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STATE OF THE INDUSTRY

REPORT

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May 29, 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.

Inflation remains top of mind for Federal Reserve officials, who have made it clear that they are unwilling to cut interest rates until there are positive signs that inflation is moving to the target rate of 2%. The higher interest rate environment has created challenges for capital expenditures as well as housing.

Removing the near-term possibility of rate cuts has been a headwind for the construction sector. Housing demand was below year-ago levels in April, as the patience of would-be homebuyers and construction firms alike in waiting for lower interest rates is wearing thin. April's housing starts saw notable weakness in both the single- and multifamily markets.

Domestic oil production fell in April, though previous months were upwardly revised to show a robust production environment. The U.S. Energy Information Administration sees gradual but steady growth in production until Q3 2024, at which point production should spike to new all-time highs.

Crude oil prices reacted little to turmoil in the Middle East, as de-escalatory efforts between Israel and Iran quelled fears of an expanding war. Demand weakness from China continues to be a headwind against OPEC's goal of higher prices. The International Energy Agency has shifted its date for "peak oil demand" forward from 2030 to 2028, though this timeline is viewed with some skepticism by industry analysts.

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	282 (-13.8%)
Gulf Coast Basin	65 (-23.5%)
Anadarko Basin	49 (-16.9%)
Total	**618 (-17.7%)**

Crude oil prices per barrel (y/y change)

WTI crude	$79.77 (+2.64%)
Brent crude	$83.89 (+8.98%)
Brent WTI Spread	**$4.12 (-7%)**

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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 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 falling rapidly, 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 have to report the data only 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 have to report this number only biennially, 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 having to report only 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%.

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, having to report counts to the FMCSA only 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 growth of the U.S. economy slowed in the first quarter as GDP increased by 1.6%, short of expectations of 2.4% growth. This slowdown is a result of higher interest rates, which are one of the only available levers that the Federal Reserve has in its arsenal to tame inflation.

During the most recent Federal Open Market Committee (FOMC) meeting, Fed Chairman Jerome Powell announced that the target range for the federal funds rate would remain stable once again, for the fifth consecutive time. The range remains 5.25% to 5.5%.

The Federal Reserve has continued to insist that its focus has been to curb inflation while maintaining maximum employment. At a recent appearance in Amsterdam, Powell stated that inflation has been higher than expected and that interest rates will likely stay higher for longer than many anticipated. Powell highlighted continued strength in the labor market, though the unemployment rate did creep slightly higher in April. The Fed chairman downplayed the possibility that the next move by the FOMC would be an interest rate hike

The Consumer Price Index, one of the most widely used metrics for measuring inflation, increased 0.3% month over month in April, slightly lower than the 0.4% many were expecting. The 12-month running total for the CPI came in at 3.4%, a slight decline from the 3.5% reading in March, but it is 40 basis points higher than the lowest level in the past year (June 2023).

Core inflation, which is the CPI excluding the more volatile food and energy prices, increased by 0.3% m/m as well. The 12-month running total for the Core CPI came in at 3.6%, which is lower than it has been at any point in the past year.

Inflation in food prices has largely stalled out. Food prices were flat m/m in April following a 0.1% m/m increase in March. Overall food prices are 2.2% higher than they were 12 months ago. Food-at-home prices actually declined by 0.2% m/m in April and are only 1.1% higher than they were in April 2023. At the same time, food-away-from-home prices increased by 0.3% m/m and are 4.1% higher than they were last year.

The impacts of higher food prices away from home showed up in April's retail sales figures. Grocery store spending was 0.6% higher m/m and up 1.9% y/y, while spending at bars and restaurants was up just 0.2% m/m, though it was up 5.5% y/y. It is important to note that retail sales figures aren't adjusted for inflation, so while bar and restaurant spending looks positive y/y, it is challenged due to the higher prices.

The sentiment that higher prices at bars and restaurants were causing people to eat more at home was echoed by the country's largest retailer, Walmart. On Walmart's first-quarter earnings call, John Furner, president and CEO of Walmart U.S., said, "We see an even larger spread between eating at home and eating out."

Volatility in energy prices reigns supreme after energy prices continue to climb higher following declines throughout the final months of 2023. Overall energy prices increased by 1.1% m/m, matching March's increase and 2.6% higher y/y. Gasoline prices were one of the main components driving higher overall energy prices. Gasoline prices increased by 2.8% m/m and were 1.2% higher y/y in April.

Shelter prices, which are the largest component of the CPI, continue to rise steadily. Shelter prices increased by 0.4% m/m in April, the third consecutive monthly increase of 0.4%. Shelter prices are 5.5% higher than they were in April 2023.

So while prices increased in April, retail sales were stable. Total retail sales were flat in April and 3% higher than they were during the same period a year ago. Removing gasoline and motor vehicle sales, retail sales dropped by 0.1% m/m in April but were 3.5% higher y/y.

Nonstore retail sales suffered the most during the month, dropping by 1.2% m/m as e-commerce sales took a breather. Even with the slowdown, nonstore retail sales were 7.5% higher than they were during the same period last year.

Labor market

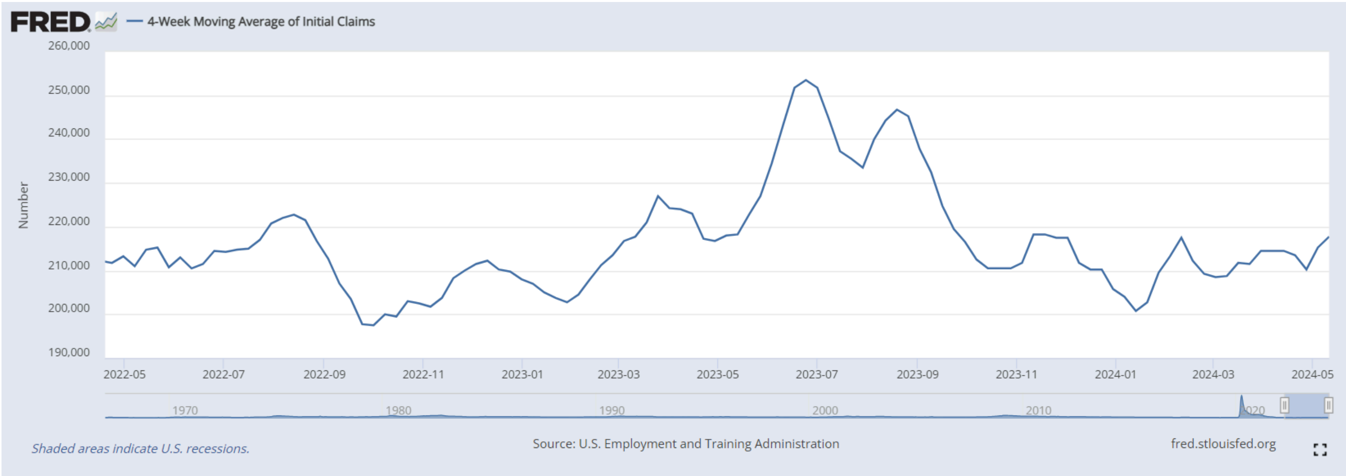


Chart: FRED, four-week moving average of initial jobless claims.

The labor market remains fairly resilient as the jobs report in March was strong and initial jobless claims have started to level off.

Initial jobless claims dropped slightly from the previous week and are slightly lower than they were this time last year. For the week ending May 11, the most recent week for which data is available, initial jobless claims were 10,000 lower week over week at 222,000. This reading was above expectations of 219,000. The four-week moving average has been inching higher, now at the highest level since the week ending Nov. 18, 2023.

Continuing claims have maintained their upward trend. For the week ending May 4, the most recent week for which data is available, continuing claims totaled 1,794,000, an increase of 13,000 week over week and 4.9% higher year over year.

April's jobs report was underwhelming, coming up short of analysts' job growth expectations. Nonfarm payrolls increased by 175,000 in April, 65,000 short of consensus estimates of 240,000 added jobs during the month. The unemployment rate increased to 3.9%, matching where it was in February and 10 basis points higher than it was in March. The labor force participation rate remained stable at 62.7%, just 10 bps higher than it was this time last year.

The health care sector continues to be an area of job growth. The health care and social assistance sector added 87,000 jobs during April, the largest gain of any of the sectors tracked by the Bureau of Labor Statistics. Retail trade and transportation also experienced fairly sizable increases. Retail trade added 20,100, with much of the growth stemming from general merchandise retailers (9,500 added jobs in April) and building material and garden equipment dealers (6,500 added jobs). The transportation sector added 21,800 jobs, with the warehousing and couriers sectors adding 7,600 jobs each during the month.

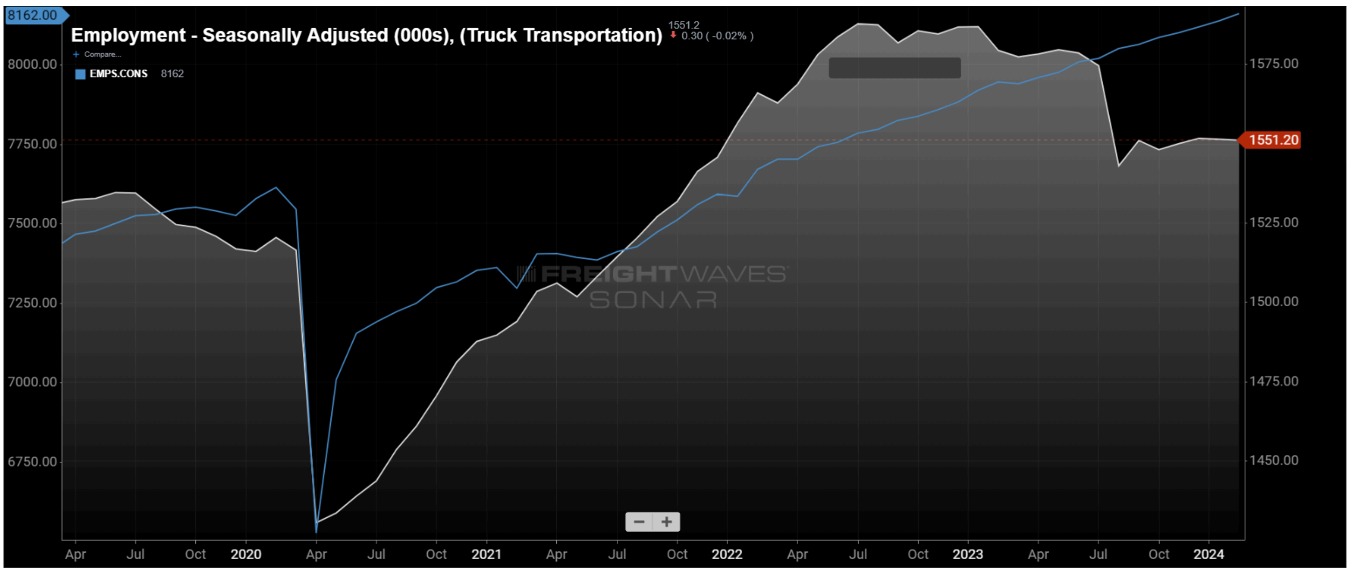


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (blue, left axis).

The transportation sector continued to see growth in the number of payrolls in April, far more robust than in March. The overall transportation sector added 21,800 jobs during April, compared to the over 5,900 added in March. The sector has 6,575,800 payrolls, down 3,300 from the same period last year. The courier and warehousing sectors were the primary areas of growth as each added 7,600 jobs during April.

The oil and gas sector experienced a slight decrease in the number of payrolls in April. The sector saw the number of payrolls fall by 700, erasing all of March's increase. Total oil and gas sector payrolls are currently 118,500, up 1,600 over the past year.

The construction industry is rapidly expanding payrolls after another month of fairly strong growth. The construction industry added 9,000 individuals to payrolls in April, slowing from March's growth. Total employment in the industry was 8,219,000 in March, up 258,000 from the same period last year.

Job openings restarted their decline in March, now down to the lowest level of 2024. Openings in March fell by 325,000, to 8,488,000, over a million openings fewer than the same month last year. Even with the uptick in openings, there were just 1.32 openings per unemployed individual during March, down from 1.44 in January.

The construction industry experienced a significant decrease in the number of job openings in March. In March, the number of job openings in the industry decreased by 182,000 m/m. The construction industry had 274,000 openings in March, down 17,000 from March 2023.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — had another decrease in the number of openings in March. Openings in March came in at 1,064,000, a decrease of 8,000 from the previous month. The reduction in the number of openings was driven by reductions in retail trade, which saw openings decline by 64,000 m/m.

The quit rate, which is the number of resignations during the month as a percentage of total unemployment, fell by 0.1 percentage points in March to 2.1%. The quit rate for the trade, transportation and utilities sector decreased by 0.2%, to 2.3%. The quit rate for the construction section was unchanged in March at 1.9%.

Housing and construction

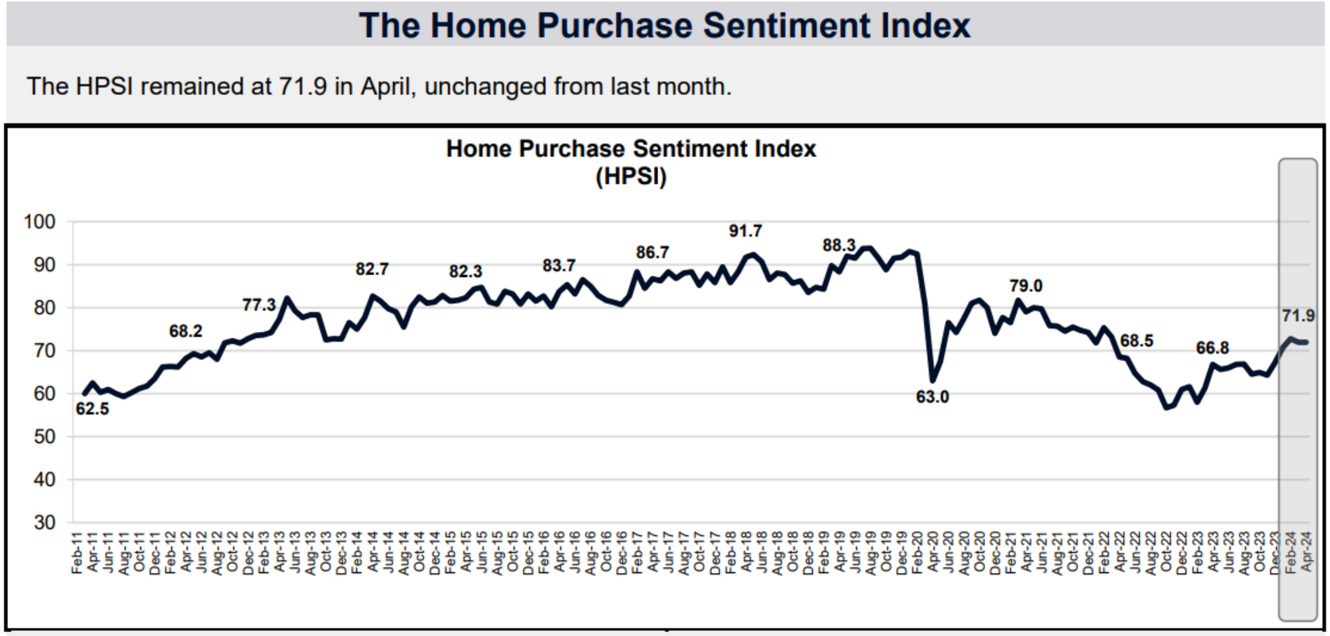
With inflation still higher than the Fed's target of 2%, the likelihood of interest rate cuts continues to be pushed later in the year, which could also mean fewer cuts in 2024 than many expected. Even with that potential risk, housing had a decent start in May. According to the Mortgage Bankers Association's Weekly Mortgage Application Survey for the week ending May 17, mortgage applications increased by 1.9%.

The Fed's decision to pause interest rate hikes but not fully pivot to cuts, yet, created an environment in which mortgage rates rose until early May. The average 30-year fixed-rate mortgage, according to Freddie Mac, has fallen back to 6.94%, falling for the third consecutive week as mortgage rates are now back below 7%, albeit barely. The 30-year rate is now 37 basis points higher than it was this time last year and is down 23 bps from the previous month.

Fannie Mae's Home Purchase Sentiment Index (HPSI) remained stable in April at 71.9.

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 May 7 release of the HPSI stated, "the HPSI, unchanged this month, may have hit another plateau as consumers maintain their 'wait and see' approach to the housing market."



Source: Fannie Mae Home Purchase Sentiment Index.

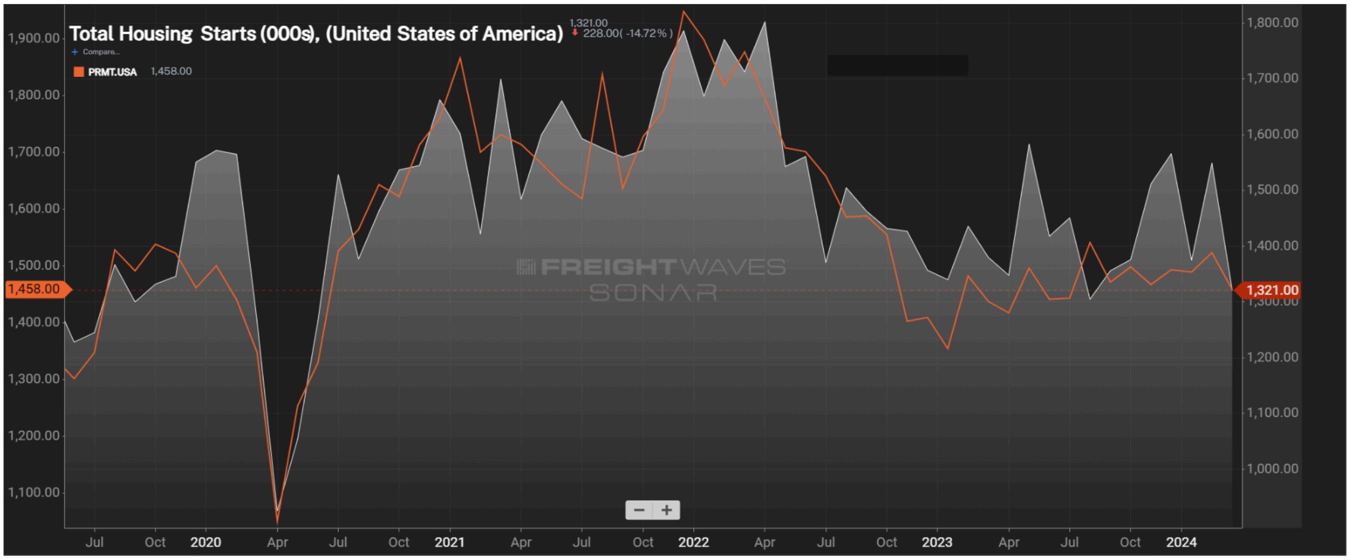
Housing starts, which suffered a significant decline in March, leading to questions about the overall health of the construction sector, recovered in April. Total housing starts increased by 5.7% m/m to a seasonally adjusted annual rate (SAAR) of 1,360,000. While that is a recovery from the previous month, housing starts are now below year-ago levels, down by 0.6%.

Single-family housing starts, which make up over 75% of total housing starts, did suffer their second consecutive monthly decline. Single-family housing starts dropped by 0.4% m/m to a seasonally adjusted annual rate of 1,031,000 — still 17.7% higher than it was this time last year.

Multifamily housing starts, a primary driver of March's drop, saw a sizable jump in April. Multifamily housing starts rose by 31.4% m/m but are still 32.9% lower than they were in April 2023. April's seasonally adjusted annual rate of 322,000 is the second-lowest it has been in the past year.

The South and Midwest continue to show growth in housing construction as housing starts in these regions increased by 10.1% and 19.1% m/m, respectively. While both saw growth overall, it stemmed entirely from multifamily starts as single-family starts in the South and Midwest were down 0.2% m/m and 0.8% m/m, respectively. Even with the slowdown in single-family starts in April, they were still 16.6% higher y/y in the South and 40.9% higher y/y in the Midwest.

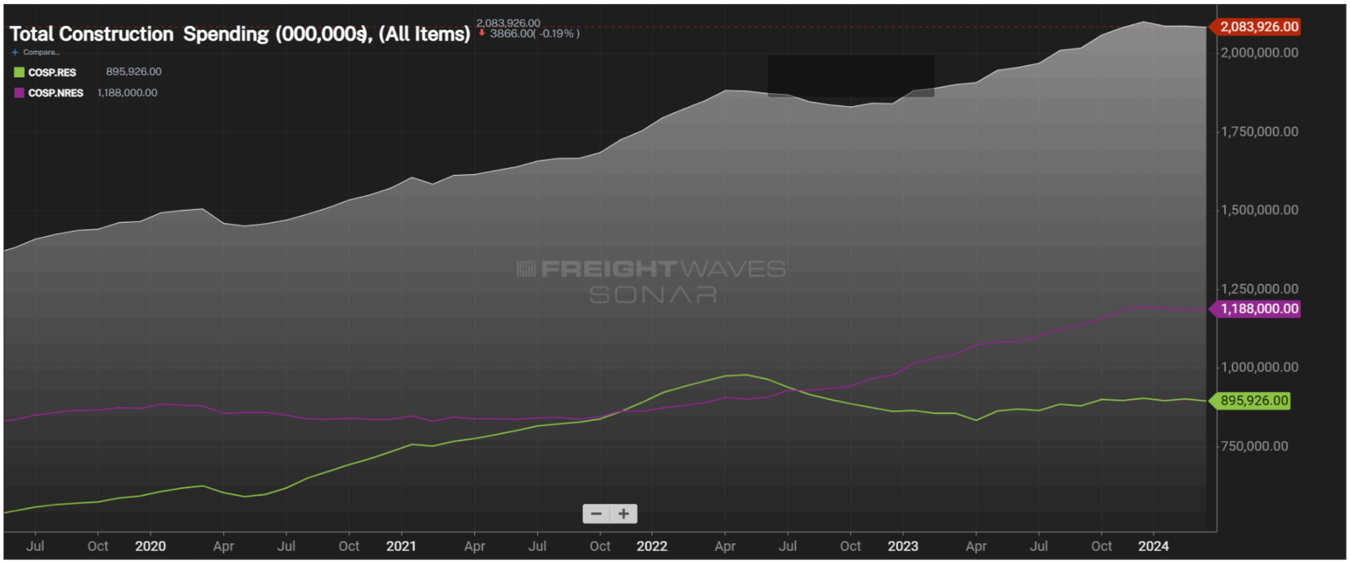
Looking further upstream, there could be slowdowns on the horizon, especially after the summer months. The seasonally adjusted annual rate for building permits fell below 1,500,000 in March and remained there in April, coming in at 1,440,000, the lowest level in the past 12 months. Building permits dropped by 3% m/m in April and were 2% lower y/y.



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

April remained a challenging environment for existing home sales. According to the National Association of Realtors, existing home sales fell by 1.9% m/m in April as sales dropped across all four of the regions across the country. Existing home sales were 1.9% lower than they were in April 2023.

The average purchase price for an existing home continued to show y/y growth. The median existing home price was $407,600 in April, up 5.7% y/y and the highest price ever seen in April.



SONAR: Total construction spending (white), residential construction spending (purple) and nonresidential construction spending (green)

Total construction spending slowed slightly in March, falling 0.2% m/m to $2.08 trillion. Overall construction spending, even with the slowdown in March, was still 9.6% higher than it was a year ago.

Residential construction spending was the primary cause for the slowdown in overall spending. Residential construction spending dropped by 0.7% m/m in March to a seasonally adjusted annual rate of $895,926,000, the lowest it has been in several months. As with overall construction spending, the slowdown in March wasn't enough to turn spending negative on an annual basis. Residential construction spending was 4.5% higher y/y in March.

Nonresidential construction spending saw modest growth, rising 0.2% m/m to a seasonally adjusted annual rate of $1.188 trillion. Nonresidential construction spending was 13.7% higher y/y. The increase in nonresidential construction spending was driven by an increase in manufacturing spending, which is 25.9% higher y/y at a SAAR of $223.4 million.

Oil market

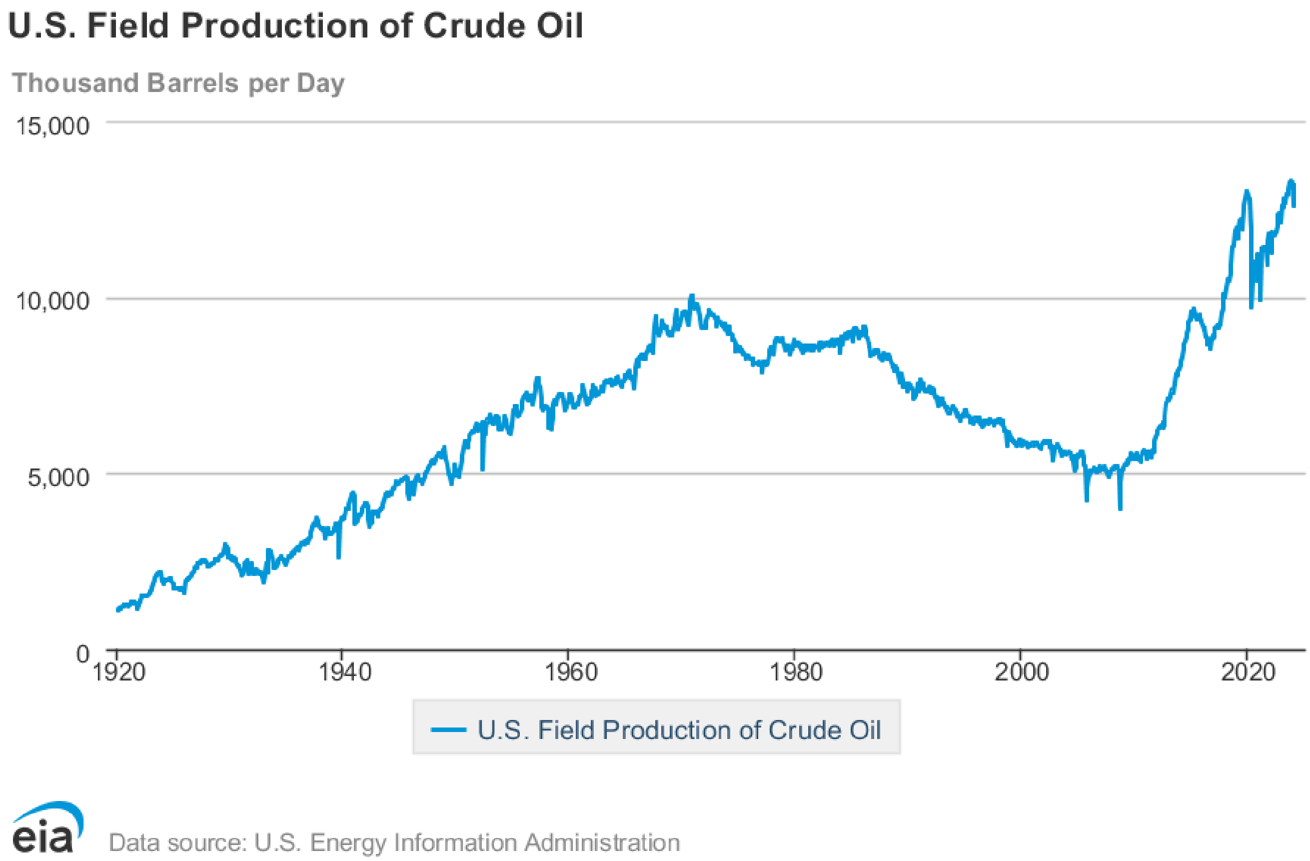
After member state Angola's departure from the group in December, more signs of disunity are appearing among OPEC producers. While Angola represented a small percentage of the cartel's production, the latest challenge from the United Arab Emirates — the third-largest oil producer in OPEC — is a potentially significant blow. The UAE quietly updated its maximum production capacity from 4.65 million to 4.85 million barrels per day (bpd) through official channels, signaling that the nation is dissatisfied with Saudi Arabia's cut-driven leadership. Indeed, the UAE has been vocal about its intentions to boost oil production in recent history, refusing last year to join OPEC's voluntary production cuts.

There have been other rumored challenges to OPEC's stability as well, though these rumors remain unsubstantiated at the time of writing. Kazakhstan reportedly sought to increase its oil production for 2025; the country has since denied such claims. Iraq has stated that it has capacity in excess of current OPEC quotas, which might indicate that it too is dissatisfied with its recent production figures.

All eyes are ultimately set on OPEC's June 1 meeting, where it faces the decision to extend its ongoing cuts or to dial them back. While Saudi Arabia has appeared almost single-minded in its pursuit of higher oil prices, it is nevertheless deeply concerned with the cartel's unity going forward — especially since the U.S. is forecast to reach new production highs in the coming years. That said, the country also has its domestic aims (like the planned mega-city NEOM) that are in need of funding, so chances of another Saudi "lollipop" — a sacrificial cut taken on only by Saudi Arabia in order to boost prices for all OPEC members — are slim.

In April, gross domestic oil production dipped to 13.13 million bpd from March's short-lived plateau at 13.15 million bpd, falling only 20,000 bpd. Production figures from previous months continued to be heavily revised, as March's data was pulled up from an initial reading of 12.93 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 rebound by 110,000 bpd m/m to 13.04 million bpd. While the EIA overshot the mark on the size and direction of April's changes, the massive revisions to March's data allowed April to handily outperform the overall forecast.



After factoring in April's losses and revisions to prior months' data, the EIA now predicts that December's all-time-high domestic crude oil production will not be surpassed until August 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. For May, the EIA projects that crude oil production will fall a further 40,000 bpd m/m to 13.09 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 count for the U.S. as a whole totaled 604 rotary rigs as of May 17. This latest count marks a brutal decline of 16.1% 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	49	-5	-9.3%	-10	-16.9%
Appalachia	34	-7	-17.1%	-19	-35.8%
DJ Basin	10	0	0%	-4	-28.6%
Gulf Coast Basin	65	-1	-1.5%	-20	-23.5%
Permian Basin	282	-6	-2.1%	-45	-13.8%
Williston Basin	33	-4	-11%	0	0%
San Joaquin Basin	3	0	0%	2	200%
Other	142	-19	-11.8%	-37	-20.7%
Total	**618**	**-42**	**-6.4%**	**-133**	**-17.7%**

Source: Enverus daily active rig count as of May 22.

The Federal Trade Commission, known for its aggressive anti-merger stance under current Chair Lina Khan, has approved ExxonMobil's $60 billion acquisition of the Permian-centric E&P firm Pioneer National Resources — on one condition. The FTC has moved to prevent Scott Sheffield, former CEO of Pioneer, from joining ExxonMobil's board after the acquisition, which is the supermajor's largest since merging with Mobil in 1999. The FTC has alleged that Sheffield colluded with OPEC+ countries (including Russia) to coordinate production quotas in order to "pad Pioneer's bottom line … at the expense of U.S. households and businesses" during the COVID-era oil crash of 2020.

Crude prices fall significantly from April's highs, with May peaking at nearly $80/bbl

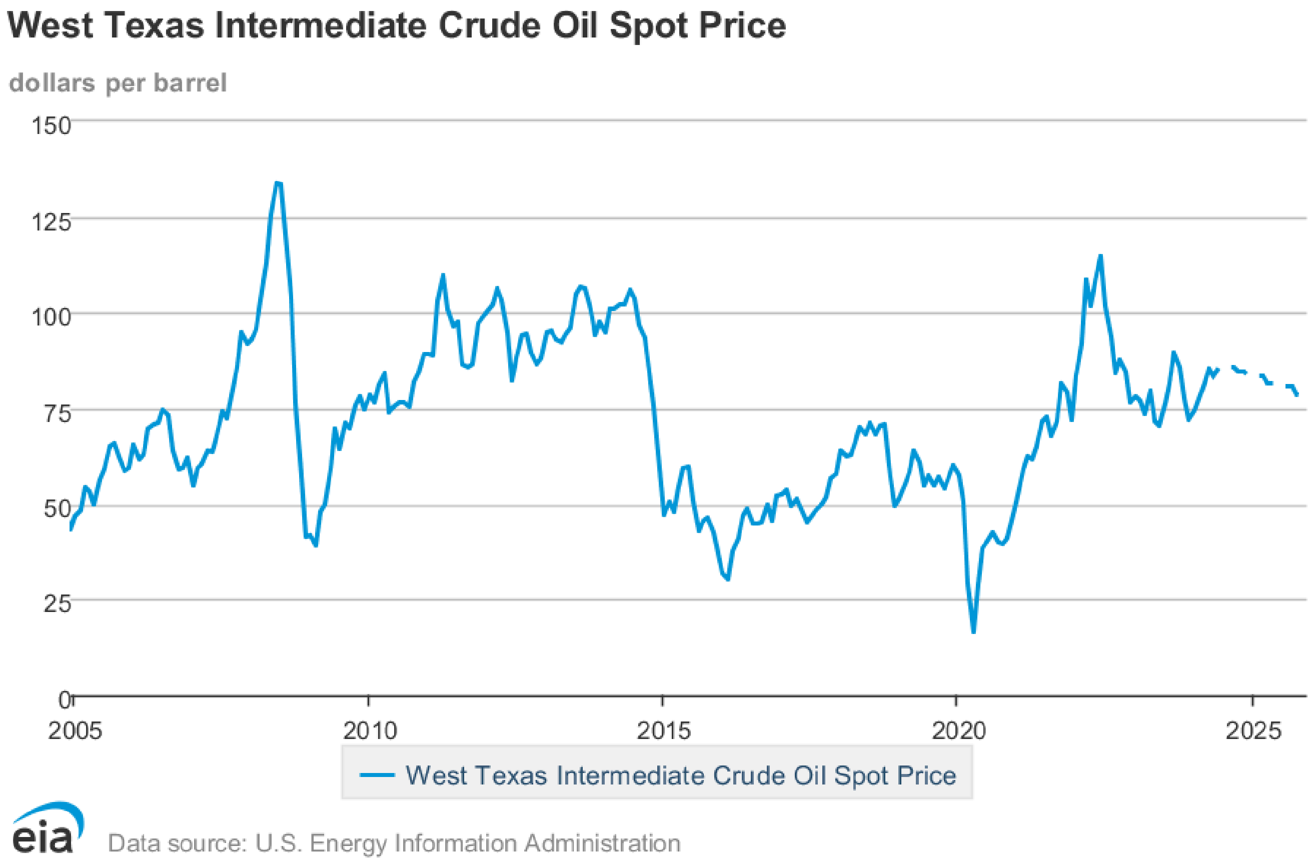
Oil prices received a boost at the start of April from OPEC's tightening measures and military action between Israel and Iran. But the month ended with substantial losses as peace efforts were rumored among Middle Eastern countries and domestic inventories saw sizable builds. With the loss of April's geopolitical risk premiums, May has not seen any upward pressure on oil prices worth noting. An abundance of refinery capacity coupled with weak demand is the factor perhaps weighing most heavily on prices at present.

The International Energy Agency, which is characteristically bearish on future demand, set its date for "peak oil demand" forward from 2030 to 2028, though this timeline is treated with skepticism by many analysts. The IEA has also trimmed its forecast for oil demand this year by 140,000 bpd to 1.1 million bpd. In its latest Monthly Oil Market Report, OPEC — which naturally takes a bullish view on demand — left its 2024 outlook unchanged at 2.2 million bpd.

There is conflicting evidence that prevents the triumph of one view over the other. Take, for instance, China: The country's oil demand in April fell 5% from the month prior but was up 4% over 2023. In that same month, however, industrial output grew 6.7% on a yearly basis, thanks largely to an accelerated recovery in China's manufacturing sector. This recovery, coupled with recently announced stimulus measures for its domestic property sector, more favorably supports a strong demand forecast for the remainder of 2024. That said, China has placed its chips in the production of refined products as of late — refining capacity in excess of demand is one of the key headwinds facing oil prices in the months ahead.

For now, prices of West Texas Intermediate crude (WTI) — a domestic benchmark — are down more than $10/bbl from early April's high of $86.91/bbl. For the past few weeks, Brent and WTI alike have been range-bound, not deviating more than $2/bbl from their current baselines. Given the intractability of inflation and thus high interest rates, some analysts argue that the only possible tailwinds for oil prices are geopolitical shocks. But not even the May 19 deaths of Iran's president and foreign ministers in a helicopter crash — which U.S. and Israeli officials feared could incite Iranian accusations of assassination — were able to budge the needle on oil prices. It is possible that OPEC could extend its current production cuts, which are scheduled to last until the end of 2024, deeper into 2025 at its next meeting. Yet such a move would not only be unpopular among some of its disgruntled members, its efficacy is also dubious, since recent cuts have barely impacted the market.

According to EIA projections, WTI will plateau at $85.50/bbl throughout the summer, but analysts have diverging forecasts.



The EIA's latest Short-Term Energy Outlook, published in early May, became slightly more bullish on near-term WTI prices. In April, the EIA had forecast that Brent spot prices would command an average premium of $4.77/bbl over WTI in 2024 and of $4.50/bbl in 2025. But in May, the spread narrowed almost imperceptibly to $4.74/bbl in 2024, although the EIA did reaffirm its 2025 forecast of a $4.50/bbl premium. The EIA continues to believe that global oil consumption will outpace supply throughout the back half of 2024.

There is little agreement among traders and analysts on the direction of crude prices in the coming months. Citigroup believes that Brent will average $86/bbl in the second quarter, a figure far higher than it has reached in all of May, before sliding to $74/bbl in Q3 — far lower than it has been since June 2023. Bank of America, meanwhile, has taken a more bullish tack: Its latest WTI forecast for

2024 was revised 7% up from the one prior. At an $81.60/bbl average for the year, however, Bank of America is considerably more bearish than the EIA's $83.05/bbl forecast.

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