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Prepared by CoBank's Knowledge Exchange Division • *February 2015*

Oil Prices Drowning in their Own Over-Supply

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Key Points:

- ***The current low-price environment will likely persist throughout the coming 12 months, with WTI trading between $40 and $60 a barrel, averaging around $55 a barrel in 2015.***
- ***OPEC's current strategy is to maintain its market share today and in the future by forcing non-OPEC producers to capitulate in a low price environment.***
- ***The effect of lower U.S. rig counts on future production volumes should be offset largely through greater drilling efficiencies.***
- ***Despite the declines in rig counts and oil prices, average U.S. production is likely to increase year-over-year in 2015.***
- ***U.S. oil stockpiles have jumped to the highest level since EIA records began in August 1982. Even if U.S. shale production were to decline, high inventories would slow the price rebound.***
- ***With no definite sign of where supply cuts will come from in the near term, Saudi Arabia could flood the market with extra supply to squeeze all of its rivals.***

Falling Oil Prices

Plummeting oil prices have highlighted the delicate balance between global supply and demand, suppliers' geopolitical agendas, and the interdependencies among all countries that participate in the international crude market. This global market began softening in July 2014 on the heels of weak global demand and surging production, particularly out of the U.S.

Last year, the spot price of West Texas Intermediate (WTI), the U.S. benchmark for crude oil, peaked at $107.95 a barrel on June 20, 2014, but then fell about 31 percent to $73.70 on November 26. The next day, November 27, OPEC announced that its members intended to maintain their production quota of 30 million barrels a day (MMbbl/d). Since then, Saudi Arabia, OPEC's swing producer, has not curtailed its output and prices drifted lower in search of equilibrium.

Seven months ago, expanding inventories pointed to potentially lower prices during the second half of 2014, but no one anticipated the dramatic price decline