

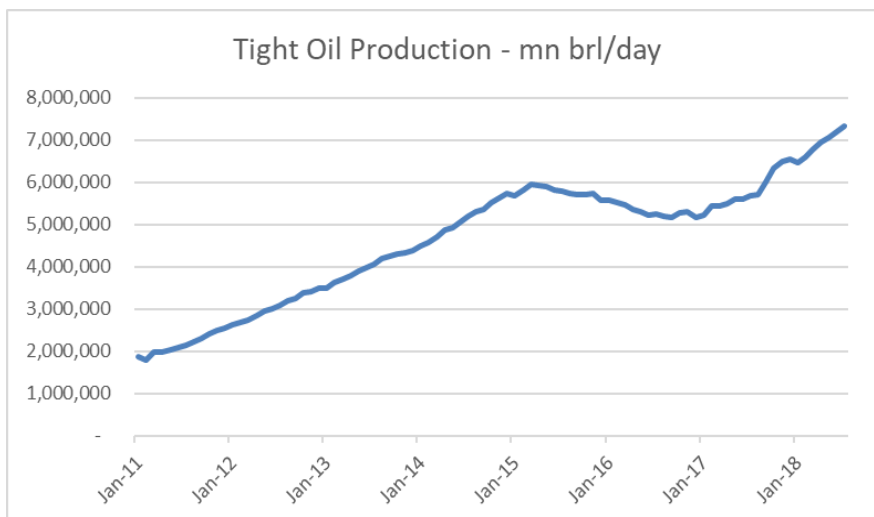
THE END OF THE TEXAS TEA PARTY – AN UPDATE



Russell Clark's
Market Views

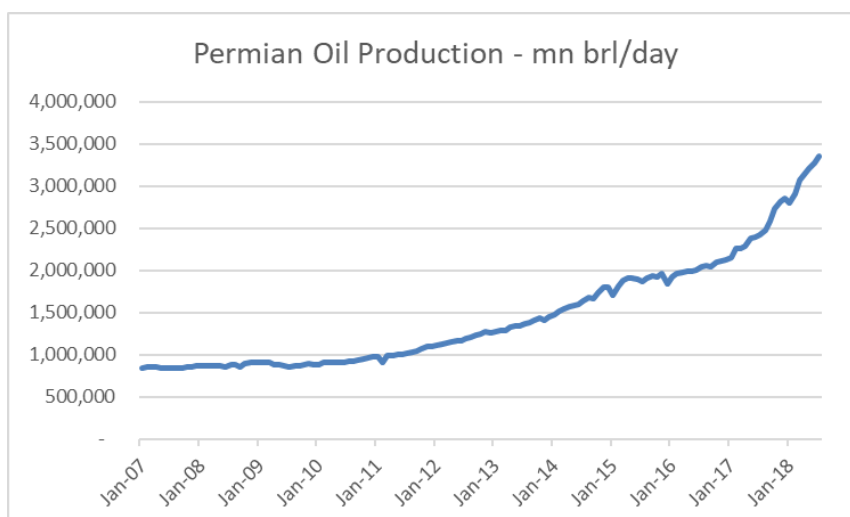
"I wrote a Market View on US Shale Oil in July 2017, but since then the relationship between new production and legacy decline has changed."

US Shale Oil (tight oil) production has continued to surge in 2018 and supply has increased more than I thought possible in my Market View [The End of the Texas Tea Party](#), which was published in July 2017.



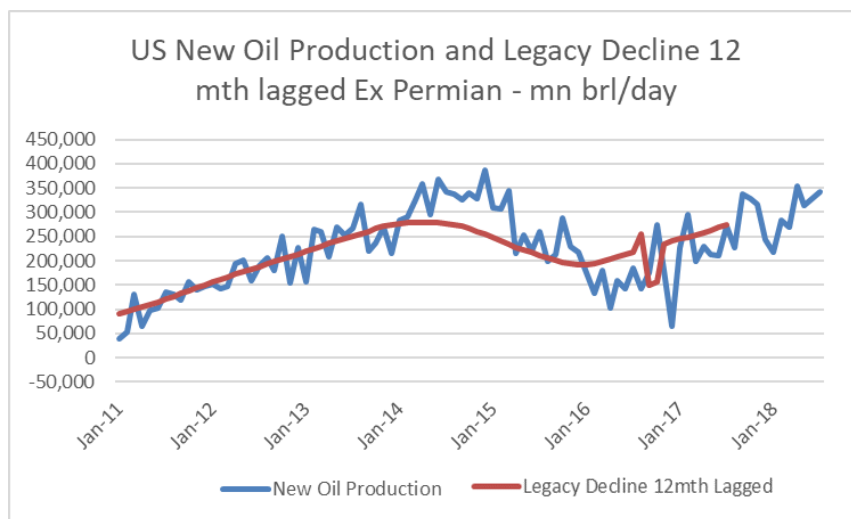
Source: DOE

The surge in tight oil production has come from the Permian area, which is now responsible for nearly half of all tight oil production.



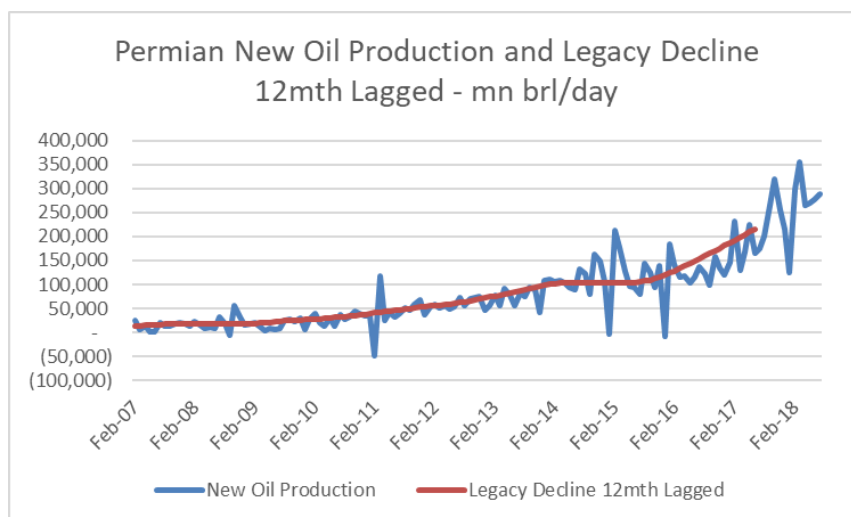
Source: EIA

As pointed out in the previous Market View, US oil production growth requires the industry to grow new production faster than the existing production declines. Legacy decline rates tend to closely follow new production with a 12-month lag. The graph below shows new oil production excluding the Permian region (given the importance of the Permian we will look at its data separately). You can see that the recent increase in new production has been associated with much higher levels of legacy decline than previously.



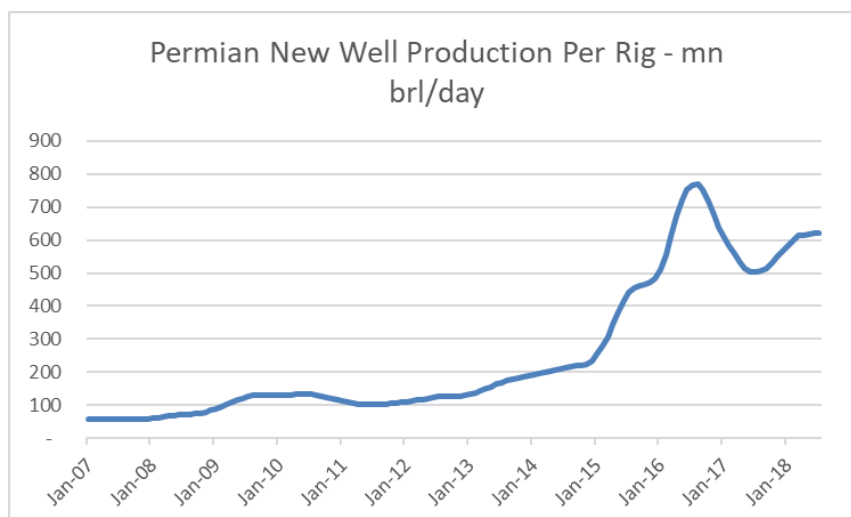
Source: EIA

The Permian basin, which has been the driver of oil production, did not see production fall during the period of weak oil prices, but like the other basins it has seen a noticeable increase in the decline rate. If the new relationship with legacy decline holds, we would expect Permian legacy decline to hit 320,000 barrels in the next 6 months.



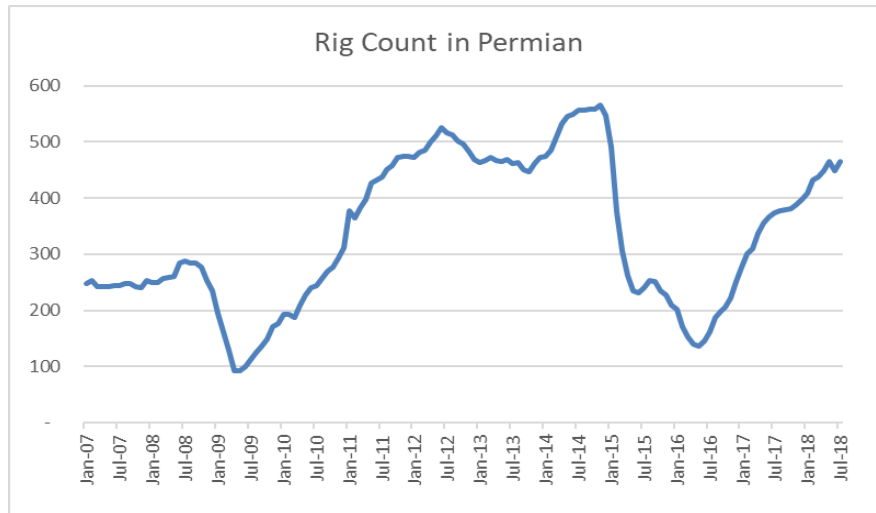
Source: EIA

We can estimate Permian production by looking at current new production rate per rig, and number of rigs. Recently new well production has flatlined at around 600 barrels per rig.



Source: EIA

The graph below shows that the rig count in the Permian basin has also flat lined at around 460 in the last few months, despite strong oil prices.



Source: EIA

So, 460 rigs with new production at 620 bbl/d gives a total new production number of 285,000 bbl/d. Since the rate of legacy decline is likely to be over 300,000 bbl/d, this implies that Permian output could fall in the next few months.

It seems that the large increase in new well production achieved by the US shale producers over the last few years will, by definition, accelerate the legacy decline rate. Since the rig count is no longer increasing US oil production growth looks likely to peak later this year.

INFORMATION

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