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Drilling not about to stop

3 giants slash budgets but will keep pumping oil steadily this year

Posted: Wednesday, February 3, 2016 5:05 pm

By Collin Eaton Houston Chronicle | 3 comments

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Three major oil producers are cutting nearly $12 billion combined from their drilling budgets this year to compensate for the global oversupply and weakening demand that has devastated the oil and gas industry.

But they don't necessarily expect to produce less crude.

BP and Anadarko Petroleum Corp. said Tuesday they plan to keep pumping oil steadily this year, while Exxon Mobil Corp. will finish six major projects to increase its output capacity by 250,000 barrels a day.

The resilience of major oil companies to keep pumping oil is playing out as Saudi Arabia, Russia and other major oil-producing countries square off in an ongoing battle for global market share. With oil trading below $30 a barrel, it's difficult to envision a scenario where U.S. oil producers will see a recovery in the next few months, analysts said.

"All this means is we don't know if we have an oil-price bottom, and we probably don't," said Michelle Foss, chief energy economist for the Bureau of Economic Geology at the University of Texas. "People are gearing up to live with this for a while."

The domestic benchmark fell $1.74 on Tuesday to $29.88 a barrel, down 11 percent since Friday and within a few dollars of recent 12-year lows. Oil companies in Houston and across the U.S. have been reporting steep losses as a result.

BP said Tuesday that it lost $2.2 billion in the fourth quarter and is preparing to cut thousands of jobs. The oil-market crash cost BP more last year than the Deepwater Horizon oil spill cost the company in 2010.

Exxon Mobil, which has about 19,000 workers in Houston, saw profits fall 57 percent in the fourth quarter, but the company avoided big financial losses as it trimmed billions in costs. The company is planning to bring down capital spending by 25 percent this year, even as it brings up half the amount of oil that Iran is planning to put back into circulation this year.

The problem of Iran

Iran is one of the big supply-demand problems hanging over the oil market. The world already gets 1 million more barrels of crude than it needs each day, and the Islamic Republic, recently unshackled from Western oil export sanctions, wants to export another 500,000 barrels a day after a three-year absence from major international markets.

“We don’t find returns in this environment to be compelling,” Anadarko CEO Al Walker told investors after announcing a $1.25 billion loss. “We have a dislocation between what it costs to either operate or drill wells versus the commodities that are being provided by the markets. So that dislocation, we believe, is going to continue.”

Still, BP CEO Bob Dudley, one of the most prominent voices predicting a long, slow oil downturn last year, told investors there’s reason for hope. Global crude production appears to be stabilizing, and U.S. oil output is on the decline.

“I might characterize the outlook as being ‘lower for longer, but not lower forever,’” Dudley said.

Low crude prices in 2015 helped accelerate sluggish oil demand twice as fast as recent years. A repeat of that could spur an oil market recovery by the second half of the year as crude demand converges with supply, Dudley said.

The British oil giant — which has 6,000 employees in the Houston area — is also planning to cut 3,000 oil refining and marketing jobs by the end of 2017, in addition to the 4,000 oil-production employees and contractors it is cutting this year. That announcement brought the number of job cuts pledged by Big Oil — including Chevron Corp. and Royal Dutch Shell — this year to 13,800 so far.

“The rapid pace at which we’re resetting the business is putting us well down a path of rebalancing our financial framework,” Dudley said.

But whether Dudley and other analysts are right about global oil demand holding up to soak up additional crude supplies this year has yet to be seen.

The International Monetary Fund on Tuesday said oil-price shocks undermine financial sector stability in developing nations — the countries that accounted for the bulk of global oil demand growth over the past decade and a half.

Lower credit ratings

For emerging markets, oil-price crashes can slow economic activity, raise unemployment levels and can spread to financial markets. In Russia, for example, nearly 720 banks failed during the 1998 oil slump.

Meanwhile, Standard & Poor’s outlook on the oil industry darkened on Tuesday, as it downgraded the credit ratings of several of the most financially stable companies in the oil sector, including Chevron Corp., EOG Resources, Apache Corp. and Marathon Oil Corp.

The credit ratings agency said it expects oil companies to cut capital spending to drill its most profitable properties but that it won’t be enough “to stem the meaningful deterioration expected in credit measures over the next few years.”

Exxon Mobil, which has a better credit rating than the U.S. government, also was put on review for a downgrade.

Exxon Mobil said it’s planning to cut capital spending by $7.9 billion to $23.2 billion, on top of $16 billion it cut in operating expenses and investments last year. Though the company’s profits fell, it avoided the big quarterly losses common among its peers. The company is known for its relentless cost-cutting, even in good years.

But deep investment cuts have consequences over time. They are an imperfect instrument against oversupplied oil markets because a lot of Big Oil projects are too far along to delay, so spending cuts do not affect them. Plus, too many cuts now could crimp global crude supplies in later years. Analysts and investors worry the longer the downturn lasts, the harder it will be to restart the oil-production machine.

“You could see a whipsaw the other way, where we’d run into an undersupply situation,” said Brian Youngberg, an analyst at Edward Jones.

“These companies are price takers, and not price makers.”

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3 comments:

Chieftan posted at 7:46 am on Thu, Feb 4, 2016.

Posts: 52

As a shareholder I most certainly care what XOM is up to.

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LOGIX4 posted at 9:51 pm on Wed, Feb 3, 2016.

Posts: 10

Monadnocker- You are kidding right? Last I heard, XTO,(ExxonMobil owned) had 35 rigs running in Permian Basin and has one of the largest portfolio of leases in Permian Basin of all producers.
They have been buying leases here and I would bet, continue to buy leases while prices are low.

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monadnocker posted at 8:14 pm on Wed, Feb 3, 2016.

Posts: 518

ExxonMobil doesn't drill in North America so who cares in West Texas what they do?

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