Why Suncor Energy (TSX:SU) Stock Fell as Much as 14% in September

Description

Suncor Energy (TSX:SU) stock fell as much as 14% in September, as oil prices fell below US$80 a barrel for the first time since January 11. Not many oil companies were left after the 2014 oil crisis disincentivized oil in favour of alternative energy. The oil industry saw consolidation and bankruptcies, leaving only the big guns. Among them was Suncor Energy. Hence, anything related to oil directly impacts Suncor and other Canadian oil stocks.

Why did Suncor stock fall in September?

Oil is a global commodity, and its price is governed by demand and supply. Oil supply has been tight since the global economy recovered from the pandemic and Russia invaded Ukraine. Its price went up to US$127 in June, as western countries imposed sanctions on Russian oil. The Organization of Petroleum Exporting Countries (OPEC) also failed to boost its oil exports, keeping the oil supply tight.

There are two ways to beat tight supply: reduce demand or increase supply. The United States did both to ease oil prices and bring them down to the US$80 level. President Joe Biden opened the U.S. Strategic Petroleum Reserve (SPR) to Europe in June. The U.S. Federal Reserve kept increasing interest rates by 75 basis points every month since June.

These efforts finally started showing results in September, as interest rate hikes slowed oil demand, and oil from SPR eased supply. Another series of lockdowns in China also helped ease oil demand. The oil price fell 15% from US$89.55 to US$76.1 in September, pulling Suncor stock down 14%. But when the price came close to the psychological level of the lower $70s, it triggered a reaction from oil producers. OPEC+, of which Russia is a part, made production cuts to increase oil prices.

OPEC+'s reaction created an imbalance in the supply that was well balanced for the current oil consumption, sending oil prices up 14% and Suncor stock up 18% in the first week of October. The supply fears vanished all efforts of the United States and brought oil back to where it started.

> "A large OPEC+ cut would antagonize the White House though officials may wait to see

> how prices respond afterward before pulling the trigger on policy responses."
> *Rapidan Energy founder Bob McNally to Bloomberg ahead of the OPEC+ meeting.*

How October looks for Suncor

What lies ahead in October? OPEC's production cuts might encourage the United States to make policy-level changes, like more disbursal from the SPR. But SPR can only go up to a limit, as its September inventory level fell to 427 million barrels — the lowest since 1984. The U.S. policies could keep oil prices in check and avoid them from inflating to the US$127 level in October.

Oil prices would likely hover in the $80-$100 range, with a few outliers. Suncor stock would respond to oil prices by moving in the $37-$48 range. For Suncor stock to cross its 52-week high of $53, the oil price has to surge past US$127, which seems unlikely in 2022. However, a US$127 oil price is likely in 2023 or when the economy recovers.

Why am I confident about Suncor stock's range-bound momentum? Suncor is an integrated oil company and supplies a significant portion of its output to the United States. Its production cost is US$40/barrel, which is way more than Russia's US$3-US$4 and Saudi Aramco's US$10. Suncor stock could remain highly sensitive to oil prices and remain volatile next year.

Will oil prices bounce back to US$127 a barrel?

The oil supply is limited. Saudi Aramco's chief executive officer warned that years of underinvestment in oil and gas development brought the world to the edge of massive proportions of energy shock. Right now, a recession is pulling down oil demand. But when the economy recovers, so will energy demand, and the oil supply may not be able to keep up with demand. That is when the oil price could surge to US$127 a barrel.

Suncor is a stock to buy the dip and sell at a $50 price. As for dividends, you can always buy the stock when the oil price falls.

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