

Oil Production in U.S. Proves Resilient as Forecast Increases

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Oil producers in the U.S. are proving more resistant to low prices.

The Energy Information Administration increased its domestic output forecast for 2017 to 8.31 million barrels a day from 8.2 million projected in July, according to its monthly Short-Term Energy Outlook released Tuesday. Global oil supply will fall short of consumption by an average 170,000 barrels a day next year, compared with a 10,000-barrel surplus in July's outlook.

West Texas Intermediate crude is up 64 percent since touching a 12-year low in February, encouraging a resumption of drilling in the shale patch. Producers boosted the number of rigs seeking oil during the past six weeks, the longest run of gains since last August, according to Baker Hughes Inc. data.

"Obviously, the respite from the super-low prices earlier this year has had an impact," said John Kilduff, partner at Again Capital LLC, a New York hedge fund focused on energy. "This highlights how the industry has been able to get costs down. They are able to profit with a lower oil price than before."

EOG Resources Inc. plans to drill more this year after slashing costs, with further production gains seen among companies including Anadarko Petroleum Corp. once prices reach \$60.

Oil is down about 50 percent since Saudi Arabia led OPEC's decision in November 2014 to maintain output and defend market share against higher-cost U.S. shale producers. The Saudi strategy succeeded in curbing U.S. crude output, at least for a time. American production started to slip after peaking at 9.7 million barrels a day in April 2015, the highest monthly level since 1971.

Upcoming Talks

An informal meeting of the Organization of Petroleum Exporting Countries next month is unlikely to deliver any agreement to limit production because several members including Iran are still pumping below capacity. Members are planning to hold talks in Algeria when they gather for the International Energy Forum, the OPEC's president Mohammed Al Sada said Monday.

World demand will average 97.76 million barrels a day in 2017, a 20,000 barrel reduction from last month. World production average 96.59 million barrels a day in 2017, which is down 200,000 barrels from July.

WTI and Brent will both average \$51.58 in 2017, down from the EIA's July forecast of \$52.15.

Pump Relief

The average retail price for regular-grade gasoline this summer is forecast at \$2.19 per gallon, down from 6 cents from July's estimate. Prices averaged \$2.63 during the 2015 summer driving season.

"U.S. regular-grade gasoline prices are currently at a 16-week low and are expected to continue falling to a monthly average of less than \$2 a gallon by the end of the year," EIA Administrator Adam Sieminski said in an e-mailed statement. "High gasoline production is leading to motor fuel inventories that are the highest on record for this time of year, which is helping to keep prices down at the pump."