By: Alex Mills **March 16, 2017**

Oil Producers Nervously Watch Industry Trends

The oil industry in Texas and across the U.S. nervously awaited a weekly report from the U.S. Energy Information Administration (EIA) on Wednesday, and for the reaction of crude oil traders who bid on New York Mercantile Exchange (NYMEX) oil futures.

Crude oil production in the U.S. has been increasing since July from 8.458 million barrels per day (b/d) to 9.109 million b/d on March 10. Crude oil stocks had increased for nine consecutive weeks, resulting in prices declining to $47 from a high of $54 just two weeks earlier.

Saudi Energy Minister Khalid Al-Falih added to the tension last week when he said Saudi Arabia, the world's largest exporter of oil, will not "bear the burden of free riders." Al-Falih was referring to other members of OPEC who have not been abiding by its agreement to reduce oil production in an effort to decrease the oversupply and firm prices. OPEC nations agreed to cut production in November that would begin in January. Early indications supported the decline in production, but a recent report from OPEC showed a rise in global crude oil inventory despite OPEC's decline in production.

However, EIA's report on Wednesday surprised many by stating that oil stocks in the U.S. declined 200,000 barrels since the previous week, breaking the string of nine consecutive weeks of increases. Traders responded to the news, increasing oil prices by $1.14 per barrel on Wednesday to close at $48.86.

Also, the Federal Reserve Bank announced it will raise the benchmark short-term interest rate by a quarter-point and possibly raise interest rates more this year. After the announcement from the Federal Reserve Bank, the dollar's strength began to soften among traders, which was a positive for crude oil prices because oil is traded in dollars.

EIA's news was supported by a report from the American Petroleum Institute that said crude oil inventories declined 531,000 barrels. EIA noted that gasoline supplies fell by 3.1 million barrels, and distillate stockpiles dropped 4.2 million barrels last week, too. However, U.S. crude oil inventories are just below the historic high levels reached on March 3 at 528.393 million b/d.

Minister Al-Falilh, speaking at an energy conference in Houston, said Saudi Arabia cannot be the swing producer any longer. "We can't do what we did in the '80s and '90s by swinging millions of barrels in response to market conditions," he said.

OPEC members and some non-OPEC members all agreed to cut production 1.8 million b/d during the first six months of 2017. OPEC members are scheduled to meet again on May 25 in Vienna to evaluate it production decline policy.

Meanwhile, oil producers in the U.S. will be nervously waiting and watching.

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