

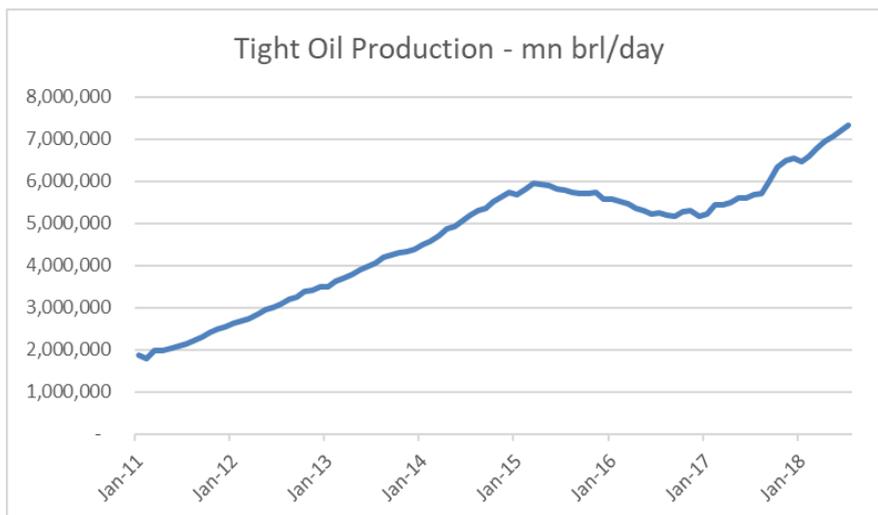
THE END OF THE TEXAS TEA PARTY – AN UPDATE



Russell Clark's  
Market Views

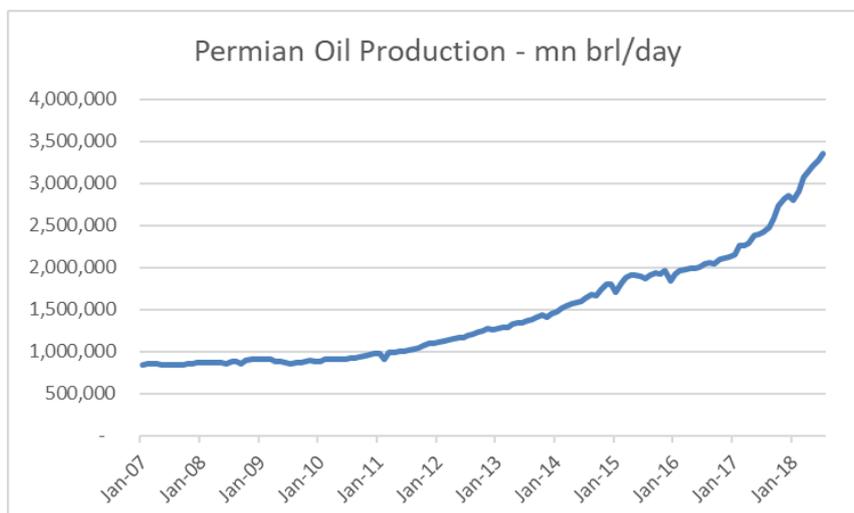
"I wrote a Market View on US Shale Oil in July 2017, but since then the relationship between new production and legacy decline has changed."

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.



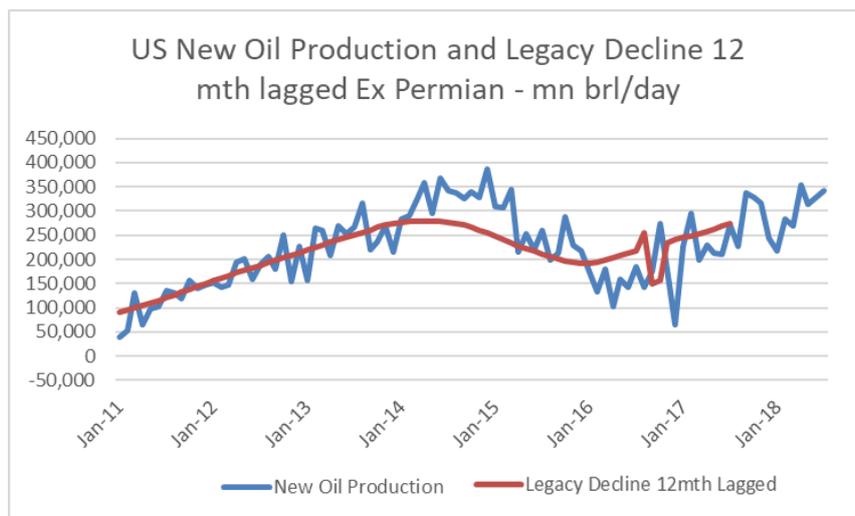
Source: DOE

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



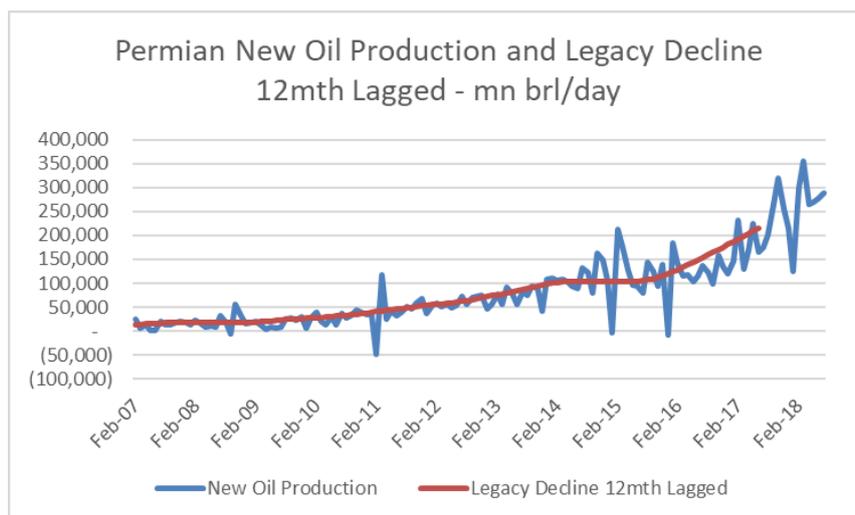
Source: EIA

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.



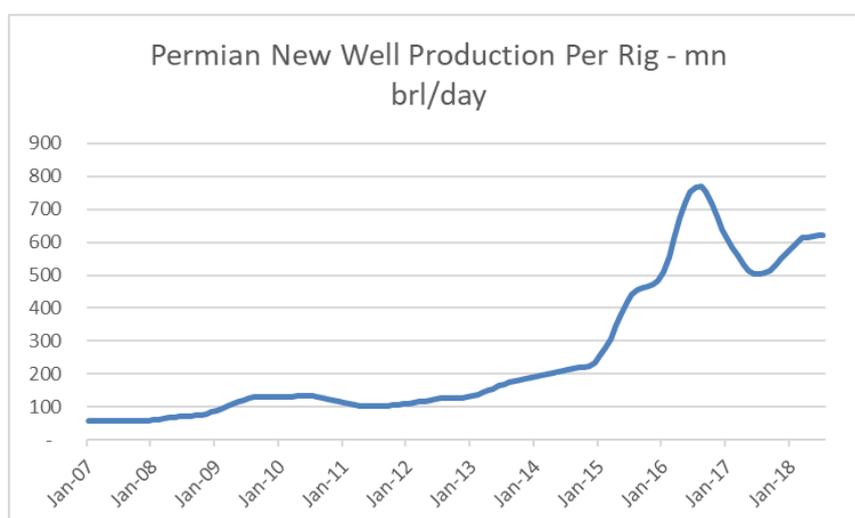
Source: EIA

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.



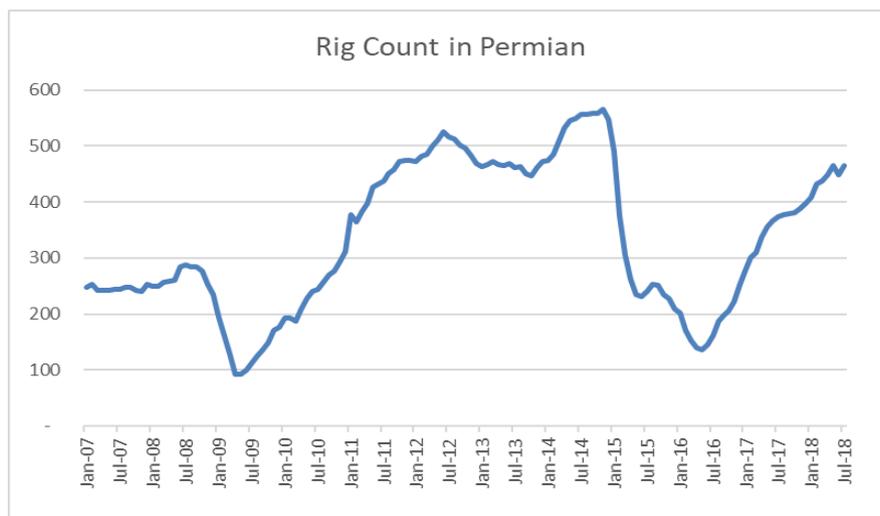
Source: EIA

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

Issue Date: 18<sup>th</sup> July 2018  
 Source: Bloomberg, unless otherwise stated  
 Investor Relations: Samantha Dunn  
 Email: [info@russellclarkim.com](mailto:info@russellclarkim.com)  
 Telephone: +44 (0)20 7838 7580  
 Website: [www.russellclarkim.com](http://www.russellclarkim.com)

Business and registered address: Russell Clark Investment Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom. Registered in England and Wales - Company number: 04034280

## DISCLAIMER

This Market View has been prepared and issued by Russell Clark Investment Management Ltd (the "Firm") authorised and regulated by the Financial Conduct Authority. It has been approved as a financial promotion by the Firm and as such is intended **for professional clients and eligible counterparties only and is not intended for retail client use**. It is not intended for distribution to any country where such distribution or use would be contrary to local law or regulation.

This Market View is provided for information purposes only and should not be regarded as an offer to buy or sell any investments or related services that may be referenced herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The view expressed in this Market View are the views of the portfolio manager at time of publication and may change over time. Nothing in this Market View constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. Past performance is not indicative of future performance. The price of investments can go up as well as down and can be affected by changes in the rates of exchange. The information contained in this document is strictly confidential and is intended only for the use of the person who has been provided the Market View by the Firm. No part of this Market View may be divulged to any person, distributed, resold and or reproduced without the prior written permission of the Firm.

Where "forward looking" information, including estimates, projections and subjective analysis and judgement are provided no representation as to the accuracy of such projections or estimates or that they may be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions.