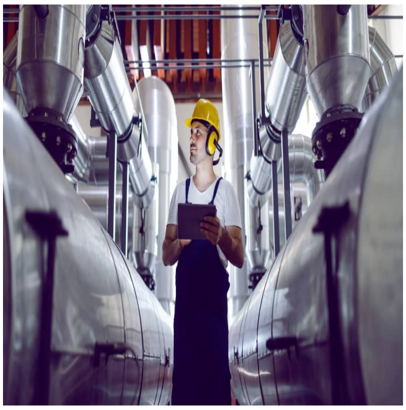

3 Reasons Why Oil Prices Could Rise Again

Description

Oil prices took a major beating this week, falling as low as $76 on Thursday. The first time of the year that oil dipped to 2021 levels, the move predictably caused panic among oil stock investors. On the day that West Texas Intermediate crude oil dipped to $76, oil stocks also took a beating. This makes some sense, as oil companies make their money by selling oil, although day-to-day oil price fluctuations only have a minor effect on an entire quarter's earnings. The long-term price trend is more important.

It's entirely possible for oil prices to rise again. Although the current trend is negative, many of the factors pushing prices lower will eventually abate. In this article, I will explore three such factors that point to the possibility of oil prices rising in the fourth quarter.

Reason #1: Emergency supplies are running out

One big reason to think that oil prices could rise again is the fact that countries' emergency supplies are running out.

The U.S. and other big countries have spent much of this year selling oil from their strategic petroleum reserves (SPR). The U.S. has been selling one million barrels per day since April. This has helped get inflation down, but now supplies are being depleted. One-third of the U.S.'s SPR has already been drained. If it keeps being drained at a rate of one million barrels a day, the SPR will be gone in a year. Obviously, this can't continue, so the scheduled end of the SPR release in the fourth quarter will likely occur.

Reason #2: The Nord Stream Pipeline has been damaged

One recent development that is pushing natural gas prices higher is a big leak in Russia's Nord Stream pipeline. On Tuesday, news agencies reported that the pipeline had been ruptured and was leaking natural gas. European gas futures immediately rallied on the news.

Oil and gas are not the same thing. However, they are related. Studies show that natural gas prices and oil prices have a 0.25 correlation, which means that they move in the same direction 25% of the time. “Correlation” means the statistical tendency of two things to move together. 0.25 is not an overly strong correlation, but it’s not statistical noise: natural gas prices have a weak tendency to predict oil prices.

Additionally, many oil companies also sell natural gas. Take **Suncor Energy** (TSX:SU)(NYSE:SU), for example. It’s best known as a company that extracts and sells crude oil as well as gasoline. However, it also has a natural gas marketing business. Suncor’s natural gas marketing business extracts and buys natural gas in order to sell it wholesale to big buyers. The higher natural gas prices go, the more money this segment of Suncor Energy makes.

Natural gas prices have been rising even more than oil prices this year, and unlike oil prices, they’ve never fallen to 2021 lows. As long as investors remain fixated on crude oil prices, oil companies like Suncor that sell natural gas will likely beat earnings expectations.

Reason #3: China’s lockdowns are ending

Last but not least, we have the fact that China’s lockdowns are ending. Earlier in September, China introduced a new wave of COVID-19 lockdowns that affected tens of millions of people. The move was seen as bearish for oil at the time, but the lockdowns ended after a few weeks. Today, most Chinese citizens are free to drive all around their country, which is bullish for Chinese oil prices.

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