason #2: International relations

Another thing holding back the price of oil this year is relations between oil importers and exporters. Here are some of the most noteworthy geopolitical factors holding back the supply of oil this year:

- The conflict in Ukraine
- OPEC only slightly raising oil output
- U.S. producers being hesitant to drill for more oil
- Cancelled pipeline projects
- And more

On their own, any one of these factors could contribute to slight increases in the price of oil. Together, they are causing large increases.

## The reason it might fall

Despite all of the reasons why oil prices are rising this year, there is one reason to think that they might fall: rising interest rates.

Higher interest rates tend to curb demand for goods, including oil. The more expensive it is to borrow, the more expensive it is to buy things. If interest rates rise to the point that we enter an actual recession, then the price of oil might finally start to fall. For now, though, that doesn't appear to be happening. Canada's latest GDP print showed 3.2% growth. The U.S. economy shrank in the first quarter, but the second quarter could be better. If it is, then we may have to deal with high oil prices for a while yet.

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