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US Shale Surge Stalls Weekly Oil Price Gains

US output has increased over the past six months CREDIT: ALAMY

By Jillian Ambrose

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The steady rise of US shale production has stalled a strong week of oil price gains, as market fears grow that the extra oil flows could scupper Opec plans to drain the oversupplied market knocked a dollar from the price.

Oil prices have been buoyed this week by optimism that the deal between producers in the Organization of Petroleum Exporting Countries and major producers outside of the cartel is beginning to relieve the global glut.

The market climbed from around $54 a barrel late last week to $56.42, almost 5.5pc higher than the price before Opec agreed the historic supply deal in November.

By midday the oil price had retreated to $55.60 after new data showing the extent of the US shale industry recovery reignited market jitters.

US oil and gas flows were decimated by the two year oil rout due to higher costs for rig operators in shale-rich pockets of the States than in major producers in the Middle East and Russia.

As oil prices have doubled over the last year from lows of less than $28 a barrel to over $50 many shale producers have been able to restart flows, threatening the price rises which have allowed their revival in the first place.

US oil output has risen by more than 6.3pc over the last six months as shale rigs begin to return CREDIT: CONCHO RESOURCES

Analysts at brokerage Cenkos said that the latest data shows that US output has risen by more than 6.3pc over the last six months, with some concerned that further rises will offset moves by Opec to curb output.

“Traders will look closely at the weekly rig count data, set to be released this afternoon,” Cenkos added.

Ole Hansen, a commodities analyst with Saxo Bank, said: “Opec has the right remedy. It is sending a signal to the market, and the market has bought into it strongly.”

But he warned that the task of eroding the market’s bulging crude stockpiles to balance supply with oil demand could take longer than expected.

“The Opec-led production cut agreed at the end of November will work, but it’s probably going to take longer than currently expected. There is no doubt that the major Opec producers have already taken significant steps to signal that they have cut production, some by even more than they initially stated,” he said.

The Vienna-based oil cartel has agreed to cut oil flows alongside non-Opec members in a bid to drain excess supply from the market CREDIT: BARBARA GINDL/EPA

The deal to cut almost 3 million barrels of oil a day from the global market through a series of quotas for different oil producing nations has been agreed for the six months of the year, but could be extended for longer. Whether to continue to hold output at lower levels will be decided by oil ministers at a meeting of major producers in May.

But Mr Hansen warned that rising oil output is not confined to the US and could pose an even greater threat to securing a steady market recovery than the return of US frackers.

"The unknowns and the speed at which the oil market rebalances will clearly depend on production levels above all in the US, but also — and probably as importantly — in two volatile producers, Libya and Nigeria.

"Both are producing well below capacity, and as long as they see consistent improvement, such as in Libya in the past few months where security on the ground is starting to improve, then they will be able to increase production further,” he said.

"That will pose a major challenge to Opec because each barrel that these countries add will have to be cut by someone else to keep the market re-balancing on track," he added.