Oil Stocks: The Next 3 Months Are Key

Description

The next three months are critical for oil stocks like **Suncor Energy** (TSX:SU)(NYSE:SU). In the coming months, several geopolitical developments are set to unfold that will have a major influence on these companies' earnings. These events will likely impact oil companies' stock prices, too, as traders will be scrambling to adjust to the changing landscape.

Although oil stocks have been sliding since June, they have a chance to recover if oil prices take another leg up this fall. In the coming paragraphs, I will explain why that could happen.

The U.S. strategic petroleum reserve

One of the factors holding back oil prices in recent months has been the U.S.'s release of oil from its strategic petroleum reserve (SPR). The SPR is an emergency stockpile of oil that the U.S. sells from occasionally during crises. This year, the U.S. has been selling one million barrels of oil per day from the SPR. That has succeeded in lowering the price of oil. However, the SPR release is scheduled to end in October.

If the U.S. keeps selling beyond that date, they will only have another year's worth of supply left. That puts the government in a tough spot. If they drain the SPR completely, the U.S. won't be prepared for future emergencies. So, it looks likely that the SPR release will end on schedule in October. If that happens, then there will be less oil on the market, making price increases more likely.

Earnings season

The second factor that could impact oil stocks in the fourth quarter is their third-quarter (Q3) earnings releases. There is only another 10 days to go in Q3, and oil companies will release their earnings for the quarter a month or so into Q4.

The major oil companies all delivered solid results for Q2. For example, Suncor Energy delivered

- $16.14 billion in revenue, up 76%;
- $4 billion in net income, up 360; and
- $2.87 in earnings per share, up 387%.

That’s phenomenal growth all around. Suncor and other energy companies benefitted from sky-high oil prices in Q2. It wasn’t until June that oil prices started falling. So, in most of the second quarter, oil prices were above $100 per barrel. In fact, they were near $120 per barrel for much of it. With prices like that, you’ve got to expect that oil companies will make money.

For the third quarter, prices have only been averaging about $86 per barrel. That’s way down from Q2, but up from Q3 2021, so positive year-over-year growth is still possible. Additionally, oil companies have been reducing their debt, so they can grow their earnings, even with oil prices just staying flat.

Further interest rate hikes

Having looked at two upcoming developments that could take oil prices higher, it’s time to look at another one that could take them lower: interest rate hikes.

Central banks are raising interest rates this year, and they aren’t done hiking. More hikes are expected from the Federal Reserve this week. The higher interest rates go, the more expensive borrowing becomes. As a result, consumers often cut back on travel and other such things when rates go up. If central banks succeed in getting people to spend less money, the price of oil might come down. That would be a win in the battle against inflation but a loss for oil and gas investors.

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