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Why “Drill Baby Drill” may turn into “Still Baby Still”

Advising Greentech companies to help maximize growth

Incoming President Trump boasts about increasing oil drilling beyond the current record levels, but he is overlooking one minor thing:

More supply isn't necessary good for the oil industry.

Then again, Trump rarely lets facts stand in the way of a good soundbite.

No Alaska takers

- This might be the proverbial canary in the coal mine as it relates to U.S. oil production, and it is welcome news to conservationists.
- The Interior Department announced that the most recent oil and gas lease sale in Alaska's Artic National Wildlife Refuge got ZERO bids, the second such result.

The Biden Administration spin:

- "The lack of interest from oil companies in development in the Arctic National Wildlife Refuge reflects what we and they have known all along – there are some places too special and sacred to put at risk with oil and gas drilling," said Acting Deputy Secretary Laura Daniel-Davis

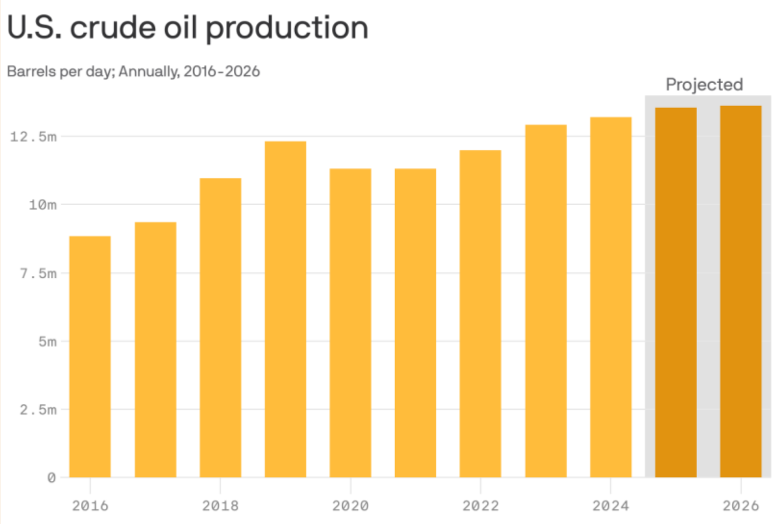
My take is slightly different:

- There was no money to be made by drilling in the region, and its unnecessarily bad PR.

Does the world really need more oil?

The outgoing Energy Department's independent analysis projects only modest growth in oil output.

I wouldn't be surprised to see those projections change under the new administration, but that pesky thing called reality may get in the way.



- The Energy Information Administration (EIA) currently is projecting a paltry oil production growth rate of less than 1%.

Why?

- Market fundamentals creating price pressures. How silly is that?
- The EIA believes that global supply will outstrip demand growth in the next couple of years.
- It also projects that the price for U.S. benchmark WTI will decline to $62 in 2026.
- I'm not sure about that, but I'm fairly certain, that barring a major global disruption, oil prices aren't going up appreciably any time soon, or if ever again for that matter.

The Texas-New Mexico Permian Basin is expected to account for over 50% of U.S. production by 2026.

Fifteen years ago, the Permian produced under 1 million barrels a day. By 2026, the region is projected to produce over 7 million barrels.

Still, volatility is the norm

- Circumstances can change on a dime in the oil markets, although that doesn't necessarily translate into immediate action related to production changes.
- Tighter sanctions on Russian could curtail global oil supplies, and Iran and Venezuela remain production level wild cards.
- On the demand side, unless China's economy turns around, global demand will remain muted.
- And to Trump's dismay, the net-zero movement will continue to put downward pressure on oil demand.

Shortly after the election, ExxonMobil CEO Darren Woods said this:

"I don't know that there's an opportunity to unleash a lot of production in the near term."

Note that ExxonMobil is the largest U.S. oil company.

In the end, it always comes down to profits

- The Kansas City Federal Reserve believes prices around $70 are about break even and that $90 is required to trigger increased production.
- Some estimate that if the administration achieves its goal of increasing production by 3 million per day, prices could tank to $50.
- At its most recent meeting OPEC held off raising quotas.
- I can assure you that decision had nothing to do with climate change.
- I can also assure you that OPEC can still make life uncomfortable for U.S. oil producers.

Bottom Line: Don't expect an appreciable change in U.S. oil production under the Trump administration.

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- An honest assessment of the climate change effort.
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