Shale Investment in U.S. Seen Falling by Half

BY DAVID HODARI

Investment in the U.S. shale sector will drop by half this year, the International Energy Agency said Wednesday, predicting a period of pain for producers, even as oil prices rally.

The forecast body blow to the availability of capital for U.S. producers comes as part of an expected world-wide decline in broader energy investment during 2020. The Paris-based organization expects global investment in oil and gas to decrease by one-third and the financing of all energy projects to decline by 20%.

"We see a historic fall in global energy investment, but the biggest hit is to the shale industry," said the agency's executive director, Fatih Birol. "It has always been under pressure, but now access to capital and investment confidence is drying up."

American shale drillers helped the U.S. produce more than 13 million barrels of oil a day earlier in 2020?before the coronavirus pandemic forced governments world-wide to

Drillers have sharply curtailed production and shut in wells. Tanks in the Permian Basin of Texas. PAUL RATJE/AGENCE FRANCE-PRESSE/GETTY IMAGES

The drop in spending already has reduced U.S. output as shale companies drill less and shut in existing wells. The EIA said Wednesday that average daily crude production during the week ended May 15 was 11.5 million barrels. That is down 12% from a record 13.1 million in March.

This year won't be the first time U.S. producers have halved their investment. They cut spending by 50% from 2015 to 2016 in the midst of the last oil-price downturn, according to data from Evercore ISI.

Other organizations also forecast a seismic hit to U.S. shale investment this year. Rystad Energy projects a 54% hit to the sector's available capital. "We do not anticipate upward revisions in capital guidance despite improvement in market fundamentals," said impose lockdowns and travel bans on their citizens. The pandemic has prompted the largest drop in global energy investment in history, the IEA said in its report.

Production cuts from oil-producing nations in recent weeks have combined with a bounce in demand after the lifting of lockdowns to help oil prices begin their recovery from their April collapse.

Brent crude, the global price benchmark, lost nearly 4% to close at $34.74 a barrel on Wednesday. July futures for West Texas Intermediate, the main U.S. price, fell 4.5% to settle at $32.81 after the U.S. Energy Information Administration reported an 8% week-over-week decline in gasoline consumption and a 4% reduction for diesel during the week that ended May 15.

U.S. companies spent $35.90 on average to produce a barrel of oil in 2019, says Rystad Energy AS. U.S. oil prices haven't traded that high since early March.

With oil prices long trading below the cost of production for shale producers, several companies have been forced to file for bankruptcy in recent months, while U.S. major oil companies have slashed capital spending. **Exxon Mobil ,** for example, said in April it would cut its 2020 capital spending by 30% this year in response to the coronavirus. Artem Abramov, Rystad's head of shale research.

The disastrous economic impact of Covid-19 on investment in the energy sector will be even more stark in poorer oil-producing countries, where oil revenue makes up significant proportions of state income, the IEA said.

Beyond oil, investment in renewable energy? while more resilient during the crisis than fossil fuels?also will suffer this year, the IEA said. The agency pointed out that spending on rooftop solar installations has been strongly affected, and in the first quarter final investment decisions for new wind and solar projects fell back to the levels of three years ago.

The decrease in spending "is of course going to delay the energy transition," the IEA's Dr. Birol said.

?Collin Eaton contributed to this article.
