



Why Canadian Natural Resources Limited and Crescent Point Energy Corp. Sank 4% on Friday

Description

Oil prices plunged on Friday in the wake of new comments by Saudi Arabia deputy crown prince Mohammed bin Salman. Shares of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) both fell by roughly 4% in response, as of this writing.

We'll take a closer look at bin Salman's comments and what they mean for the sector.

What he said

In an interview with *Bloomberg*, bin Salman said that Saudi Arabia will only agree to an oil production freeze if all other major producers—including Iran—do so as well.

"If all countries agree to freeze production, we're ready," said bin Salman. "If there is anyone that decides to raise their production, then we will not reject any opportunity that knocks on our door."

What it means for the sector

Iran has already been ramping up oil production as sanctions against the country have been lifted. According to OPEC's most recent monthly report, the country increased oil production to 3.13 million barrels per day in February, a rise of more than 6%. Iran has also vowed to increase production to four million barrels per day, even while the market remains oversupplied.

And there is zero chance the country will change its mind. Back in February, Iran oil minister Bijan Zangeneh called the idea for a production freeze a "joke," and said there's no way the country would join.

Mr. bin Salman's comments come as OPEC is due to meet this month, and the outcome of that meeting has been thrown into doubt. One energy analyst even told *Bloomberg* that the meeting is "looking more and more pointless."

A greater ability to cope

While Saudi Arabia and Iran may disagree on the merits of a production freeze, they do have one very important thing in common: an ability to weather the low oil price environment for an extended period of time.

Saudi Arabia's resilience is largely due to its vast foreign exchange reserves, which now stand at just under US\$600 billion. While this number is down by US\$150 billion from its 2014 peak, the country is pursuing reforms to repair holes in its budget. These include spending cuts, subsidy reforms, and revenue-raising initiatives (which includes an IPO of its state-run oil company).

Meanwhile, Iran has grown resilient out of necessity. According to **Moody's** (and plenty of other observers), decades of isolation have forced the country to cope with low oil prices more than other oil exporters. This has meant that even with prices depressed, economic growth is projected to come in at 5% in 2016-2017. Iran also benefits from a young, well-educated workforce and a strong industrial base.

North American producers, on the other hand, are feeling the pain. Production in the United States is falling. Canadian producers continue to cut budgets and lay off workers. It's starting to look like Saudi Arabia's strategy is working, which makes it more likely the strategy will continue. These are all things you need to consider before investing in Crescent Point or Canadian Natural Resources.

CATEGORY

1. Energy Stocks
2. Investing

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2. NYSE:VRN (Veren)
3. TSX:CNQ (Canadian Natural Resources Limited)
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