WELLING UP

JANUARY 2018

The U.S. Oil and Gas industry ended 2017 on a positive note. Rising oil prices, due largely to OPEC production caps, resulted in U.S. operators expanding drilling operations and producing at a steady pace.

FERTILE FIELDS

While natural gas prices declined in 2017, oil prices rose from about $50 per barrel in the spring to nearly $60 per barrel through the second half of the year—a price level last seen in the summer of 2015.

Source: U.S. Energy Information Administration

$2.82 TO $3.27
PER MILLION BTU
MONTHLY NATURAL GAS PRICE RANGE, 2017

$56.12
PER BARREL
AVERAGE MONTHLY WTI PRICE, NOVEMBER 2017
12-month high, on news of OPEC extending cuts through 2018

▲ 10%
MONTHLY WTI PRICE RANGE,
DECEMBER 2016 TO 2017
$52.01 to $57.44 per Barrel

A PLATFORM FOR GROWTH

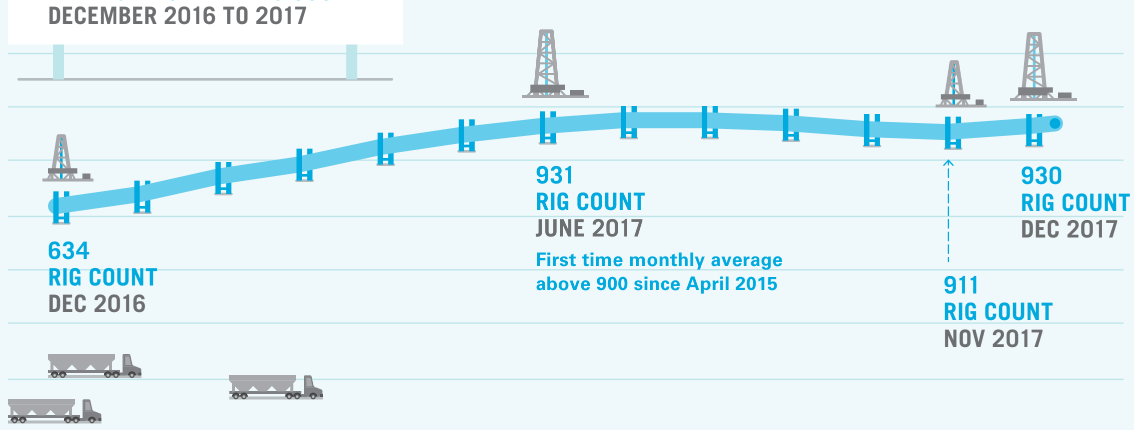
The number of active drilling rigs in the U.S. tends to rise in line with increases in the price of WTI crude. Accordingly, the average monthly rig count hit a two-year high of 931 in June and ended the year near this figure. Still, the rig count remains well below the nearly 2,000 units in late 2014, as drilling and completion efficiencies have increased markedly since then.

RIG BREAKDOWN:

80% OIL
SOURCE OF MOST GROWTH
Mostly land-based due to higher break-even cost of offshore wells

20% NATURAL GAS

▲47%
AVERAGE MONTHLY RIG COUNT
DECEMBER 2016 TO 2017



Source: U.S. Energy Information Administration

AN INDUSTRY TUG-OF-WAR

Some OPEC member countries failed to comply with production cuts in September, which caused oil prices to drop slightly as investors questioned OPEC's commitment. OPEC responded by extending the cuts, but this effort could be tempered by strong U.S. shale production.

OPEC PRODUCTION CUTS:

1.8 MILLION BARRELS
PER DAY
OPEC PRODUCTION CUT
Extended through 2018 in attempt to boost the oil market for another year

AS LOW AS 82%
OPEC COMPLIANCE RATE, JUNE 2017

Source: Bloomberg

U.S. PRODUCTION HIKE:

9.7 MILLION BARRELS
PER DAY
DAILY U.S. CRUDE OIL PRODUCTION, WEEK ENDING NOVEMBER 24, 2017
Highest weekly level since 1983

10.3 MILLION BARRELS
PER DAY
PROJECTED RECORD U.S. CRUDE OIL PRODUCTION, 2018
Source: U.S. Energy Information Administration

273.8 MILLION BARRELS
PER MONTH
AVERAGE CRUDE PRODUCTION, SEPTEMBER 2016 TO 2017
Source: U.S. Energy Information Administration

OPEN FOR INVESTMENT

Analysts anticipate the recently passed bill—The Tax Cuts and Jobs Act—to positively affect the industry. The bill lowers the corporate rate and all personal marginal rates, and allows businesses to expense the full cost of new investments in certain plants and equipment for the next five years.

21%
CORPORATE TAX RATE DOWN FROM 35%

ROLL OUT THE BARREL

OPEC's production cuts will likely boost the oil market and the U.S. oil industry over the next year. However, the likelihood of the rally continuing over the long term is dependent on a number of factors, including the level of U.S. crude stockpiles, regulations affecting the industry, and the continued development of alternative energy technology, such as electric cars. The industry also stands to be affected by geopolitical tensions in major oil-producing regions, particularly Iran and Venezuela, which recently have been impacted by civil unrest.

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