Will Oil Stay Above $100? 3 Signals to Watch

Description

A barrel of crude oil hasn't been this expensive since 2014. Brent Crude and West Texas Intermediate are both trading at US$118. That price is a significant boost to Canadian oil producers. Oil stocks like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) have been rallying for much of the past year.

Investors now need to consider how long this boom could be sustained and whether oil prices could rise further. This commodity is notoriously volatile and difficult to predict, but here are the top three macroeconomic indicators investors need to keep an eye on.

OPEC production

The Organization of the Petroleum Exporting Countries (OPEC) is an intergovernmental organization of 13 member states. Recently, Russia signed a deal with the coalition, which some have called OPEC+.

These 14 members have control of global oil supply. They could raise production relatively quickly to meet excess demand and suppress pricing. However, many member states need higher oil prices to balance their budgets. Meanwhile, the partnership with Russia further complicates the production decisions.

Nevertheless, OPEC has recently decided to modestly raise production by 648,000 barrels per day in July and August. If the coalition raises production further or the partnership with Russia falls apart, oil could dive lower.

Shale gas

In 2014, the U.S. shale boom ended the oil price rally. The industry is highly fragmented with small- and medium-sized producers spread across the country. When the oil price surges, it creates incentives for these producers to restart oil rigs and boost supply.

As of June 2022, there are 574 active crude oil rigs in the United States, according to data published by Baker Hughes. That's nearly triple the number of active rigs in 2020. At this pace, we could have more active rigs by the end of this year than we did in 2019, before the pandemic.

If we approach 1,000 active rigs, we could have the highest level of shale production since the 2014 oil bust. Some analysts believe we could get there by next year.

Demand destruction

While supply could catch up, demand could also be destroyed in the months ahead. Rising interest rates, the growing number of layoffs and high inflation could push ordinary families to cut back on fuel and travel. Every past recession has lowered the demand for oil and gas. If we're heading for another recession, we could expect energy demand to drop further.

The International Energy Agency (IEA) has significantly reduced its estimates for oil demand throughout the year. Demand growth slowed from 4.4 million barrels per day in the first quarter to just 1.1 million in the second quarter. Growth could slow further in the second half of 2022.

Bottom line

Investors in oil stocks should keep an eye on these macroeconomic indicators to see whether current oil prices are sustainable.

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