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Which oil and gas stocks are best placed to capitalise on the crude price rally?

As a barrel of crude this week fetched its highest price for several months, there has been growing evidence of new interest in London's junior oil and gas sector.

Suddenly, the micro-economics in the oil sector have turned bullish and, increasingly, the sector is looking attractive to speculators.

A (Molotov) cocktail of supply-side issues are behind the commodity price action. Political instability and outright conflict across multiple oil-producing states such as Venezuela, Iran and Libya are all impacting output - but, that is not all.

Driven by Saudi Arabia, OPEC has cut volumes and held back exports, and, in recent year's North America's shale boom has downgraded to, somewhat, of a thud.

Since Christmas, both Brent crude and West Texas Intermediate have rallied by close to 50%, and, analysts reckon prices will hold at these levels - around US$75 and US$67 per barrel respectively - possibly through until the end of 2019.

If anything, they see prices potentially rising further, in the near term at least.

"While several countries remain short on compliance, the Saudis have risen beyond their call of duty by pumping 300 kb/d below quota," said Michael Tran, oil analyst at RBC Capital.

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"We expect OPEC to announce at its June meeting the intention to extend the output cuts through 2H'19 to clean up balances and shore up pricing to levels closer to fiscal break-evens, which reside in the $75-80/bbl range or higher for many."

Jeff Currie, Goldman Sachs head of commodities research cautioned rampant speculators, however, suggesting that the upside would be modest from current levels and said he didn't expect US$80 per barrel levels again.

No matter how long it lasts and/or how high it goes up, the easy analysis is that firmer crude prices mean better business for oil and gas companies of all shapes and sizes.

A boon to London's oil stocks
Outside of AIM's hardcore speculators - who, frankly, could be talked into betting over the contents of a hole in the ground in any part of the world - there's been nothing like the enthusiasm for oil stocks seen in the earlier part of the last decade.

London's oilers have experienced a tough few years amid austere funding and, in some cases, the heavy debts accumulated under a quite different oil price environment.

It is perhaps understandable, therefore, in the wake of 2014's sharp crude market sell-off, that many investors became either disenfranchised or at least disinterested in the sector.

The question is whether the current crude price resurgence translates directly into renewed positivity and an appetite to invest. That will, perhaps, depend on the slightly longer term outlook in the oil market.

Despite the relatively quick price turnaround, this is still someway away from 'US$100 oil' - but everything is relative and so far, the rally would represent less of a peak and more of a hillock.

Indeed, many commodity market watchers may expect the market to normalise quite quickly if one or two country specific situations are resolved, or if another major producer opened up the valves to production growth.

Identifying investment opportunities
It doesn't take much more than a cursory analysis to decipher that 'Big Oil' firms such as BP PLC (LON:BP.) and Shell (LON:RDSB) will make much more money as their primary product fetches higher market prices.

In turn, there are benefits for the intermediate or 'independent' exploration and production companies.

The likes of Tullow Oil, Premier Oil and EnQuest would, for example, benefit mightily as enhanced cash-flows could allow faster debt repayments.

It would breathe fresh life into balance sheets that - whilst on paths to recovery - have endured the slow-squeeze pressures created through past project financing.

Following the trickle down, there's likely to be a boost to small-cap companies partnered with these larger E&Ps as well as those seeking new partners and industry funding.

Better margins, better cash flow, and lower debt burdens likely all add up to investment in new growth projects for the future.

One might expect to see greater commitment to exploration and potentially new greenlights for project otherwise stuck in the recesses of asset portfolios.

This may be especially true for the frontier explorers and 'wildcatters'.

A general appetite to invest in growth within the industry is typically a precursor to greater risk appetite in the more speculative, hit-or-miss, end of the exploration market - and, in the City, there's always a couple of those to be found.

From top to bottom, better oil prices will always be taken as good news by investors in the sector.

The window of opportunity may only be ajar
It is a highly complex marketplace and few trends remain intact for long. Volatility is perhaps one of the few things that can be guaranteed in the oil market.

Whilst all the trends outlined above make for improved investor sentiment, it is probably wise to caution that the supply shortages could close almost as quickly as it takes to say 'ceasefire', 'new OPEC commitments' or 're-energised shale boom'.

So, going back to the question that nobody actually asked: which junior oil and gas companies are best placed to benefit from the current rally in crude prices?

It may be the case that this uptick in prices is a brief but opportune window in time, giving some of London's capital-starved small caps the chance to latch onto funds to keep their plans moving through the next cycle.

We may not know how long these new 'good times' will last, but, it will probably be long enough for the City to get some oil market placings away.

Indeed, not particularly long ago, it may have seemed unlikely that Independent Oil & Gas PLC (LON:IOG) would've raised £16mln practically at the drop of a hat. Nevertheless the North Sea junior managed to fund a multi-well drill programme that had previously been on the cards for a number of years.

If a stockbroker has your number, expect to hear more about oil juniors with unappreciated assets and ambitious plans - especially ones with the possibility of well drilling in the near-term.