



The Next Oil Price Rally Could Be Massive

Description

Oil prices have begun another up-trend. After falling all through the summer and into September, the price of West Texas Intermediate crude oil (North America's most followed barrel of oil) rallied this month, eventually crossing above US\$90. Oil stocks got a boost from the rising price of oil, making their first prolonged gains since June.

Will the latest oil price rally continue?

It's hard to say looking ahead, but my feeling is that it will probably will. There are a number of factors occurring right now that are pushing [oil prices](#) higher. These factors aren't guaranteed to prevail over the long term — there are many different variables influencing the price of oil, and other factors could overpower the ones I'm about to mention. However, they are worth thinking about.

OPEC cutting output by two million barrels per day

The biggest sign that oil prices will be strong in the months ahead is the fact that OPEC (a cartel of Middle Eastern oil producers) is going to be reducing its oil output by two million barrels of oil per day. Oil prices are a function of supply and demand: the less supply, the higher the price if demand doesn't change. Demand is changing; it's rising: oil consumption is up 1.66% this year. So, with OPEC cutting oil output and demand modestly rising, we've got a case for less supply and more demand. That points toward higher prices.

Interest rate hikes not curbing demand

A second factor pointing toward high oil prices in the fourth quarter is the fact that interest rate hikes are not reducing demand very much. This year, the Bank of Canada and the Federal Reserve are raising interest rates. The rate hikes are cooling the housing market, but they're not cooling demand for oil. As I've mentioned previously, oil consumption is up 1.66% this year, so demand isn't going down.

For proof of this, we can turn to **Suncor Energy** ([TSX:SU](#)). Suncor Energy is not only a company that

extracts oil; it is also a gas station operator. In the [second quarter](#), Suncor's gasoline sales were strong, just like its sales of crude oil were. For the quarter, gasoline volume was 223 million barrels, up from 201 million barrels in the same quarter a year before. So, Suncor is not just profiting off of higher oil prices: it is also selling larger quantities of gasoline. This suggests that demand for gas is very high this year, despite all the tightening the central banks are doing.

Foolish takeaway

2022 has been a record-breaking year for the oil and gas sector. Prices are rising, sales are booming, and oil stocks are just about the only thing in the entire market that's going up. Does this mean that oil prices will keep going up forever? No. As always, past results don't predict future results. However, when you look at OPEC's steep cuts, you get the feeling that Suncor's performance in the next year will be at least adequate. That alone is a reason to consider Suncor and other oil stocks in the year ahead.

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