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SNAPSHOT Shale Breakevens Anchor Oil Prices

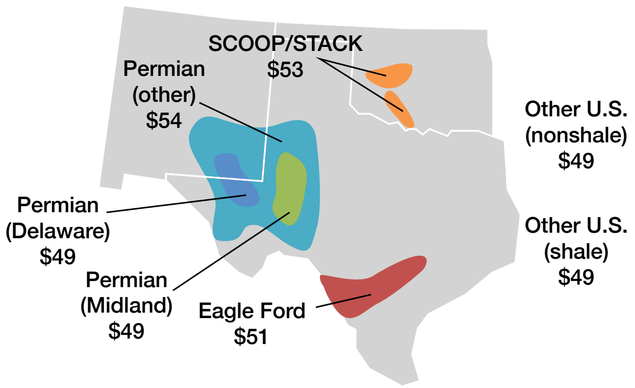
The oil price that companies need to profitably drill new wells has closely tracked prices for long-dated oil futures in recent years. The emergence of U.S. shale production seems to be playing a large role in anchoring long-term oil prices.

The breakeven price is of great interest because it provides information on how activity in the oil sector might adjust if oil prices move dramatically. Its relevance has only grown over the past decade with the emergence of shale oil in the United States. Shale has a shorter lead time between drilling and production relative to traditional oil projects, making it more responsive to oil price movements.

The average breakeven price of West Texas Intermediate crude oil has fallen 4 percent (or $2 per barrel) over the past year, to $50 per barrel, according to the latest Dallas Fed Energy Survey.

—*Adapted from* Dallas Fed Economics*, May 21, 2019, by Michael D. Plante and Kunal Patel*

CHART 1 Average Breakeven Prices in U.S. Range from $48 to $54 per Barrel



NOTES: In the March 2019 Dallas Fed Energy Survey, executives from 82 exploration and production firms answered the question, "In the top two areas which your firm is active: What WTI oil price does your firm need to profitably drill a new well?" The survey collection period was March 13–21.
SOURCE: Federal Reserve Bank of Dallas.

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