

## New North American Oil Discoveries Continue to Frustrate OPEC

Apache Corporation, the sixth-largest independent oil and gas producer in the United States, <u>announced this week</u> that it has found a new gargantuan reserve of oil and natural gas in West Texas that could be one of the largest energy finds in the last decade. At the low end, the new "Alpine High" field could contain two billion barrels of oil plus massive natural gas reserves. More importantly, especially to OPEC members gearing up to find ways to raise prices, the company's estimated profit margin is 30 percent after taking in account all expected development costs, even with crude selling at below \$50 a barrel.

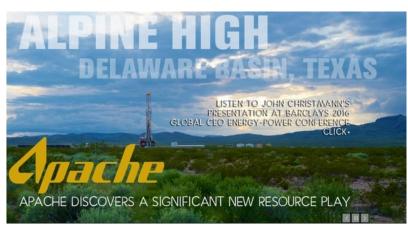
Apache isn't waiting around for higher prices but instead has already drilled 19 wells into the new field and has committed one-fourth of its capital budget this year to develop the field further. The profit potential for natural gas is nearly off the charts. So abundant is that energy source from the new field that the company's breakeven point is just 10 cents per million British thermal units (BTUs) while the market price for natural gas closed Tuesday at \$2.72. This is going to turn Apache, currently a \$20 billion company, into a major player.

The discovery is also going to turn OPEC's plans to cap production in order to drive prices higher upside down. It is planning to meet informally later this month in Algiers to plot ways that it can drive the price of crude higher in response to increasing pleas from members such as Venezuela and Algeria for higher prices.

As recently as a month ago, OPEC was hoping to drive prices back to \$70 a barrel in order to reduce the financial pressures low crude oil prices have imposed on all of the cartel's members. Now, however, it is hoping to drive prices up to \$60. Last month Venezuela's President Nicolas Maduro, under mounting pressure to solve his country's self-imposed problems resulting in inflation and food riots, said last month that the "fair, balanced oil price must be set at \$70 a barrel." On Monday the head of Algeria's state-owned oil company, Noureddine Boutarfa, exclaimed that oil prices "below \$50 a barrel is not acceptable."

Acceptable or not, oil prices are headed lower according to both Morgan Stanley and Bank of America. Earlier this year Morgan Stanley estimated that the price of crude would move higher, but just cut its third-quarter forecast from \$50 a barrel to \$45. On August 25, Bank of America estimated that demand for crude would decline further than expected.

What befuddled prognosticators was the failure of the oil market to "rebalance" during the summer when American drivers set a record, burning through nearly 10 million barrels of gasoline every day. Even though American drivers drove a record three trillion miles over the last 12 months, that failed to





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soak up much of the surplus overhanging the market. Now, with demand slackening after Labor Day, and an economy essentially flat-lined, there is little reason to believe that prices will move higher.

Catching OPEC by surprise was the news that U.S. frackers restarted eight oil rigs every week this summer despite the lower prices. This puts the cartel in a pickle of its own creation: If it cuts production in order to drive prices higher, this will only further encourage U.S. producers to bring more rigs online. If they continue to flood the market, their budget deficits will get even larger while still losing precious market share to the Americans.

One unnamed OPEC official told the *Wall Street Journal* that all of this has caught the cartel by surprise: "[The U.S. shale industry has] surprised us, and can surprise us again."

A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.



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