Shale will take Opec cut but no longer needs it

U.S. shale’s response to OPEC’s decision to cut supply and boost prices: We’ll take it, but we don’t need it.

In 2014, the U.S. oil industry’s fate seemed to rest in the hands of OPEC ministers who were flooding the market with cheap oil in a push to obliterate them. Now, the cartel is in full retreat, agreeing to cut output to keep their own economies healthy even as U.S. production continues to surge.

The move came in a week in which oil fell to near $50 a barrel, a price that four years ago would have panicked U.S. drillers. But since then, shale explorers have cut costs, boosted fracking efficiency and made wells longer and more productive. The result: Break evens for a 30 percent profit have been almost halved to just $45 a barrel in the prolific Permian Basin.

“The shale industry can now thrive in a $50 oil world,” David Deckelbaum, a New York-based analyst at Cowen & Co., said by phone. The OPEC decision to support prices over $50 in the U.S. “underwrites most of the industry.”

U.S. oil producers are now generating 11.7 million barrels of oil a day, about a third more than in 2014, with almost half the number of rigs. And last week, the industry became a net exporter for the first time in 75 years.

To be sure, the breakevens companies often cite don’t necessarily mean producers will be pumping big profits at $50-a-barrel oil. They exclude corporate expenses and land acquisition costs, which can be substantial. Still, they remain strongly indicative of the “drill or no drill decision,” said Ian Nieboer, an analyst at RS Energy Group who sees the U.S. pumping an extra 1 million barrels a day in 2019.

“The full pace and capability of the U.S. industry is not yet completely appreciated” by OPEC and its allies, Nieboer said in an interview. “Everybody is still catching up to how efficient this industry has become.”

Oil producers in the U.S. are “breathing a sigh of relief” as a result of the OPEC agreement, said Saudi Arabia’s oil minister Khalid Al-Falih said at a news conference in Vienna on Friday. Low oil prices are “not good for the U.S. economy,”Al-Falih said, adding that America now has “more at stake” alongside Saudi Arabia because U.S. oil output has increased.

In 2014, wells drilled in the Permian, home to a third of U.S. output and the world’s fastest-growing major oil field, needed a price of $86.10 a barrel to turn a 30 percent profit, according to Calgary-based RS Energy Group. Now that figure is $45 a barrel, giving producers incentive to drill at current prices. The story is similar story for the Eagle Ford in south

Texas and the Bakken in North Dakota.

OPEC and their allies, including Russia, met in Vienna on Thursday and Friday. The agreement they made was to remove 1.2 million barrels a day from the market, with OPEC itself shouldering 800,000 barrels of the burden. Following the announcement, oil in New York jumped by as much as 5 percent to $54.22 a barrel.