Three of the Best Ways to Trade Oil's Rebound

Between October and December 2018, panic selling sent oil from a high of $77.50 to less than $42.50 thanks to oversupply issues, a strong U.S. dollar, and trade war fears.

But, it was a severe overreaction.

We now expect for crude to stage quite a rally on key catalysts.

Catalyst No. 1 – Goldman Sachs Argument for Higher Oil Prices

"Core-OPEC producers are adopting a shock and awe strategy, and exceeding their cut commitment," says Goldman Sachs, as quoted by Bloomberg. "Disruptions have increased with risks that Venezuela's production decline accelerates following the introduction of additional U.S. sanctions related to the Venezuelan oil industry. U.S. producers are also so far guiding towards restrained shale production growth."

Catalyst No. 2 – Falling Crude Oil Supply

According to the U.S. Energy Information Administration (EIA), crude fell by 9.6 million barrels in the week ended March 15, as compared to expectations for an 800,000-barrel build. The number also surpassed estimates from the American Petroleum Institute, an industry group, for a 2.1 million-barrel decrease.

Catalyst No. 3 – Tightening Global Supply

Reductions in global production led by the Organization of Petroleum Exporting Countries (OPEC), along with supply declines in Iran and Venezuela, continue to support the oil market. Members of OPEC and other major oil producers, including Russia have pledged to curb oil production by about 1.2 million barrels a day from October 2018 levels for the first half of the year to prop up oil prices.

In addition, the Saudis need higher oil prices. According to the International Monetary Fund (IMF), the Saudis need much higher prices to see a breakeven budget for 2019. "If you take the (2019) budget as presented with everything remaining equal, a breakeven point would be around $80-$85 dollars," Jihad Azour, director of the IMF's Middle East and Central Asia department, told Reuters.

Catalyst No. 4 – Even Hedge Funds are Increasingly Bullish

Hedge funds have turned bullish, as well.

"In the bond market they say don't fight the Fed, and I think in the oil market the motto is don't fight the Saudis," said John Kilduff, partner at Again Capital LLC, as quoted by Chron.com. "Hedge funds are siding with them and banking on them to deliver on withholding supplies to the U.S. in particular, but also on a global basis."

Hedge funds' WTI net-long position – the difference between bets on higher prices and wagers on a drop – climbed to 212,317 futures and options, the highest since October, according to U.S. Commodity Futures Trading Commission data.

Catalyst No. 5 – Venezuela Supply Woes

The most recent blackout marks the second such widespread blackout in less than a month and even reached the capital city. This time around, Venezuela's oil operations once again could be further jeopardized. Adding fuel to the fire, tensions between Russia and the U.S. are increasing in the region, which could be another big catalyst.

How to Trade a Potential Oil Boom

Opportunity No. 1 – Oil ETFs

Not only does an ETF allow for diversification, you can buy it for less. For example, we can buy the SPDR Energy Select Sector ETF (XLE) for $65.74 a share. If we were to buy 100 shares, it would cost us $6,574. Plus, given the history of this ETF, upside doesn't appear to be a problem.

Opportunity No. 2 – Kinder Morgan (KMI)

"This really is a fan favorite right now within this space because of its clean balance sheet, its clear visibility, and it's certainly seeing... that momentum," Susquehanna's Stacey Gilbert told CNBC. "All that being said, what I would say, from a sentiment perspective of what we're seeing in both the options and kind of what's trading out there in the stock, is we could be coming up to an area where it's either breaking out or it's really gone too far, too fast."

Plus, insider activity has been interesting. Co-founder and executive Chairman, Richard Kinder continues to buy stock. Already, between February 15 and 21, 2019, he bought 519.112 shares for $9.9 million.

In addition, the company has a 4% yield and is expected to increase its divided 25% over the next two years. That's on top of a 60% dividend increase in 2018.

Opportunity No. 3 – Marathon Oil (MRO)

Fundamentally, the company looks strong. It just posted third quarter net income of $254 million, after reporting a loss in the year-earlier period. It had a profit of 30 cents. Adjusted EPS was 24 cents. That beat Street estimates of 20 cents a share. Revenue came in at $1.67 billion, exceeding estimates of $1.5 billion.