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News : US oil, gas rig count drops 9 to 705 as activity hits 20-month low

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- Oil-directed drilling cuts lead weekly decline
- Haynesville rigs fall to 47 in 28-month low
- Service companies see possible Q4 rig adds

The US oil and gas rig count continued to decline through late August as total deployments dropped to their lowest since late December 2021, data from S&P Global Commodity Insights showed.

In the week to Aug. 23, the US rig count dropped by nine to just 705. After reaching a post-pandemic high at 889 in November 2022, the US drilling fleet has now contracted by over 20% in the nine months since as domestic oil and gas producers continue to respond to weaker commodity prices this year.

Through late August, the US benchmark WTI crude price has averaged just $78.26/b in 2023, down sharply from $100.36/b averaged over the same eight-month period in 2022. In the gas market, the drop in futures prices has been even more pronounced with Henry Hub prompt-month gas trading at an average $2.48/MMBtu this year, compared with $6.56/MMBtu from January through late August 2022, S&P Global data showed.

Oil directed activity

From mid- to late-August, the continued decline in rig count was led overwhelmingly by cuts to oil-directed drilling activity – a longer-term trend that has been underway for much of this summer.

In the week to Aug. 23, rig count in the Permian dropped to 331 as the basin continues to consolidate drilling activity, cutting West Texas rig numbers from the 350-360 range this spring.

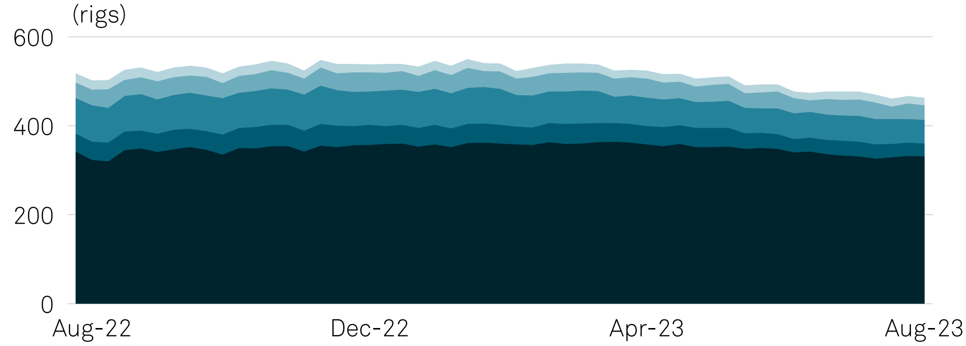
Among the other oil-directed drilling basins, activity cuts in the SCOOP-STACK basin of Oklahoma rank a close second this summer with the total rig count there dropping to 29 in the week to Aug. 23 – down from 43 as recently as May. Rig count in the Eagle Ford was unchanged from mid- to late August at 53 but also remains well below levels in the low-60s this spring and a count at over 70 as recently as March.

The Denver-Julesburg with 17 rigs and the Powder River with 15 rigs currently have largely bucked the downward trend this summer with relatively little change to drilling activity in recent months.

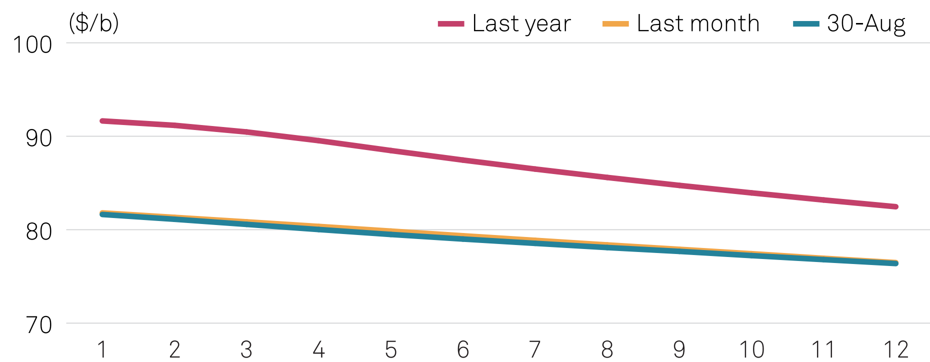
Rig counts of the top producing basins

Top oil play rigs

	23-Aug	W/W change	Y/Y change	Aug-23 IRR (%)	Aug-22 IRR (%)
Permian	331	-1	-11	50	76
SCOOP-STACK	29	-1	-11	29	54
Eagle Ford	53	0	-27	40	77
Williston	33	-2	-2	39	81
Denver-Julesburg	17	0	-4	28	62

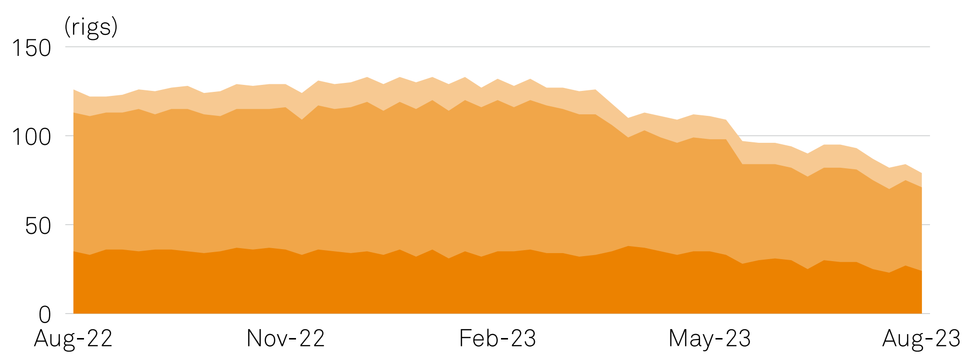


NYMEX crude forward curve

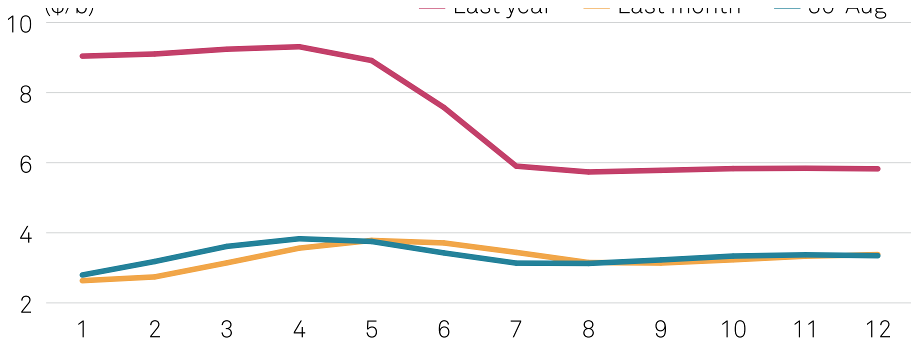


Top gas play rigs

	23-Aug	W/W change	Y/Y change	Aug-23 IRR (%)	Aug-22 IRR (%)
Marcellus	24	-3	-11	14	108
Haynesville	47	-1	-31	22	108
Utica	8	-1	-5	16	101



NYMEX gas forward curve



Source: S&P Global Commodity Insights

Gas-directed activity

In the dry gas basins, the majority of activity cuts this year have accrued in the Haynesville shale where the marginal cost of drilling a new well is significantly higher when compared with Appalachia. In the week to Aug. 23, the rig count there dropped to 47 – down from 65 in late May and a record high at 85 rigs in early February. As activity there continues to ebb, many analysts now argue that the Permian will drive most the expected growth in US dry gas production over the near term.

In Appalachia, marginal, up-and-down movements in drilling activity from January through May has given way to a steadier decline this summer. In the week to Aug. 23, the Marcellus had just 24 rigs operating – down from as many as 35 in May. In the Utica, the rig count dropped to its lowest since February 2022 at just eight rigs – down from 13 as recently as mid-July, S&P Global data showed.

Outlook

Heading into the fourth quarter, higher gas futures prices for winter 2023-2024 and looming year-end production targets for both oil and gas output could be enough to partially reverse the recent declines in drilling activity among US producers. According to TD Cowen, several service companies have already discussed potential adds for Q4 – even as E&Ps hunker down, reaffirming their commitment to capex discipline in second-quarter earnings calls.

"Our recent analysis of private rigs and commodity prices suggested oil rig counts could move higher," said lead author Marc Bianchia in an Aug. 31 investor note. "Pricing will also be in focus as spare capacity in both rigs and frac crews should lead to loosening prices," the analysts said.