



## Oil Stocks May Start a 2nd Rally in October

### Description

It's looking increasingly likely that oil stocks will go on a second rally in October or November of this year. The U.S.'s sales of its emergency oil supplies will end in a few months, and Organization of Petroleum Exporting Countries (OPEC) only committed to a tiny 100,000-barrel-per-day output hike at its latest meeting. Furthermore, there are rumours that OPEC is already planning a [new round of production cuts](#). If things keep going at this pace, we could see another rally in oil prices in the fall, which could lead to a new rally in oil stocks.

### Strategic petroleum reserve release ending

To understand why the [price of oil](#) could go up this fall, we need to understand why it rose earlier in the year. Commodity prices are complicated to model, but most experts think the rally came down to three factors:

1. The economic recovery from COVID-19: The first half of 2022 was the first time in two years when almost no Western countries were under COVID lockdowns, which led to an increase in travel and an increase in demand for oil.
2. Supply chain issues: Many supply chain components (such as oil refineries and railroads) were not prepared for this year's abrupt increase in demand, so supply was low as the same time when demand was rising.
3. The war in Ukraine: In response to Russia's invasion of Ukraine, many countries stopped accepting Russian oil, and Russia threatened to cut off Europe's supply of natural gas.

All of these factors combined led to an abrupt spike in the price of oil earlier this year. However, the U.S. later stepped in with a massive release of oil from its strategic petroleum reserve — basically a stash of extra oil it keeps around for emergencies. That succeeded in taking oil prices down. However, the entire reserve is 511 million barrels of oil, and the U.S. is releasing it at a rate of one million barrels per day. This won't be able to last much longer than a year, and it's scheduled to end in October.

## OPEC barely raising output

Another factor that could take oil prices higher is OPEC's lack of large output hikes. Recently, OPEC (an alliance of Saudi Arabia and a few other oil producers) committed to increase oil output by 100,000 barrels per day. That might sound like a lot, but it really isn't: their current output is nearly 30 million barrels a day. If they don't hike any more, then their output level combined with the end of the SPR release will take oil prices higher.

## Foolish takeaway

If you're invested in oil stocks, you might be feeling the heat now, but things are looking good for the second half of the year. Just recently, **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) put out an earnings release that showed 80% revenue growth and 980% growth in net income. That was for the second quarter, when oil prices averaged about \$110.

In the third quarter, CVE's earnings will probably be lower than in the second quarter but will still show strong growth on a year-over-year basis — oil prices were much lower in 2021 compared to today. So, even if oil prices don't rise all that much, oil companies' earnings and dividends will be solid going forward. That could lead to capital gains.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

### PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

### PP NOTIFY USER

1. andrewbutton
2. kduncombe

**Category**

1. Energy Stocks
2. Investing

**Date**

2025/07/22

**Date Created**

2022/08/16

**Author**

andrewbutton

default watermark

default watermark