



Insight

North American Oil Boom Having Stabilizing Effect on Global Prices

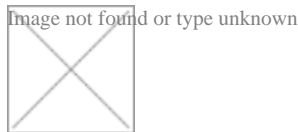
CATRINA RORKE | DECEMBER 9, 2013

The U.S. and Canada have increased their oil output by a combined 2.1 million barrels per day since 2005.^[1] Production from the six largest shale oil deposits in the U.S. increased output by 800 thousand barrels per day in the last year alone.^[2] Enabled by advanced technologies and a bullish exploration industry, North American production increased from 18 to 20 percent of global supply.

Forecasts continue to underestimate production growth leading to price forecast that are higher than the market price. The International Energy Agency forecast per-barrel oil prices to reach \$128 by 2035,^[3] while the Energy Information Administration (EIA) forecast \$145 per barrel by 2035.^[4] Recent revisions anticipate a near term decline in oil prices; EIA predicts West Texas Intermediate (WTI) and Brent crude prices will drop 3-5 percent over the next year to \$95 and \$103 per barrel, respectively.^[5]

Growth in North American oil production is also a stabilizing force on global price signals. At the start of November, unanticipated supply disruptions, mostly from security-related incidents in Libya and Iraq, amounted to 3 million barrels per day. Disruptions of this magnitude typically lead to higher prices in the near-term, but the market is absorbing these supply constraints without a significant price response.

The figure below tracks spot prices for Brent crude oil, U.S. oil production, and major international events known to trigger jumps in the price of oil. In this sample, oil price swings are notably smaller and appear to be settling at a price point somewhere between \$100 and \$110 per barrel. Though high by historic standards, the persistence of this oil price in light of the ongoing, intractable global conflicts suggests that global oil pricing is undergoing a paradigm shift.



^[1] From the EIA *Countries* database, accessible at <http://www.eia.gov/countries/>