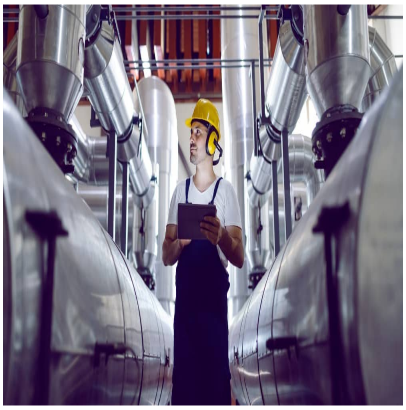

Already Outperforming, Oil Stocks Could End the Year Strong

Description

Oil stocks are outperforming the market this year. The S&P/TSX Energy Index (the index of energy stocks on the Toronto Stock Exchange) is up 45% this year, and it entered a new up-trend last week. Energy stocks gave up some gains after hitting all-time highs this summer, but they could possibly end the year even higher than they went in June.

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As you're about to see, governments around the world are scrambling to bring energy prices down, and at least one country — the U.S. — is having some success with it. However, the measures that are bringing down oil prices can't last forever. In fact, the biggest measure the U.S. is taking to cool oil prices is scheduled to end in October.

In this article, I will explore two factors that could take oil prices higher in the fourth quarter.

The strategic petroleum reserve release

The U.S. Strategic Petroleum Reserve (SPR) is a stockpile of oil that the U.S. keeps around for emergencies. It has 511 million barrels of oil in total, and the U.S. is selling one million per day to try to lower the price of oil. So far, it's working: the price of oil has fallen a lot since the June peak. However, note the math: 511 million barrels of oil won't even last you a year and a half if you're using up a million per day. The release will have to end eventually, and, in fact, it's scheduled to end in October. Once it does, oil prices may rise again.

Europe's oil embargo kicks in December 1

Europe currently has plans for an embargo (ban) on Russian oil. It's scheduled to kick in on December 1. When it kicks in, Europe will have to look to places other than Russia to find oil. That will put pressure on non-Russian oil supplies, which could take the price of oil higher.

Foolish takeaway

When you look at the end of the SPR release and the Russian oil embargo side by side, you can see that there are many signs pointing to another leg up in oil prices this fall and winter.

That would be bad for consumers, but oil companies like **Cenovus Energy** (TSX:CVE)(NYSE:CVE) would gain from it. CVE is an integrated energy company, meaning that it makes more money as oil prices rise. First off, its revenue rises; second, its large profits enable it to pay off debt, which paves the way for even more profit growth in the future. In its most recent quarter, Cenovus's net income (i.e., profit) grew an astounding 981%. If oil prices pick up in the winter, then it could deliver another quarter like that in the fourth quarter.

In fact, Cenovus doesn't even really need oil prices to rise to make progressively larger amounts of money. This year, it has been paying off debt at a frantic pace. The more debt it pays off, the lower its interest expenses go, and the more profit it has to pass on to shareholders. Over time, that could result in big dividends — even if oil prices *don't* rise like most people expect.

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