Energy Intelligence

Energy Intelligence Premium Weekly

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Oil Markets: US Supply Rebound Stays Moderate

The US shale patch is responding more slowly to market signals than in previous years as investor constraints and cost inflation rein in listed independents. But we see market pressure for faster US growth mounting this year as Russian output declines, Opec-plus hits capacity limits and global demand continues to grow, albeit at a slower pace — a potential fresh challenge to producer discipline.

- **US shale will grow less than expected this year.** US shale barrels are not rushing to market, even with sharply higher prices. We've cut our forecast for US oil supply growth to just under 600,000 b/d, or 12.1 million b/d in December 2022, from our previous 700,000 b/d estimate. We see limited growth plans from public E&Ps, which are under pressure to funnel high cash flows to investors and determined to avoid past overinvestment that tanked global oil prices and investor returns. Companies also face service cost inflation, which has slowed momentum. If current prices persist, we expect further medium-term growth of 615,000 b/d in 2023 and 590,000 b/d in 2024. That would push US output above the pre-pandemic high of 13 million b/d in the 2024-25 range — a milestone we weren't expecting. We also expect the US to add 375,000 b/d of NGLs this year.

- **Public E&Ps are holding the line on production growth.** Shale-focused producers are now delivering on long-standing promises to return cash to investors — but at the cost of untapped growth. Rampant inflation, supply chain issues and labor shortages mean it costs producers ~10% more to keep output flat. We note Diamondback's recent admission that accelerating activity now would result in "capital efficiency degradation," and Oxy CEO Vicki Hollub's comment that uncertainty around Covid-19 variants, interest rates and the Ukraine war are keeping E&Ps "very, very cautious." That said, E&Ps see opportunity to ramp up further in 2023 and beyond as supply chain issues smooth out, and are locking in future services now.

- **Majors and private companies are chasing more barrels.** Exxon Mobil and Chevron have indicated they could grow production by 25% this year without raising capital spending by about 260,000 boe/d from the Permian Basin alone. That's due to efficiency gains and longer-term contracts that helped dodge inflationary pressures. But supermajors' overall plans aren't targeting runaway growth; higher shale volumes are designed to offset declines elsewhere in large global portfolios. BP, the other major with Permian assets, will have more capacity to ramp up after two gathering systems come on line this year. Privately held companies, cushioned from investor pressure, are another source of upside — accounting for more than half of net rig additions in the first quarter.

- **The US Gulf of Mexico will provide stable medium-term supply.** Despite future leasing uncertainty, offshore operators are targeting moderate growth via existing acreage and infrastructure. We see US Gulf crude supply steadily rising from 1.79 million b/d in 2022 to over 2 million b/d by 2025, peaking at 2.06 million b/d in 2026 and then largely plateauing through 2030. Three major projects are starting up this year: King's Quay (Murphy, 85,000 b/d), Argos (BP, 140,000 boe/d) and Vito (Shell, 100,000 boe/d). Recently green-lighted developments by Chevron (Ballymore), Shell (Whale), Beacon Offshore (Shenandoah) and LLOG Exploration (Salamanca) will keep new volumes flowing into mid-decade, offsetting mature-field declines. Technology is unlocking near-field resources to help operators fill existing platforms, with the Gulf's medium, sour crude blend in high demand from domestic refiners.

- **Global markets will be pushing for more US supply.** On paper, the market looks finely balanced for now — with supply and demand both at 99.6 million b/d — but this disguises severe disruptions to trade flows and product shortages. With Opec-plus short on spare capacity and pandemic-era cuts due to be unwound by September, US shale will be a closely watched source of incremental, short-cycle crude. Current trends suggest market pressures will mount to offset declines in Russian output and meet continued demand growth — further challenging US producers' discipline. We have cut our forecast for global demand in 2022 by 500,000 b/d, but still see it growing by 2.1 million b/d. We also see Russian crude output falling by 1.5 million b/d from March to year's end. So far, new oil volumes are falling short, our estimates show. Total non-Opec-plus supply gained 340,000 b/d in April, versus a 1.1 million b/d monthly decline in Opec-plus liquids (Russia accounted for 874,000 b/d).

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US Crude Oil Supply Outlook

('000 b/d)	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Permian	1,635	1,881	2,023	2,478	3,474	4,314	4,348	4,523	4,998	5,523	5,948	6,348
Niobrara	383	485	434	483	623	726	646	600	625	665	705	725
Bakken	1,118	1,213	1,056	1,090	1,283	1,440	1,188	1,175	1,193	1,243	1,293	1,318
Eagle Ford	1,458	1,588	1,252	1,194	1,314	1,372	1,172	1,122	1,147	1,197	1,247	1,272
Other (GoM, AK, Conv, Other)	4,106	4,253	4,091	4,108	4,316	4,401	3,971	3,772	3,825	3,775	3,800	3,750
Total Supply	**8,700**	**9,420**	**8,857**	**9,354**	**11,010**	**12,254**	**11,325**	**11,192**	**11,788**	**12,403**	**12,993**	**13,413**

Source: Energy Intelligence, Energy Information Administration, company reports

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