

US Crude Production Passes 13 Million Barrels a Day

- * **Producer resiliency.**
- * **Innovation, technology play a big role.**
- * **Current price level at Fair Value, estimates for Nov23/Mar24 Winter Season.**

Connecting the Dots...

US crude producers have had, to be kind, a challenging past 24 months: going from “drill, baby, drill” to “energy transition”. Add a slow recovery from the pandemic, increased output from OPEC+, manpower and material shortages, a moratorium on new leases, increased regulations and (FINALLY!) the elimination of fossil fuel subsidies and this week’s output numbers can be seen as nothing more than a success of ingenuity. Here’s why:

Firstly, US production reached 13.2 million barrels per day (MBD) according to the latest Weekly Petroleum Status report. For good bookkeeping’s sake, this week’s report also highlighted that the domestic crude oil production estimate incorporates a re-benchmarking that increased estimated volumes by 370,000 barrels per day, which is about 2.8% of this week’s estimated production. Our suspicion was that those barrels were always there, but there was little upside in the EIA reporting them, for whatever reasons.

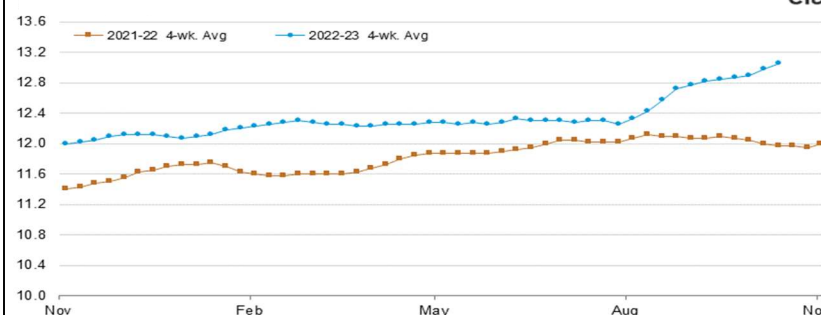
Secondly, this surge is being driven by productivity gains and technology improvements. Even with a challenging regulatory environment, oil and gas companies have seen opportunities to increase output by implementing a wide range of rapidly maturing technologies, including improved horizontal drilling, enterprise cloud computing, virtual and augmented reality, drones, and blockchain-based data exchanges. These technological advancements have all played a role in boosting production levels.

Lastly, despite recent increases in throughput at US refineries and increased crude exports, US inventories have grown domestically to 419.7 million barrels. The latest EIA report mentioned that U.S. crude stocks fell by 4.5 million barrels to 419.7 million barrels, for the week ending October 13th. **E*Comdt** expects Oct-23 total net injections to reach almost 10 MB, bringing end of month stock levels to 424.9 million barrels.

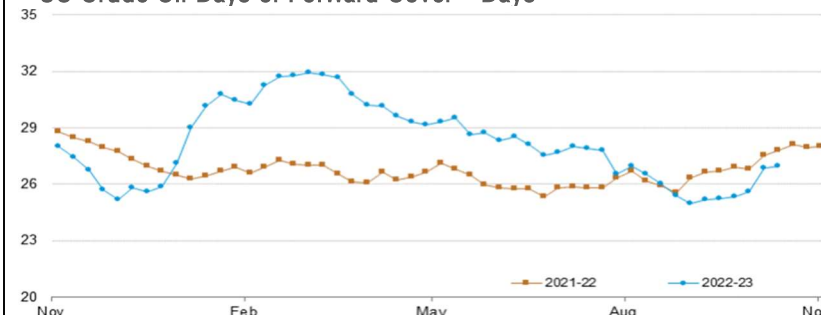
Market Impact...

E*Comdt has the current crude market’s storage balance at 21.1 Days of Forward Cover (DFC). Lay that up against the last WTI prompt (CL1) settlement price of \$86.56 and that observation is represented as the gold ball in the graph, right. The red line represents the best statistical fit through the last 40+ months of observations. Since the gold ball almost sits directly on the red line, we believe the prompt contract is fundamentally close to “Fair Value”. From current storage levels, holding all else equal, if exports and refinery throughput (monthly crude demand) stay on their current trajectory, **E*Comdt** estimates the Fair Value of the WTI Nov23/Mar24 strip of crude prices to be ~\$84.00.

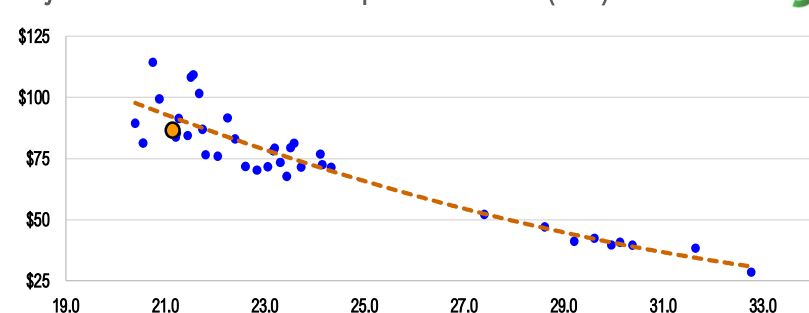
US Crude Oil Production - MBD



US Crude Oil Days of Forward Cover - Days



Days of Forward Cover v Prompt WTI Contract (CL1)



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For more information on this report, contact the **ECRA Energy Team** analysts@ecomdt.com

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