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Investment bankers see upward trend for industry

“We’re comfortable saying prices will be in a range of $60 to $70 for quite some time’

By Mella McEwen mmcewen@mrt.com, Midland Reporter-Telegram

Updated 1:31 am, Sunday, January 21, 2018

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A drilling rig sits on a pad site where it will drill three to six wells next to each other at a Chevron drilling and hydraulic fracturing site Wednesday, July 19, 2017 in Midland. (Michael Ciaglo / Houston Chronicle)
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It may not be a straight line, but managing partners at the Dallas-based investment banking firm Capital Alliance Corp. believe the slope of oil prices over the course of 2018 will show an upward trend.

“We're comfortable in saying prices will be in a range of $60 to $70 for quite some time,” Bryan Livingston, managing partner at Capital Alliance said in a phone interview from his Dallas office.

He and Paul Puri, also a managing partner, last summer accurately predicted that underlying market fundamentals would reverse a price decline and power a price recovery by the end of the year.

Livingston said it's important that the two be able to speak with their clients "with rational expectations."

As they looked at expectations for 2018, he said, they "tried to pay attention to what had changed with supply and demand.

Two things stood out, Livingston said. First was the discipline being shown by member nations of the Organization of Petroleum Exporting Countries in upholding production cuts.

"OPEC discipline has been much stronger than many believed it would be, particularly among the Gulf Cooperation Council countries, who are committed to the cuts through the end of 2018 and maybe into 2019. That group is notorious for cheating. But based on the information we're seeing, that group will remain cohesive," Livingston said.

He said that discipline is being seen even among U.S. shale producers.

"Producers are not willing to open their wallets, and that's creating a lot of discipline, reigning in capital spending," Livingston said. "Just as OPEC adopted a disciplined point of view, so are others."

The second thing that stands out is the built-up expenditures deficit, which Livingston said has affected everyone. Saudi Arabia, in particular, lacked the funds to invest in infrastructure expansion, he said.

"As prices tumbled, companies cut their expenditures. And even though prices have improved, it will take a significant amount of time for expenditures to build up again, and that will have a large impact on global supplies," he said.

He said a number of analysts believe that "even if that discipline went away, especially among the Saudis -- who aren't too far from having the taps wide open -- the marginal change would not be so great because the expenditures deficit has affected them."

Demand is also rising globally in part because there is a synchronized global economic recovery, he said.

Technology, especially as it gets closer to the wellbore, is making strides daily, he said.

“Longer laterals, better and cheaper equipment. Shale producers are getting smarter every day. They can do more with less and that will put upward pressure on output,” he said.

“When we deal with our long-standing clients in West Texas and South Texas, the on-the-ground knowledge over the last several months is they will keep pace with how the recovery is affecting their companies,” Puri said.

There will be a gradual, incremental increase in the need for resources -- from hiring and training new workers to new equipment -- to handle the rising volume of production, Puri said.

That gradual increase will be sustainable, and the companies making these new hires and equipment purchases will be committed to the long-term, he said.

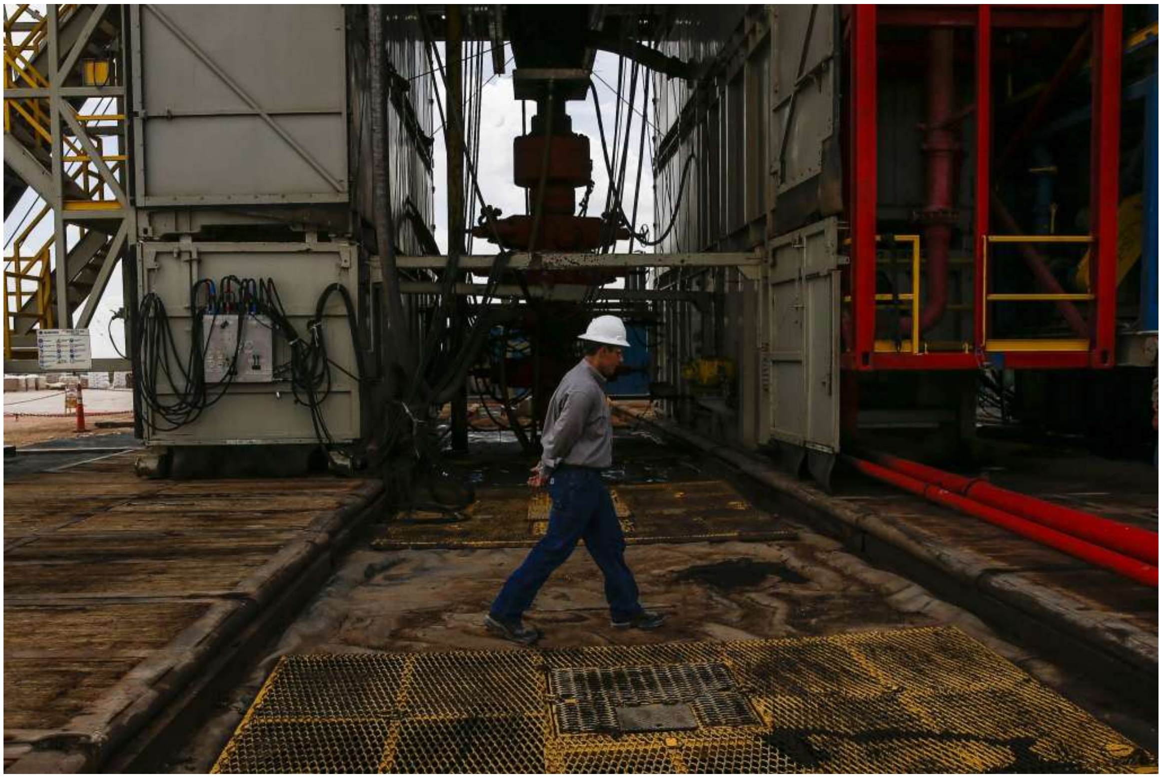
There is some slack capacity, Puri said, but some areas of the Permian Basin are seeing constraints, particularly as labor has moved in and out of the area amid the price downturn, and some are not returning to the industry.

“But on a macro level, the Permian is balancing with other basins,” he said.

Livingston applauded the arrival of sand mines in the Permian Basin to provide locally sourced proppants, as well as the various efforts to recycle and reuse produced and flowback water. Proppants and water are two of the biggest cost issues with unconventional wells, he said.

The two men’s upbeat point of view “is enforced by what we see on the ground,” Livingston said.

“That’s not to say speculation is not having an effect” but “those speculative forces will still be tempered by people who have learned some lessons,” he said.



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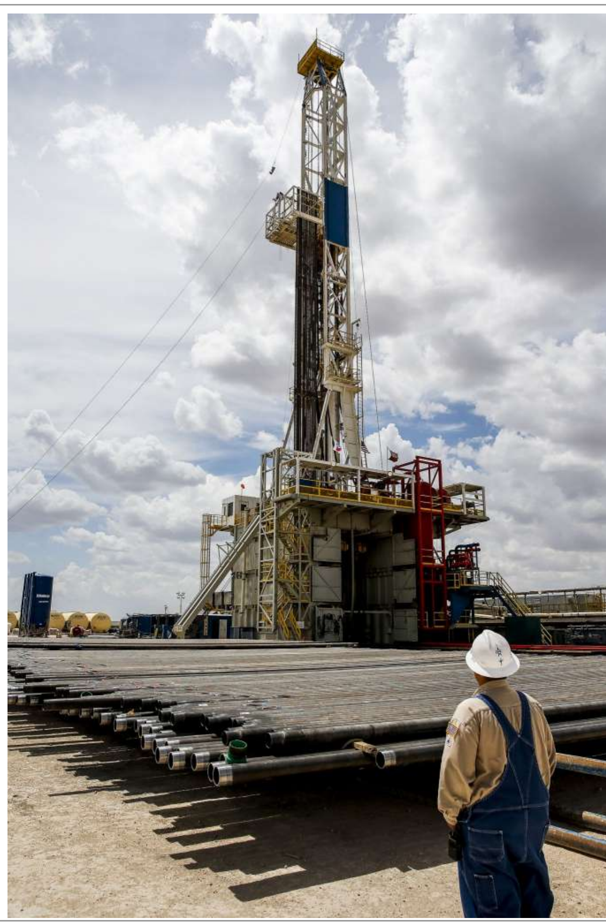
A worker walks across a pad site where a drilling rig will create three to six wells next to each other at a Chevron drilling and hydraulic fracturing site Wednesday, July 19, 2017 in Midland. (Michael Ciaglo / Houston Chronicle)



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