



Commodities Spotlight

June 2025

Nil, Baby, Nil: Stagnating Oil Production Growth in the U.S.

What happened:

Energy independence, or the ability for a nation to meet its domestic consumption of energy without using foreign resources, is an often cited policy objective that crosses geographical borders and political party lines. How governments go about achieving and maintaining this energy independence, though, is a different story. Despite the fact that the drive toward energy independence has remained a feature of both Republican and Democratic administrations, the preferred way to achieve it appears to be changing. The focus on expanding domestic renewable energy production over the past few years helped the United States continue to produce more energy than it consumed, further cementing its status as a primary energy net exporter.^{1,2} The case for renewable energy production no longer stands solely on what is best for the planet; rather, drastically reduced costs of production over recent years have made renewables the economically friendly choice as well. For instance, in 2010 the levelized cost of solar photovoltaic energy was 414% greater than fossil fuel, but this dropped to 56% less in 2023. Offshore and onshore wind saw a similar trend, moving from costing substantially more than fossil fuels to substantially less.^{3,4} Despite these gains, the new administration has a stated policy goal of increasing domestic energy production through a focus on fossil fuels and a removal of initiatives that disproportionately benefit renewables. However, despite the shift in focus, U.S. oil producers have responded to “Drill, baby, drill” with a resounding “We’d rather not, thanks.” Data from the U.S. Department of Energy shows total crude oil production essentially flat and the total number of oil drilling rigs currently deployed in U.S. shale fields has actually declined by more than 8% since inauguration day. What’s behind the lack of response to the clear policy shift by the Trump administration?

Why it happened:

One of the things that differentiates U.S. oil production from other global regions is that U.S. petroleum resource extraction is exclusively facilitated by a wide array of public and private enterprises who are economically motivated and who have become increasingly focused on producing profitably – sometimes referred to as a “value over volume” approach. Due to this, oil price and its impact on margins for producing companies has become increasingly important, with policy taking a backseat to profits. With margins and profits as the arbiter of decisions about production growth, it’s no wonder that U.S. production growth has been more impacted by decisions coming out of Riyadh, than the Resolute desk. OPEC’s decision to roll back voluntary production cuts contributed to an environment of low oil prices this year. In fact, as of the end of May 2025, on an inflation-adjusted basis, there have only been four quarters since 2004 when spot WTI Crude Oil prices have been as low as they are today (excluding COVID-impacted 2020).⁵ Over the same timeframe, front-month WTI Crude Oil futures have averaged a bit over \$67 per barrel, with a year-to-date low of about \$57 per barrel. These prices leave little margin when compared against the breakeven price for new wells, which averaged between \$61 to \$70 per barrel according to U.S. shale-patch respondents in a recent survey.⁶ In fact, these prices leave margins quite thin even when compared to the oil prices needed to cover only the operating expenses of already-drilled wells at between \$26 and \$45 per barrel. This market dynamic stands in stark contrast to conditions in other geographies, where price can be a motivator, rather than *the* motivator of production growth trends.

¹ Drill, Baby, Dr ... Never Mind: Will Trump kill energy independence?, Paul Krugman, *May 2025*.

² U.S. Energy Information Administration, *Primary Energy Overview* chart <https://www.eia.gov/totalenergy/data/browser/?tbl=T01.01#/?f=A&start=2000&end=2024&charted=4-6-7-14>, *December 2024*.

³ Is This the Year We Doom Civilization?: We may be losing our last, best chance to limit climate change, Paul Krugman, *May 2025*.

⁴ Renewable Power Generation Costs in 2023, IRENA, *September 2024*.

⁵ Bloomberg, *May 2025*.

⁶ Federal Reserve Bank of Dallas, *April 2025*.

Our view:

Thus, despite the catchy slogan and a pivot by the White House to support domestic oil, we expect that future production growth in the U.S. is likely to be a function of oil price, not preference. All else equal, this dynamic likely keeps OPEC in the drivers' seat for oil prices; though falling production growth, driven by thin margins for U.S. producers, is likely to help provide a floor when prices get too low. Further, despite the policy pivot, fossil fuel based energy production will likely continue to face the threat of declining future demand as increasingly economically attractive renewables take market share. Further, the U.S. risks losing energy input cost competitiveness if renewable alternatives are eschewed, but continue to experience declining costs of production, which could put domestic industries at a disadvantage. Taken to the extreme, shifts towards renewables ex- U.S. could reduce global oil demand to the point that drilling wells in the U.S. is no longer, nor ever will be, profitable – a risk commonly referred to as “stranded assets”. Such an outcome would certainly run counter to the Trump administration's stated goals. Ultimately, OPEC's current ability to exert control over the near-term direction of oil prices could keep prices range-bound, with drastic movements in futures prices and calendar spreads in either a positive or negative direction presenting opportunities to position for reversion. Additionally, metals such as Copper and Aluminum continue to look like attractive alternatives to oil in an environment where renewables are increasingly cost competitive, which should support rising demand.

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