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Oil: Buy the Commodity, Sell the Shares? (IXC, IYE, OIH, VDE, USO)

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Michael Panzner submits: According to Monday's Wall Street Journal, Venezuelan President Hugo Chavez "is planning a new assault on Big Oil, potentially taking a major step toward nationalization of Venezuela's oil industry that could hurt oil-company profits, reduce production and put further pressure on global oil prices. □

In addition, USA Today reported that two senators appearing on CNN's "Late Edition" said Congress should "consider a tax on excessive oil company profits," which one senator characterized as "obscene."

A perspective, no doubt, that is likely to gain in popularity with gasoline above \$3 dollars a gallon and the election season fast approaching.

Meanwhile, ongoing civil unrest in Nigeria has cut that country's production by around 25 percent, according to reports, with the operations of foreign firms such as Royal Dutch Shell being a frequent target.

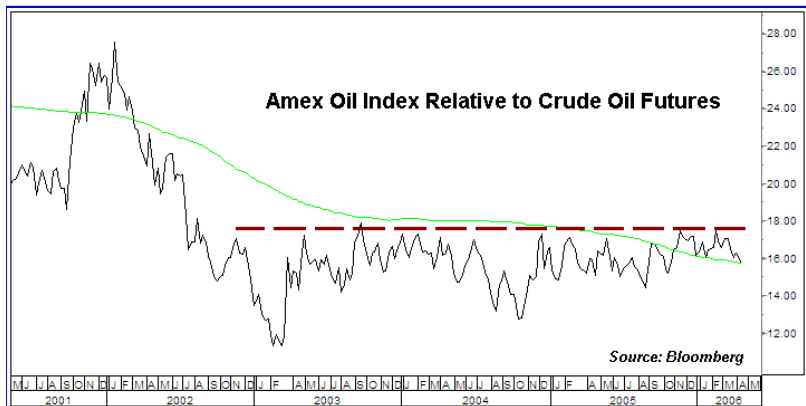
There is also pressure on energy companies to boost capital spending, with many efforts being directed towards large and potentially very costly projects such as the oil sands of Canada. That will likely put pressure on margins, at least in the longer term.

Finally, the ratio of the Amex oil index to the price of crude oil has been unable to break above multi-year resistance levels despite new highs in the XOJ itself. In fact, the relative measure seems poised to head lower.

Under the circumstances, we may be facing a situation where the performance of energy-related shares, especially integrated global oil majors, lags that of the underlying commodity.

That would suggest a pair trade: short the oil stock ETFs, such as the iShares Global Energy sector ETF ([IXC](#)), the iShares Dow Jones US Energy ETF ([IYE](#)), Vanguard's Energy VIPERs ([VDE](#)) or Oil Service HOLDERS ([OIH](#)), and go long the new oil ETF — the United States Oil Fund ([USO](#)).

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Posted: Tuesday, April 25th, 2006 by [Michael Panzner](#)

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