

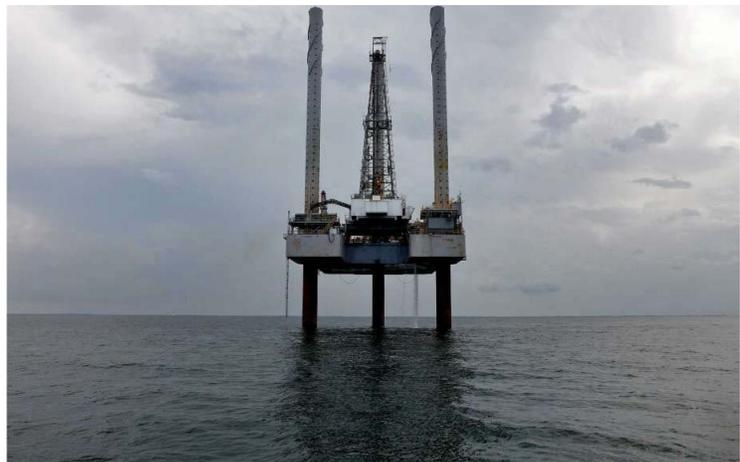
# Oil sector shows signs of life after a few more painful months

**Even as energy sector remains in distress, market indicators drive hope for a turnaround**

By **Jordan Blum** | April 22, 2016 | Updated: April 22, 2016 9:51pm

Photo: Aaron M. Sprecher, 705035

A Hercules Offshore Inc. jackup shallow-water drilling unit stands idle in the Gulf of Mexico off the coast of Cameron, Louisiana, U.S., in July 2010, after the federal government imposed a deepwater drilling moratorium and slowed new shallow water permits in the wake of the BP Deepwater Horizon oil spill. Photographer: Aaron M. Sprecher/Bloomberg



Energy companies are suffering through their darkest period yet, reporting another quarter of plunging earnings, shrinking cash, and widespread layoffs. But there is growing

optimism that the oil bust is nearing its bottom - and possibly poised to begin a slow turnaround as early as this summer.

Even as oil field services giants Halliburton and Schlumberger said they cut a combined 14,000 over the past three months, oil prices hit their highest levels since November on Friday. Production in the United States and almost everywhere else is declining as demand for gasoline and other petroleum products grows. The International Energy Agency projects world oil demand to exceed current production by September.

"This is not a head fake. We've seen the lows in oil prices," said Bill Herbert, senior

energy analyst at Piper Jaffray & Co., an investment research firm. "It's a pretty stark contrast with the conditions on the ground."

Driving the optimism is the old cliché that the solution to low oil prices is low oil prices, which ultimately force supply back in line with demand. But getting there is filled with pain.

On Friday, Schlumberger, which reported that its profits fell by nearly half from a year ago, said it slashed another 8,000 jobs in the first quarter, pushing layoffs since the slump began nearly two years ago to more than 40,000. Halliburton has cut more than 30,000 jobs during the downturn, including the 6,000 it disclosed Friday.

"They're in the trenches and they're just getting buried right now," said Marshall Adkins, director of energy research at Raymond James in Houston. "But that's what creates the solution."

### ***Slow, but perhaps soon***

More job cuts and bankruptcies are on the way, but many analysts said they expect the worst to be over sometime after June. Any recovery, however, will be slow as the industry works out the excesses of the last oil boom and reduces record stockpiles. Moody's Analytics, the economic research arm of the ratings agency, forecasts that crude won't reach \$60 a barrel again until early 2018.

Oil peaked at more than \$100 a barrel in June 2014, driving a rush to drill. Using technologies that allowed companies to squeeze oil out of once impenetrable shale deposits, US production soared, flooding markets with new supplies and driving other major oil producers, such as Saudi Arabia, to keep pumping to maintain their market shares. At the same time, the global economy slowed and demand for energy slumped.

The result: a worldwide glut and falling prices. The industry has been adjusting ever since waiting for supply and demand to come back into balance.

Analysts say there's evidence that's happening. U.S. production last week fell below 9 million barrels a day for the first time since October 2014 as the number of rigs actively drilling for oil continued to slide. Another eight oil rigs shut down over the past week, leaving just 351 oil rigs left nationwide, according the Houston oil services company Baker Hughes. The oil rig count is now down more than 78 percent from its peak of 1,609 in October 2014.

### *'Insatiable' demand*

Meanwhile, the global economy is stabilizing after a recent period of turmoil, economists said, forecasting greater demand for oil. In the United States, the economy is expanding at a steady pace, with the unemployment rate falling to 5 percent in March and wages finally starting to rise. With low prices at the pump, gasoline consumption is up 3 percent from a year ago, according to the Energy Department.

"It's alarming almost that the gasoline demand is so much higher," said Patrick DeHaan, senior petroleum analyst for GasBuddy, a research and price surveying firm. "It's insatiable."

On Friday, crude oil posted its third consecutive weekly gain in New York trading. The U.S. benchmark for crude settled at \$43.73 a barrel, up 55 cents or 1.3 percent. Since its low of \$26.21 a barrel on Feb. 11, oil prices have climbed more than 60 percent.

As efficiencies have risen and services costs have come down, many companies can profit with oil at or above \$50 a barrel, analysts said. Some project that the rig count will begin to increase again in the fall.

Analysts said conditions now are different than the spring of 2015, when prices climbed temporarily only to plunge again. Since then, more companies have gone bankrupt, and more rigs have been shut down, meaning that new production won't come back on line quickly and swamp prices.

## *Many production cuts*

Even if the Organization of the Petroleum Exporting Countries, including Iran, increases production this year, combined production in the United States and other non-OPEC nations could be down about 1 million barrels a day this year, said Adkins, the Raymond James analyst. Mexico, China, the United Kingdom, Colombia, Argentina, Malaysia and even Iraq are on track to cut oil production this year.

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