How low will it go?

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A few months back I wrote about the energy boom that the shale oil industry had created and questioned whether it could be sustained or whether it was about to go bust due to the relatively short life of shale wells that required significantly more drilling and exploration than traditional oil wells.

Well, today *The Wall Street Journal* is reporting that oil prices have fallen more than $20 per barrel since October, and it is beginning to put a choke hold on the industry as a whole. Not only will this possibly effect the energy sector itself, but it could also negatively impact investment portfolios that are heavily invested in energy sector stocks and bonds. Also, banks who have loans to oil-based energy companies will certainly feel the pinch if oil prices stay low and profits diminish or turn to losses.

What makes this even more interesting is not only the impact of oil on the local upstarts here in the United States, but also the very real impact all of this is having on the longstanding powerhouse oil cartel, OPEC. OPEC's decisions on production levels have essentially steered oil prices worldwide for the past 40 years. However, *Bloomberg BusinessWeek* just came out with a report claiming that "Shale Oil's Relentless Production is Breaking OPEC's Neck." Bloomberg reports that, "shale producers have lowered their costs so much that in key fields they can make profits at $50 to $70 a barrel." So, in answering the titular question, maybe there is still room to go lower.

Moreover, the same report notes that "[e]ach operator is so small, it can increase production without pushing down the market price[...] And because shale wells are short-lived, producers don’t have to plan far ahead." The smallness of the shale producers is a major differentiator between shale producers of today and OPEC (and most other oil cartels of the past for that matter). This could possibly give the shale oil producers the nimbleness to jump in the market when it is profitable to do so and simply pull back when it is not. This could mean a continuous boom or bust cycle. I am sure most consumers hope it is more boom so they can continue to see lower prices at the pump.

Other experts are not so optimistic, though, about the ability of shale producers to keep pace with oil at its current price. Some experts estimate "that oil averaging $60 a barrel next year would lead to the delay or cancellation of one-third of all oil and gas projects slated for go-aheads in 2015, mainly higher-cost investments in the Alberta oil sands, the Arctic, Brazil, West Africa, and the North Sea." If correct, then it would seem that we have essentially gone as low as we can. Time will tell. It has certainly been a wild ride thus far and has been moving at breakneck speed.

Business Restructuring