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STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Steady as she goes

March 26, 2024 | 9 a.m.

Overview

The freight market continues to battle overcapacity, but there are signs that capacity will exit faster in 2024 than it did in 2023. With that said, the more niche markets are likely to burn off capacity more slowly than the general dry van freight market.

Despite holding rates steady in March, and despite inflation that has proved more stubborn than expected, a narrow majority of Federal Reserve officials continue to project three rate cuts for the full year of 2024. Should this forecast pan out, commodity markets will certainly see a boost, with oil set to bubble over $100 per barrel.

As interest rates are expected to fall later this year, the construction sector is benefiting from rising demand in the housing market. In spite of mortgage rates creeping higher in February and March, consumers' sentiment on home purchases is rising solely due to their expectations that rates will soon fall. For now, February's housing starts saw notable gains in both the single- and multifamily markets.

Domestic oil production rose in February, albeit not as much as previously predicted. The U.S. Energy Information Administration now forecasts gradual but steady growth in production until Q4 2024, after which production should spike to new all-time highs.

Crude oil prices are rising in response to heightened Chinese demand, particularly from the country's refining sector. In turn, Chinese refiners are looking to compensate for capacity lost from attacks on Russian infrastructure by Ukrainian forces. Fearing a reprise of inflation in an election year, the U.S. has urged Ukraine to halt such attacks, though Ukraine has made no firm commitment.

Fleet counts (six-month change)

Total for-hire fleets	300,027 (+8.8%)
Total private fleets	158,865 (+1.2%)
For-hire oil field specialization	20,190 (+1.4%)
Private fleet oil field specialization	8,256 (-1%)

Tractor counts (six-month change)

Total for-hire tractors	1,810,000 (+2.3%)
Total private tractors	766,799 (+0.6%)
For-hire oil field specialization	326,544 (-1%)
Private fleet oil field specialization	53,747 (+1%)

Active daily rig count (y/y change)

Permian Basin	291 (-14.9%)
Gulf Coast Basin	70 (-32.7%)
Anadarko Basin	56 (-26.3%)
Total	**667 (-20%)**

Crude oil prices per barrel (y/y change)

WTI crude	$81.90 (+12.48%)
Brent crude	$86.04 (+10.65%)
Brent WTI Spread	**$4.14 (-16.36%)**

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Flatbed safety is exacting but essential

Given the open nature of flatbed trailers, it is arguably more important for flatbed drivers to follow best safety practices than for drivers in any other mode. This is compounded by the fact that flatbed drivers are uniquely responsible for ensuring that their loads are properly secured and, if necessary, covered by tarps. Otherwise, cargo can shift or even fall in transit, harming not only drivers and their equipment but also fellow motorists.

Thus, drivers should first choose high-quality straps, chains and binders that are designed to withstand the weight and type of cargo being transported. When loading, drivers must be careful to confirm that cargo is distributed evenly across the deck to maintain stability and to prevent excessive stress on specific areas of the flatbed. If applicable, drivers should employ edge or corner protectors to protect straps from sharp edges as well as sensitive cargo from damage caused by undistributed downward force.

Flatbeds also serve a vital role for the domestic oil and gas industry, in part because safety can be compromised by the (often) time-sensitive nature of such deliveries. As such, it is critical that the pre-trip inspection be fully carried out, not only with regard to the vehicle and trailer but also to the rigging equipment used, checking for frays or other signs of excessive wear.

Finally, special attention should be paid to the surroundings when the flatbed is not in use, particularly during loading and unloading. Trucks should be parked on a surface that is as flat as possible, taking care that the truck is not only level from front to back but also untroubled by side grades. To be sure, side grades need special attention when the truck is in motion, such that a heavy object does not suddenly shift forward into the cab or backward into any traffic. When dealing with hazardous materials, drivers should be aware of potential obstacles during loading and unloading that could impede an evacuation route.

Truck capacity outlook

The trucking capacity outlook is showing signs that capacity is exiting the market, which is needed to firm up pricing, but at a relatively slow rate. The back half of the year is traditionally a period when capacity tightens across various modes. But with all the added capacity throughout the year, the usual tightening was muted throughout the fourth quarter of 2023.

The interesting growth areas haven't necessarily been in carriers or tractors but in the number of trailers added over the past few years. When the market reacted to the COVID-19 pandemic, semiconductor shortages prevented new truck order backlogs from being worked through. This led to fleets investing elsewhere, namely in trailer counts, which was one of the first areas addressed when the increased rates were sustained throughout the back half of 2020 and early '21.

With rates rapidly falling, the growth in capacity will likely return to levels closer to 2019 until some of the capacity added over the past year is removed from the market.

Total Fleets, Tractors and Trailers — Percent Change since February 2022

Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	498,170	2,780,000	4,298,588	5.75%	1.83%	14.34%
Feb-22	471,102	2,730,000	3,759,410			

Total For-Hire Fleets, Tractors and Trailers — Percent Change since February 2022

Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	300,027	1,810,000	3,022,330	8.76%	2.26%	1.00%
Feb-22	275,856	1,770,000	2,992,449			

Total Private Fleets, Tractors and Trailers — Percent Change since February 2022

Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	158,865	766,799	1,147,612	1.20%	0.63%	49.63%
Feb-22	156,979	761,967	766,961			

Source: Federal Motor Carrier Safety Administration monthly census data.

Since February 2022, the total number of fleets, which is filtered to those that report having at least one tractor and 20,000 or more annual miles per tractor on their MCS150 forms, has increased by 5.75%. Carriers only have to report the data once every two years, so the growth over the past two years is evident from the rise in July's numbers compared to February's. The average fleet size (number of tractors divided by fleet count) declined from 5.8 to 5.5, which indicates that growth is stemming from smaller carriers entering the market.

Growth in carrier and tractor counts is emerging from for-hire carriers, which is expected as the number of owner-operators has increased dramatically over the past two years. Overall, the number of carriers has jumped by 8.8% since February, but the number of tractors has increased by only 2.3%. This signals that owner-operators are the largest group to experience growth between February and July 2022.

While the for-hire side of the trucking industry is experiencing gains in carriers and tractors, private fleets are where most of the growth in trailer counts is originating. Between February and July 2022, private fleet trailer counts increased by 49%. Again, it is important to note that carriers only have to report this number once every two years, so it really shows the growth over the past two years.

The for-hire market may see some consolidation — and bankruptcies — over the next six to 12 months, but it may not actually show up in the data, with carriers only having to report once every two years and new carriers always entering the market. As the freight market softens, the difference is that drivers will return to the umbrella of large enterprise carriers and thus may actually be double counted at some point in the future.

Total Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	28,446	380,291	1,074,897	0.7%	-0.5%	0.9%
6 months ago	28,260	382,131	1,065,222			

Total For-Hire Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	20,190	326,544	923,705	1.4%	-0.7%	1.2%
6 months ago	19,906	328,902	912,408			

Total Private Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	8,256	53,747	151,192	-1.2%	1.0%	-1.1%
6 months ago	8,354	53,229	152,814			

Source: FMCSA monthly census data.

The capacity landscape for carriers with oil and gas exposure was relatively unchanged from six months ago as their numbers have increased across the board. The largest rise is in the for-hire market, where the number of carriers has risen by 1.4%.

Even with additional carriers in the market, the number of available tractors has declined by nearly 1%, indicating a couple of things: Smaller carriers are entering the market and larger carriers with exposure to oil and gas are thinning out their fleets.

While the number of tractors has declined in the past six months, for-hire carriers have added trailer capacity to their fleets, increasing the number of available trailers by 1.2% in the six-month span.

Private fleets haven't experienced the same fate, as there were 98 fewer private carriers operating in the oil and gas space over the past six months. Those continuing to operate have added to their fleets, however, as the number of available tractors has increased by 1%.

Trends that have hampered the growth of fleets over the past two years have gone away. The used truck market is facing a massive correction as the used truck price bubble finally burst. Both ACT Research and J.D. Power expect an increase in used trucks to hit the market in the coming month as the number of new deliveries in December hits a record high.

Total Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	993	15,858	11,629

Total For-Hire Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	549	3,651	5,262

Total Private Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	395	11,799	5,967

Source: FMCSA monthly census data.

Nearly 1,000 carriers based in California were operating in oil field services or liquid/gas specialization as of last July. The vast majority, in both the overall trucking industry and the oil and gas industry, were for-hire carriers. More than 55% of the fleets in California that operate in the space are for-hire carriers, whereas private fleets make up just under 40% of carriers.

Private fleets do make up the vast majority of tractors in California. Of the 15,858 total tractors that operate in the oil and gas industry, 11,799 are from private fleets, which is roughly 75%. For-hire fleets have an average of 6.65 tractors, compared to private fleets with nearly 300 tractors in operation.

The difference in trailers is less dramatic as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

Ultimately, the capacity outlook appears quite different than it did at the beginning of 2022. The extreme growth over the past two years has passed its peak and is slowly starting to correct itself. However, only having to report counts to the FMCSA once every two years may mean the data does not show the capacity exiting the market as quickly as it actually does.

National economic outlook

The Federal Reserve continued its “wait and see” approach around adjusting the federal funds rate at the Federal Open Market Committee’s most recent meeting. The decision was to hold the target range for the federal funds rate stable for the fifth consecutive meeting, unsurprisingly after an uptick in inflation and unemployment during February. The continued pause pushes expectations for rate cuts later in the year. Analysts still expect three interest rate cuts throughout 2024, with the next possibility for an announcement coming on May 1.

American consumers continue to face elevated levels of inflation, above the Federal Reserve’s long-term target of 2%, but in recent months prices have been rising faster m/m after a sharp slowdown in price increases.

The Consumer Price Index, one of the widely used gauges for inflation, though not the Federal Reserve’s preferred method, continued to increase in February. The CPI rose by 0.4% m/m in February. The increase was in line with what analysts were expecting, but it was the largest m/m increase in the CPI since September. The 12-month running total for the CPI came in at 3.2%, up from 3.1% in January.

Core inflation, which is the CPI but minus food and energy prices due to the volatile nature of pricing, matched the overall index, rising 0.4% m/m. Core inflation was up 3.8% y/y. Both metrics were higher than what analysts were expecting.

Energy prices were a primary driver of the increase in the headline CPI figure, rising 2.3% m/m, the largest monthly increase since August. Shelter prices continue to be a thorn in the side of core inflation, rising by 0.4% m/m in February, up 5.7% y/y.

Consumer spending bounced back from the slowdown in January but fell short of expectations. Total retail sales increased by 0.6% m/m in February, outpacing the increase in pricing. Total retail sales were up 1.5% y/y and when adjusted for inflation are negative on a y/y basis, indicating some level of pullback by consumers.

Discretionary spending continues to be impacted by slowing spending trends, with apparel, furniture and nonstore retailer sales all dropping m/m. Furniture sales dipped by 1.1% m/m in February, down over 10% y/y. Clothing stores were down 0.5% m/m, and nonstore retailers saw sales slip by 0.1% m/m.

Consumers have turned to credit as a way to fund their purchasing behaviors, with outstanding revolving credit continuing to rise. Total outstanding revolving credit increased by 0.6% m/m in January, totaling $1.328 trillion.

Labor market

Chart: FRED, four-week moving average of initial jobless claims.

The labor market remains relatively healthy, though the unemployment rate jumped unexpectedly in February and the last job openings report saw a sizable decrease.

Initial jobless claims have been fairly stable throughout the early months of 2023. For the week ending March 9, the most recent week for which data is available, initial jobless claims fell by 1,000, to 209,000, 9% lower than they were this time last year. Even with the layoff announcements of 2023 and 2024, initial jobless claims have hovered around 200,000 per week since the early months of 2022. These levels are similar to pre-pandemic levels.

Continuing jobless claims remain elevated compared to 2022 levels. For the week ending March 2, the most recent week for which data is available, continued claims increased by 17,000, to 1,811,000. Like the initial jobless claims, continued claims have been fairly stable throughout the past year.

Why the stability in jobless claims despite a high number of high-profile layoff announcements?

Hiring trends have remained strong, though openings are dwindling. In February, the total number of payrolls increased by 275,000, well in excess of the 198,000 new jobs that analysts were expecting. With that said, the jobs report, like many government reports, is subject to revision, and the December and January revisions saw sizable reductions.

Health care hiring has continued at a feverish pace, adding 66,700 jobs during February. The hiring trends also hit the hospitality space, with food services and drinking places, better known as bars and restaurants, seeing payrolls increase by 41,600 in February.

The increases in the latter highlight the bifurcation in layoffs and where hiring is taking place. Most of the layoff announcements have occurred in white-collar jobs, especially in the tech industry, and the additional hiring at bars and restaurants highlights the fact that individuals are in need of a job to generate some level of income.

The unemployment rate saw an unexpected and fairly sizable increase of 20 basis points, up to 3.9%. The unemployment rate is up 30 basis points from where it was this time last year. What is interesting is the business cycles and monetary cycles have become disconnected. The Federal Reserve has undergone a period of rapid quantitative tightening, raising interest rates by over 500 basis points in 12 Federal Open Market Committee meetings from March 2022 through July 2023. A normal reaction to this tightening schedule would be a rapid increase in unemployment, but that hasn't been the case as interest rates are more than double pre-pandemic levels and the unemployment rate is up just 30 bps.

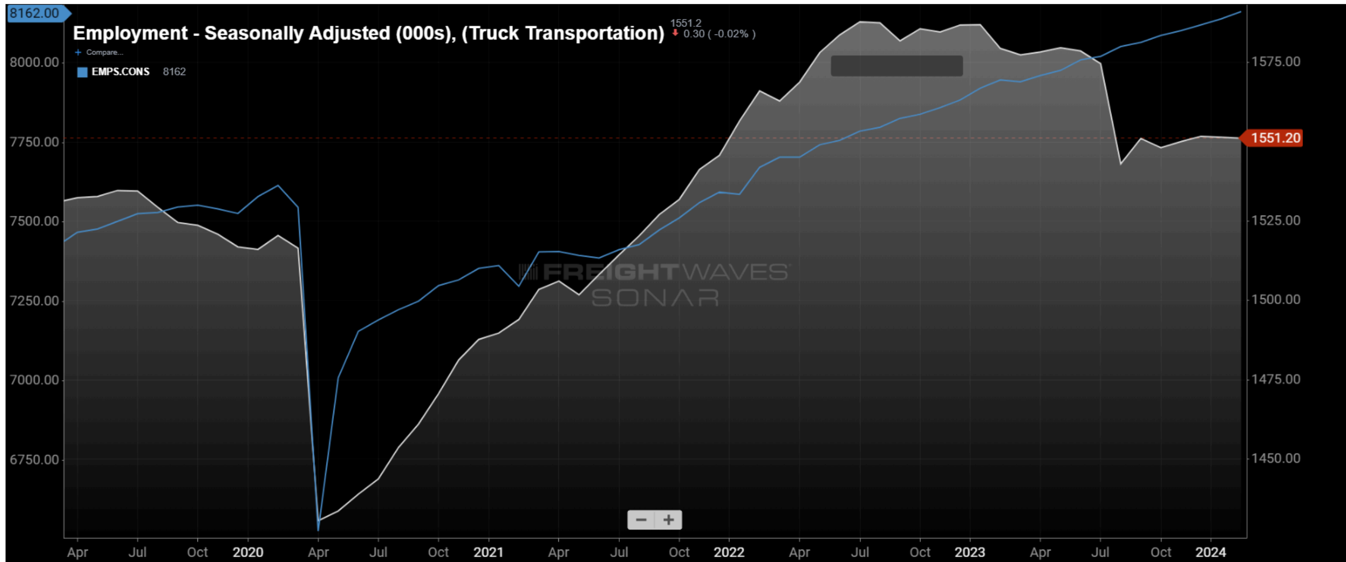


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (blue, left axis).

The transportation sector experienced fairly strong growth in the number of payrolls in February, but much of the growth was from the couriers and messengers subsector. The overall transportation sector of the economy added 19,700 jobs during February. The sector has 6,511,400 payrolls, down 76,600 from the same period last year. The couriers and messengers subsector was the primary area of growth, adding 17,300 payrolls during the month.

The oil and gas sector saw a slight reduction in the number of payrolls in February. The sector saw the number of payrolls decrease by 600 in February. Total oil and gas sector payrolls are currently 119,100, up 2,800 over the past year.

The construction industry continues to expand the number of employed individuals as payrolls grew fairly significantly in February. The construction industry added 23,000 individuals to payrolls in February, to bring total employment in the industry to 8,162,000, up 215,000 compared to the same period last year. The growth in February came from growth in the heavy and civil engineering construction subsector, which grew payrolls by 12,500 in the month.

The number of job openings continued to decline in January. Openings in January fell by 26,000, to 8,863,000. With the continued drop, there were 1.44 openings per unemployed individual in January.

The construction industry reduced the number of job openings fairly significantly in January. In January, the number of job openings in the construction industry fell by 21,000 m/m. The construction industry had 413,000 openings in January, and compared to January 2023 there are 120,000 more openings in 2024, or 41%.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — showed a significant decrease in January. Openings in January came in at 1,051,000, a decrease of 267,000 from the previous month. With the decrease, there were 743,000 fewer openings in the sector compared to January 2023. Retail trade reduced the number of openings by 170,000 in January, while wholesale trade's reduction in openings was far less severe as openings dropped by 31,000 in January. The trade, warehousing and utilities subsector experienced a sizable drop in the number openings, falling 66,000 m/m.

The quit rate, which is the number of resignations during the month as a percentage of total unemployment, fell slightly in January to 2.1%. The quit rate for the trade, transportation and utilities sector increased by 0.2% m/m to 2.4%. The quit rate for the construction sector was unchanged in January at 1.8%.

Housing and construction

With inflation still higher than the Fed's target of 2%, the likelihood of interest rate cuts continues to be pushed later in the year, which could also mean fewer cuts in 2024 than many expected. Even with that potential risk, housing had a decent start in March. According to the Mortgage Bankers Association's Weekly Mortgage Application Survey for the week ending March 8, mortgage applications increased by 7.1%.

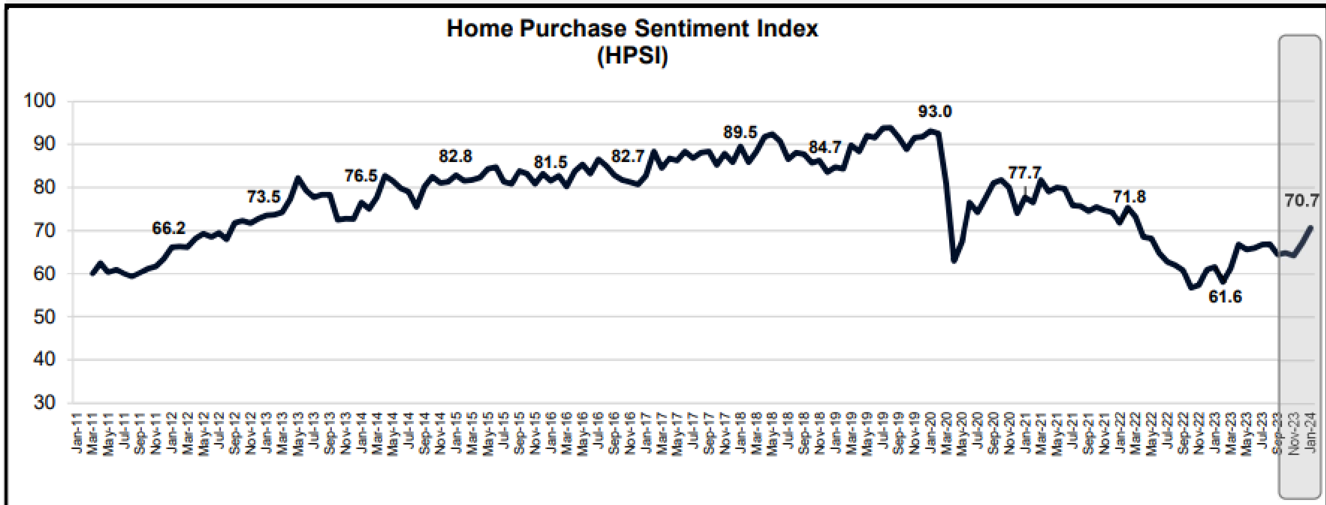
Another driver of housing has been the reversal in mortgage rates in March. With the Fed not raising interest rates again, mortgage rates have slowly been trending back down closer to the federal funds rate. Per Freddie Mac, the average 30-year fixed-rate mortgage currently stands at 6.6%, down 35 basis points from the previous month but 45 basis points higher than it was this time last year.

Despite increases in mortgage rates throughout February, Fannie Mae's Home Purchase Sentiment Index (HPSI) rose another 2.1 points m/m to 72.8. The increase was slower than that of the previous two months but brought the overall index to the highest level since March 2022.

Doug Duncan, Fannie Mae's senior vice president and chief economist, in the March 7 release of the HPSI stated, "If their [consumers'] expectations come true and rates move closer to the 6-percent mark by the end of 2024, as we currently expect, then it's likely that consumer sentiment on both sides of the transaction will improve, perhaps leading to a further thawing of the housing market."

The Home Purchase Sentiment Index

The HPSI increased by 3.5 points to 70.7 in January.



Source: Fannie Mae Home Purchase Sentiment Index.

The optimism stems almost entirely from consumers expecting mortgage rates to decline over the next 12 months. Of the respondents to Fannie Mae's survey, 36% expect that mortgage rates will fall over the next 12 months, up from 22% in November. This is coupled with the 28% of respondents that expect mortgage rates to increase over the next year, the smallest percentage expecting an increase in over three years.

After softness in housing arrived in January, likely aided by winter weather that swept the nation, housing, especially housing starts and permits, was a bright spot in February. Total housing starts increased by 10.7% m/m in February to a seasonally adjusted annual rate (SAAR) of 1,572,000. The increase in overall housing starts brings the SAAR to the third-highest level of the past year, just short of May and December. Total housing starts in February were up 5.9% y/y.

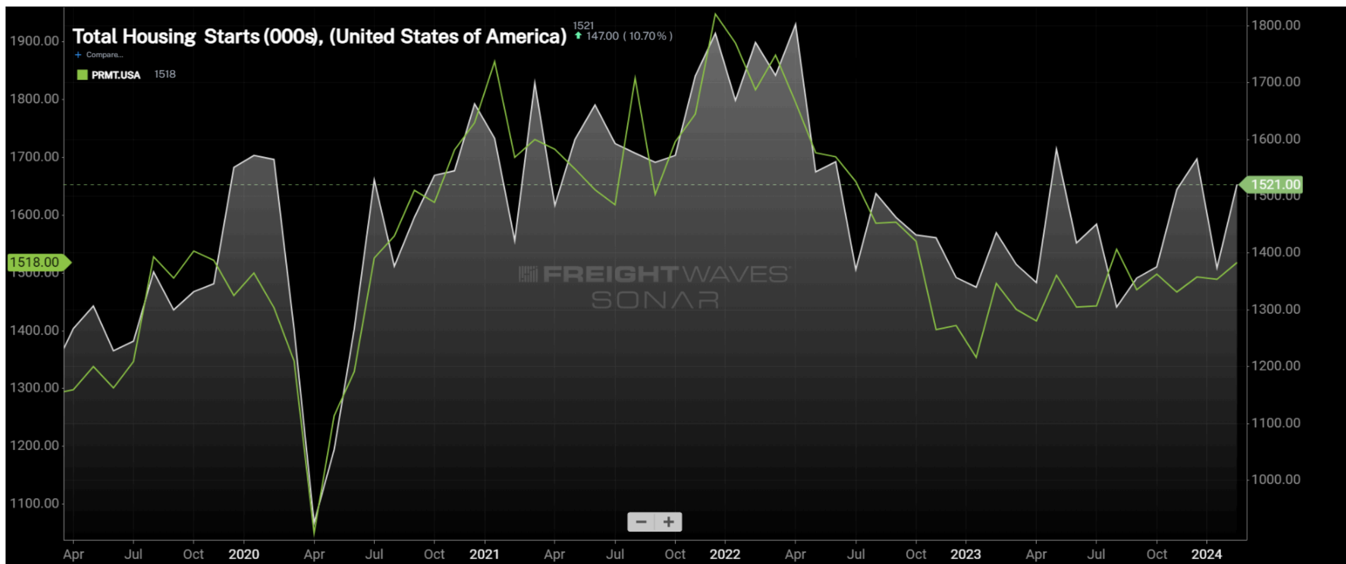
The increases in housing starts were widespread as both single-family and multifamily starts were higher m/m.

Single-family housing starts rose by 11.6% m/m in February, up more than 35% from February of last year. With the increase in single-family starts in February, the SAAR reached the highest level in the past year, a positive for future demand. Multifamily housing starts were up 8.6% m/m but are still down 35.9% compared to the same period last year.

The growth in housing starts stemmed solely from two regions: the South and Midwest. Total housing starts in the Midwest increased by 50.7% m/m, inflecting positively y/y, now up 8% y/y. Single-family starts in the Midwest were up 40.2% m/m in February and over 80% y/y. In the South, total housing starts increased by 15.7% m/m.

Housing starts in the Northeast and the West fell by 10.3% m/m and 7.9% m/m, respectively. The declines in the West were driven by declines in single-family starts, which were down 15.4% m/m. In the Northeast, it was quite the opposite. Single-family starts rose 16.4% m/m.

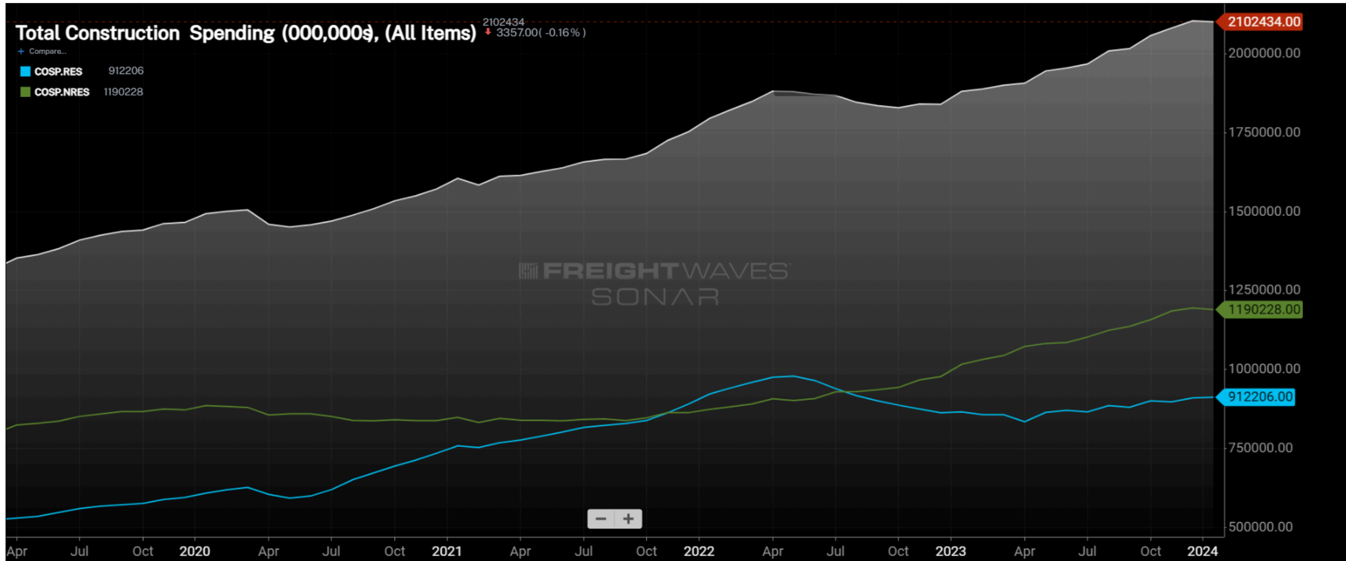
In addition to housing starts, permits saw a healthy increase in February, rising 1.9% m/m and 2.4% y/y. Permit levels are just shy of the highest level of the past year. Single-family permits rose by 1% and are 29.5% higher than in February last year.



Source: FreightWaves SONAR. Total U.S. housing starts (white) and total new build permits (green).

The positivity around housing flowed through to existing home sales. According to the National Association of Realtors, existing home sales grew by 9.5% m/m in February, thanks to growth in the Midwest, South and West regions, while sales in the Northeast were unchanged. Even with the monthly increase, existing home sales were still down 3.3% y/y in February.

The average purchase price for an existing home remains below $400,000 but continues to show y/y strength, driven more from the supply side of the market given demand was down y/y. The median existing home price was $384,500 in February, up 5.7% y/y.



Source: FreightWaves SONAR. Total construction spending (white), nonresidential construction spending (green) and residential construction spending (blue).

Construction spending slowed in January but remains well above $2 trillion. Total construction spending in January fell by 0.2% m/m to $2.1 trillion, but even with the monthly decrease, total construction spending was 11.7% higher than it was in January 2023. The annual increase is driven by both residential and nonresidential construction.

Residential construction experienced an uptick in January, continuing to approach $1 trillion. Residential construction increased by 0.2% m/m in January, totalling $912.2 billion, up 5.4% y/y.

Nonresidential construction spending lagged, falling by 0.4% m/m in January, but was still 17.1% higher than it was in January 2023. Nonresidential spending has been driven largely by many industries, but the largest increase over the past year has been in manufacturing spending, which is up 36.6% y/y, totaling $224.9 billion.

Oil market

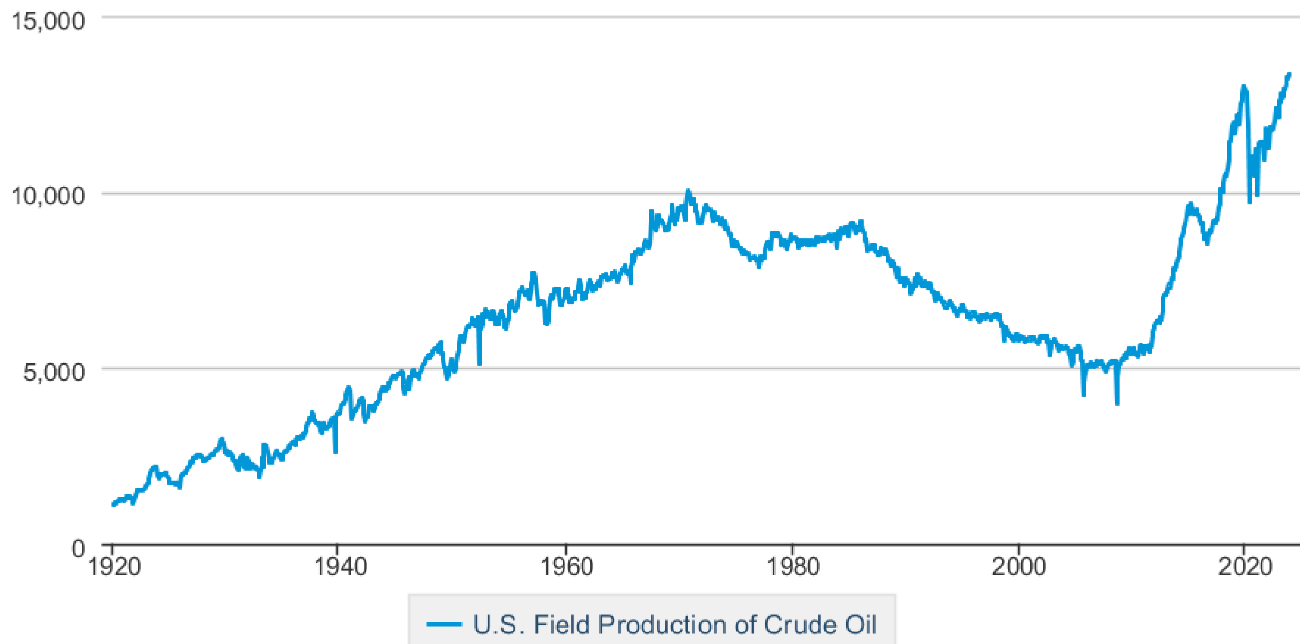
A coalition of OPEC+ members announced that they will extend their voluntary production cuts to the end of June. These cuts, which include Saudi Arabia's cut of 1 million barrels per day (bpd) and Russia's reduction of 500,000 bpd, were previously set to expire by the end of March. Saudi Arabia is also withholding a further 500,000 bpd until the end of 2024, setting its projected output at 9 million bpd until the end of Q2. While this decision did not surprise traders, it did put additional upward pressure on the floor under oil prices.

Saudi Arabia — and thus by extension, OPEC+ — has retained a laser focus on global prices as the sole determinant of its decision to unleash or withhold its production. But this strategy comes at a steep cost over a longer period of time, both in the sense that Saudi Arabia is ceding market share to other producers (like the U.S.) and because Saudi Arabia has invested heavily in its production infrastructure in recent years, making such investments fruitless as this capacity stays idle.

Moreover, Saudi Arabia has previously shown its willingness to bear the brunt of this missed potential for revenue, initially characterizing its cut of 1 million bpd as a “lollipop” to oil traders and other OPEC+ members. But Saudi Arabia has ambitious plans beyond petrochemicals, such as the $500 billion Neom project. Its investments toward a diversified future made the kingdom’s Public Investment Fund the top spender among global sovereign wealth funds in 2023. Thus, Saudi Arabia is between a rock and a hard place: Either it recoups some money for its oil production, albeit at prices lower than desired, or it forgoes its position as the world’s top exporter of oil, perhaps in abdication to the U.S.

In February, gross domestic oil production rebounded to 13.07 million bpd from January’s lull of 12.62 million bpd, rising by 450,000 bpd m/m. Production figures from previous months continue to be revised, but January’s data was roughly spot on from an initial reading of 12.62 million bpd.

In a prior print of its Short-Term Energy Outlook, the U.S. Energy Information Administration (EIA) forecast that domestic crude oil production would rise 620,000 bpd m/m to 13.25 million bpd. While the EIA overshot the mark on both the monthly gain as well as the final reading, it retains a growing optimism about production rising in 2024, especially as oil demand is set to hit new all-time highs in the coming months.



After factoring in February’s gains and revisions to prior months’ data, the EIA predicts that domestic crude oil production set an all-time high in December that will not be surpassed until October 2024

at the earliest. The EIA continues to predict that the full years of 2024 and '25 will outpace 2023's production average of 12.93 million bpd. In March, the EIA projects that crude oil production will rise 30,000 bpd m/m to 13.1 million bpd.

The Baker Hughes active rig count is thought to signal future demand for drilling as well as inputs into the oil industry. The Baker Hughes active rig count for the U.S. as a whole totaled 624 rotary rigs as of March 22. This latest count marks a brutal decline of 17.7% y/y, continuing a series of y/y losses not sustained since April 2021.

Breaking that down into basins, Enverus, a leading SaaS company focused on the energy market, releases daily active rig counts.

Basin	Daily Active Rig Count	1-mo. Change	M/M Percent Change	1-yr. Change	Y/Y Percent Change
Anadarko Basin	56	3	5.7%	-20	-26.3%
Appalachia	44	0	0%	-6	-12%
DJ Basin	12	0	0%	-6	-33.3%
Gulf Coast Basin	70	2	2.9%	-34	-32.7%
Permian Basin	291	1	0.3%	-51	-14.9%
Williston Basin	37	3	8.8%	-5	-11.9%
San Joaquin Basin	6	0	0%	4	150%
Other	151	-3	-1.9%	-49	-24.5%
Total	**667**	**6**	**0.9%**	**-167**	**-20%**

Source: Enverus daily active rig count as of March 24.

A record-setting wave of mergers and acquisitions in the Permian Basin is not quite over, according to Enverus Intelligence Research. Q4 2023 saw upstream M&A activity reach an all-time high of $144 billion, pushing the full-year value to more than $190 billion. "After a decade of lowered investment in exploration and with the major U.S. shale plays largely defined," said Andrew Dittmar, senior vice president at Enverus, "M&A has become the preferred tool to replace declining reserves and secure longevity in these companies' profitable upstream businesses." While it stands to reason that recent consolidation in the Permian would indicate a slowdown of such mega-deals, Enverus notes that the challenges presented by rising deglobalization make foreign acquisitions less attractive, driving interest and money back to U.S. shale.

Crude prices top $80/bbl at start of March, with uneven growth in the back half of the month.

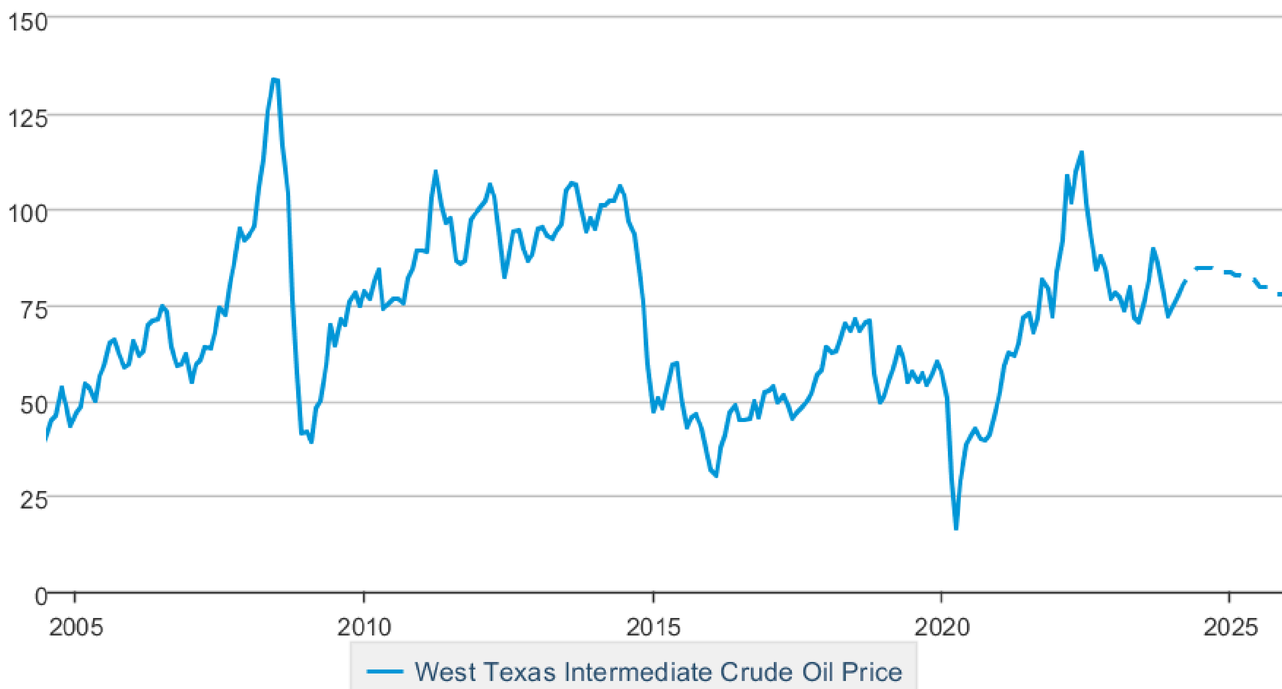
Oil prices started the month at their highest level since last November but soon encountered headwinds from China. At the year's opening of China's National People's Congress, markets expected to hear announcements of comprehensive stimulus packages. Instead, Premier Li Qiang stated the government's intention to "maintain policy focus" with current restrictions in place, fearing a reprise of the 2007-8 global financial crisis. The China National Petroleum Corp. (CNPC) has forecast that high domestic electric vehicle consumption will weigh on Chinese oil demand in 2024, which the CNPC predicts will grow 1% y/y — a far cry from 2023's meteoric growth of 11.5% y/y.

But the CNPC also forecasts that China's domestic refining capacity will rise 2.7% y/y in 2024, as two mega-projects should come online later in the year. Since these refiners will want to seek a return on their investment, China's overall demand could benefit more from refining activity than it would suffer from waning consumer utilization. Given the aforementioned restraints on fiscal policy, China

might pivot toward more exports of distillate products: The EIA has stated that inventory of crude and other liquids among countries in the Organization for Economic Cooperation and Development is currently lower than the five-year average, and larger-than-expected product draws in the U.S. have put some upward pressure on oil prices.

For now, prices of West Texas Intermediate crude (WTI) — a domestic benchmark — are up roughly $10/bbl over early February's low of $72.28/bbl, though such gains are only recent developments. Data from China's industrial economy came in hotter than expected, further supporting the belief that the country will double down on refining in order to compensate for Ukrainian drone attacks on Russia's largest refining complex, which took nearly 700,000 bpd of refining capacity out of commission unexpectedly.

According to EIA projections, WTI will near $85/bbl this summer, though traders see even more potential for growth.



Data source: U.S. Energy Information Administration

The EIA's latest Short-Term Energy Outlook, published in early March, became increasingly bearish on near-term WTI prices. In March, the EIA had forecast that Brent spot prices would command an average premium of $4.75/bbl over WTI in 2024 and of $5/bbl in 2025. In March, the spread widened slightly to one of $4.85/bbl in 2024, though the EIA did see Brent pulling back in 2025 with a spread of $4.50/bbl. Even so, the EIA continues to believe that global oil consumption will outpace supply in the first half of 2024.

After languishing in a bearish outlook during most of 2023, commodity traders are steadily gaining confidence that oil prices in 2024 will be dictated primarily by an imbalance between supply and demand. Goldman Sachs, citing the strong potential for global interest rate cuts this year, forecasts that commodity prices will bring returns of up to 15%, with Brent prices likely topping $100/bbl in the not-so-distant future.

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