A Tale Of Two Energy Markets

Baker Hughes Crude Oil & Natural Gas Rig Counts

U.S. Crude Oil Rig Count
U.S. Natural Gas Rig Count
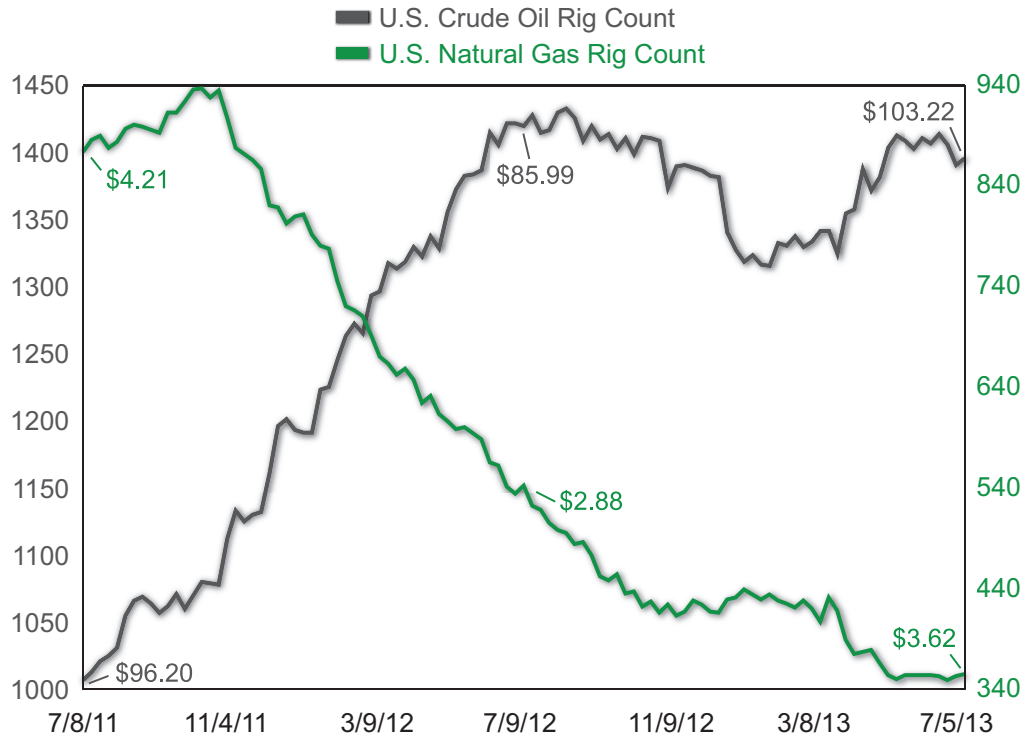
Source: Bloomberg. Data is weekly from 7/8/11 through 7/5/13. Prices are NYMEX Futures.

View from the Observation Deck

1. We now know that the U.S. and Canada have extensive reserves of both crude oil and natural gas. Supply is no longer the concern it once was, in our opinion.
2. We also know that environmental concerns over hydraulic fracturing and deep sea drilling, to name two, provide a formidable hurdle with respect to boosting the production capacities of both.
3. Recent reports have indicated that some analysts believe the U.S. has the potential of being completely energy self-sufficient within the next decade.
4. Citigroup thinks that if demand for crude oil continues to slow that the U.S. may only need to import Canadian oil to meet its needs by 2018.
5. The chart shows the number of active oil and natural gas rigs operating in the U.S. over the past two years, along with three July price points for each.
6. You'll notice that the number of natural gas rigs was reduced dramatically from over 900 in 2011 to 340 today. Ninety percent or so of imported gas comes from Canada and Mexico.
7. This was done to counter a spike in production that caused the price of natural gas to fall below $2.00 per million BTUs. The drop in active rigs (cut in production) has helped push the price back above $3.50.
8. The number of active crude oil rigs jumped from a little over 1,000 to around 1,400. Oil companies are naturally going to produce more when the price of oil is high.
9. The price of crude oil is currently rising in response to political tensions in Egypt and elsewhere. Potential supply disruptions are always a concern.
10. We believe that this dilemma may continue until the U.S. makes the commitment to produce more oil here at home and chooses to green light the extension of the Keystone Pipeline into Canada.

This chart is for illustrative purposes only and not indicative of any actual investment.