THE OIL AND GAS SITUATION: INTERNATIONAL TENSIONS RISE AS U.S. SHALE COSTS FALL*

Middle East tensions make a comeback. - Well, actually, these tensions never go away, but this week they are spilling over into headline-making conflicts. Monday morning brought news that two Saudi tankers ships had allegedly been attacked as they travelled near the crucial Strait of Hormuz chokepoint in the Persian Gulf. The attack reportedly took place near the Port of Fujairah, and also involved two other vessels, one registered to Norway and the other to the UAE.

The U.S. rig count continues its slow-motion drop. - As has been the case since just prior to Christmas, the DrillingInfo Daily Rig Count keeps falling. The count closed at a 2019-low of 1016 on May 13, down from 1060 a month ago, and from 1160 just prior to Christmas. This is not surprising and is in fact exactly what we expected at the first of the year, as investors continue to press companies to give more weight to returns on investment than to increasing supply.

But U.S. production keep rising. - Increased efficiencies and higher resource recoveries from each wellbore keeps overall U.S. production levels rising, but the pace of that rise is slower than it was in 2018, when the industry added almost 2 million barrels of oil per day (bopd). Still, the U.S. Energy Information Administration (EIA) raised its outlook for production growth during 2019 earlier this month from its previous 1.43 million bopd to 1.49 million bopd. This would put the industry on a pace to reach the 13 million bopd level during the 4th quarter of this year.

And it keeps getting cheaper. - Five years ago, the knock-on U.S. shale oil was that it cost too much to produce. Break-even costs per well at that time were well above $70/bbl in the prime locations and far higher in locations that were not so prime. In the era of $100 oil - before Saudi Arabia flooded the market and collapsed the price, thus forcing a new discipline on U.S. shale producers - U.S. tight oil ranked as the most costly source of new oil production on the planet.
That has all changed now, according to industry analytics firm Rystad Energy. In a report released on May 10, Rystad finds that high cost situation has been reversed, and U.S. tight oil now ranks as the second-least expensive source of new oil on Earth.

Finally, good public policy matters. - As U.S. shale oil has become more plentiful and less expensive to produce, the need to export it in order to be refined has grown apace. In a new report released on May 10, industry solutions provider DrillingInfo says its analysis proves the role of rising exports has been crucial to the expansion.

*"The Oil and Gas Situation: International Tensions Rise as U.S. Shale Costs Fall", Forbes