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New Mexico counting on oil prices holding steady

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New Mexico's lucky number is somewhere in the \$50s.

That is how much a barrel of oil has to fetch for the state's budget forecast to hold.

New Mexico has been producing record quantities of oil, turning the state into a leader in the global energy market, adding jobs and filling government coffers.

But the problem for policymakers is that New Mexico is playing in an international market perhaps more than ever before.

That means gauging the future of the state's fortunes will depend on everything from a trade deal with China to Russia's relations with Saudi Arabia and when the United States will — after a disarmingly long economic expansion — slide into another recession.

As these questions have rattled markets, oil prices have fallen nearly 30 percent since October.

West Texas intermediate crude went from selling for \$70.75 a barrel a couple of months ago to an average of \$50.96 the last week of November.

New Mexico's oil sells for a few dollars less when transportation costs are factored into the price. That differential is narrowing as the oil industry expands pipelines.

But New Mexico will need its oil to sell in the low \$50s per barrel to meet the expectations of state budget writers.

"Oil prices are a little bit lower and expected to remain on the low side," said Duffy Rodriguez, cabinet secretary of the Department of Finance and Administration.

Still, New Mexico's rig count and oil production have been rising. About 110 rigs were in the state at the end of last week, according to the oil field services firm Baker Hughes. And the U.S. Geological Survey released a new assessment last week showing portions of the Permian Basin could potentially double the nation's onshore oil and gas reserves.

Analysts have suggested that the recent decline in oil prices may have hit a floor.

The investment firm BlackRock said Monday it expects prices to stabilize as the major oil-producing countries dial back output and as the growth of oil production slows in the United States.

“Output cuts have put a floor under prices in recent years,” the firm said.

Last month, Morgan Stanley said it expects oil prices to rebound, particularly if trade relations improve between the United States and China.

Indeed, New Mexico may have to count on continued demand in India and China.

“It’s a global market,” Rodriguez said. “We can’t predict how long this boom will last, either.”