

April 8, 2020

**VIA EMAIL**

Chairman Wayne Christian  
Commissioner Christi Craddick  
Commissioner Ryan Sitton  
Railroad Commission of Texas  
1701 North Congress Avenue  
Austin, Texas 78711  
[RRCconference@rrc.texas.gov](mailto:RRCconference@rrc.texas.gov)

**Re: Oil & Gas Docket No. OG-20-00003167** - To Consider the Motion for Commission Called Hearing on the Verified Complaint of Pioneer Natural Resources U.S.A. Inc. and Parsley Energy Inc. to Determine Reasonable Market Demand for Oil in the State of Texas

Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton,

I am a vice president and head of research for crude oil markets at IHS Markit, a global information, analytics and solutions provider. IHS Markit has more than 800 analysts and data scientists covering oil, gas, coal, renewable energy, and chemicals. In addition to the energy industry, our global information expertise includes more than 4,000 analysts and data scientists in leading positions in the finance and transportation industries.

I write in response to the Railroad Commission's notice dated April 2, 2020, regarding the above-referenced matter, in which the Commission invited members of the public to submit comments in advance of the Commission's meeting scheduled for April 14, 2020. I transmit with this letter a report that provides IHS Markit's assessment of the global oil market, including global oil supply and demand. I submit these materials in the interest of contributing research and analysis of global oil market fundamentals on behalf of IHS Markit and not for any client or other company.

I also wish to emphasize that neither IHS Markit nor I take a position on the appropriateness of prorationing or any other regulation pertaining to oil and gas in the State of Texas.

If it would be helpful to the Commission, I would be pleased to testify at the April 14 meeting regarding the current state of the global oil market.

Sincerely,



Jim Burkhard

# Light-speed oil surplus: Emergency conditions for the oil industry

Global Crude Oil Markets Short-Term Outlook

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7 April 2020

**Jim Burkhard**, Vice President, [jim.burkhard@ihsmarkit.com](mailto:jim.burkhard@ihsmarkit.com)

Head of research, Crude oil markets, Energy & mobility

IHS Markit



## Opening statement

This report is IHS Markit's independent assessment of the global oil market. It is not intended to endorse or oppose any oil production policy decisions.

This report reflects IHS Markit analysis and information as of April 7, 2020.

### **About IHS Markit**

IHS Markit is a global information, analytics and solutions provider. IHS Markit has more than 800 analysts and data scientists covering oil, gas, coal, renewable energy, and chemicals. In addition to the energy industry, our global information expertise includes more than 4,000 analysts and data scientists in leading positions in the finance and transportation industries.

Energy Solutions from IHS Markit comprise some of the most extensive information, analytics, insight, and advisory services in the world. We deliver oil and gas databases and software, energy supply and demand forecasts, and comprehensive data on transactions at the global and regional market levels.

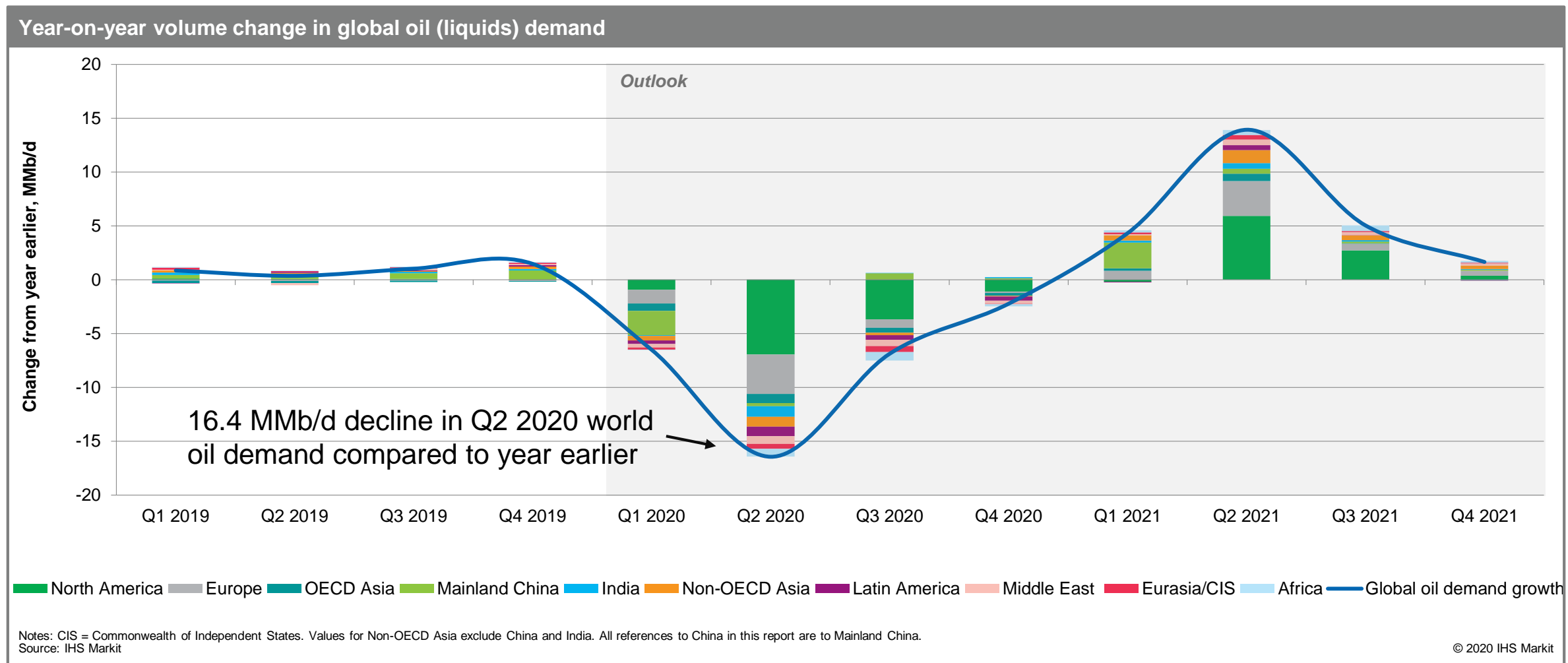
## Key messages: Light-speed oil supply surplus

If you cannot use or store it, then you cannot produce it. This is what the world of oil is facing as demand temporarily collapses owing to the impact of the coronavirus (COVID-19) disease. This is an emergency situation for the oil industry given the extreme speed at which it is unfolding.

1. **Massive demand collapse is here.** In the second quarter of 2020 we expect global oil demand will be 16.4 MMB/d less (-16%) than a year earlier. This is the largest year-on-year decline ever recorded.
2. **10 MMB/d\* with nowhere to go.** In our base case, we estimate second quarter 2020 global oil production will be 10 MMB/d below the first quarter 2020 level due to low oil prices and lack of oil storage capacity.
3. **Production will be cut, but the question is what role governments of producing areas play** in efforts to support oil prices, jobs, and companies.
4. **Government actions, company spending, the pace of economic recovery, and changes to restrictions on personal and business activity are among the key variables** that will shape the course of the global oil market.

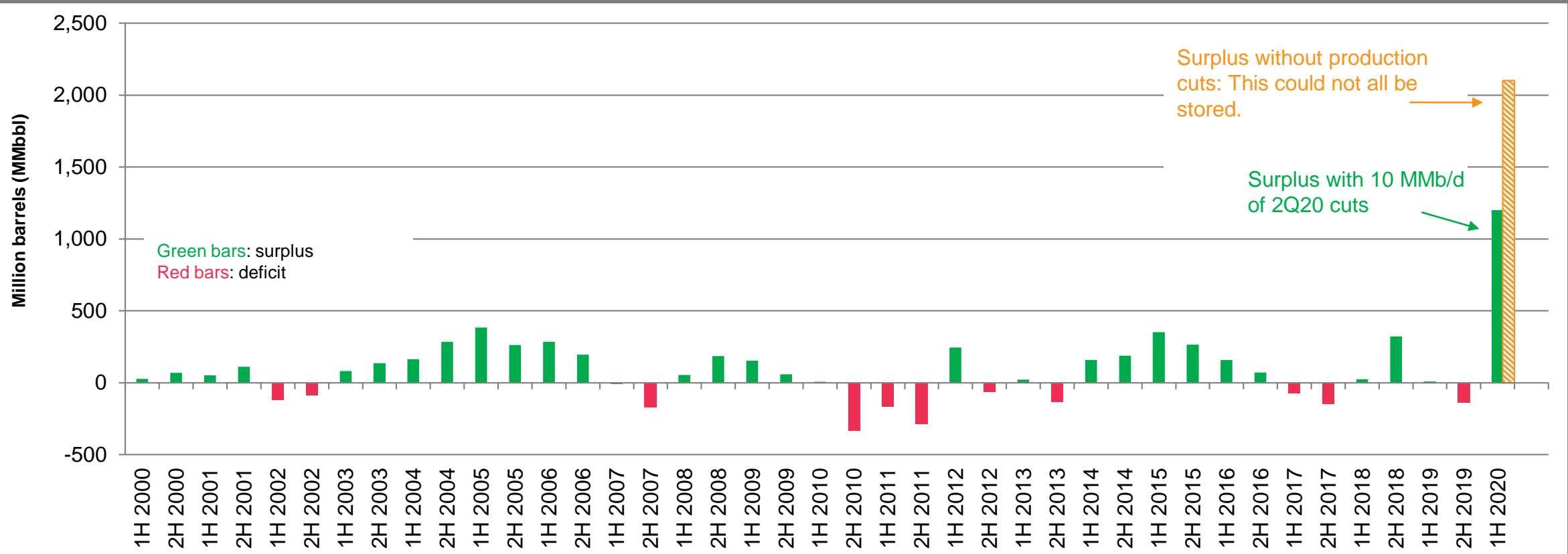
\*MMB/d = million barrels per day.

# World oil demand in the first and second quarters of 2020 (Q1 2020 & Q2 2020) are the largest year-on-year declines ever recorded.



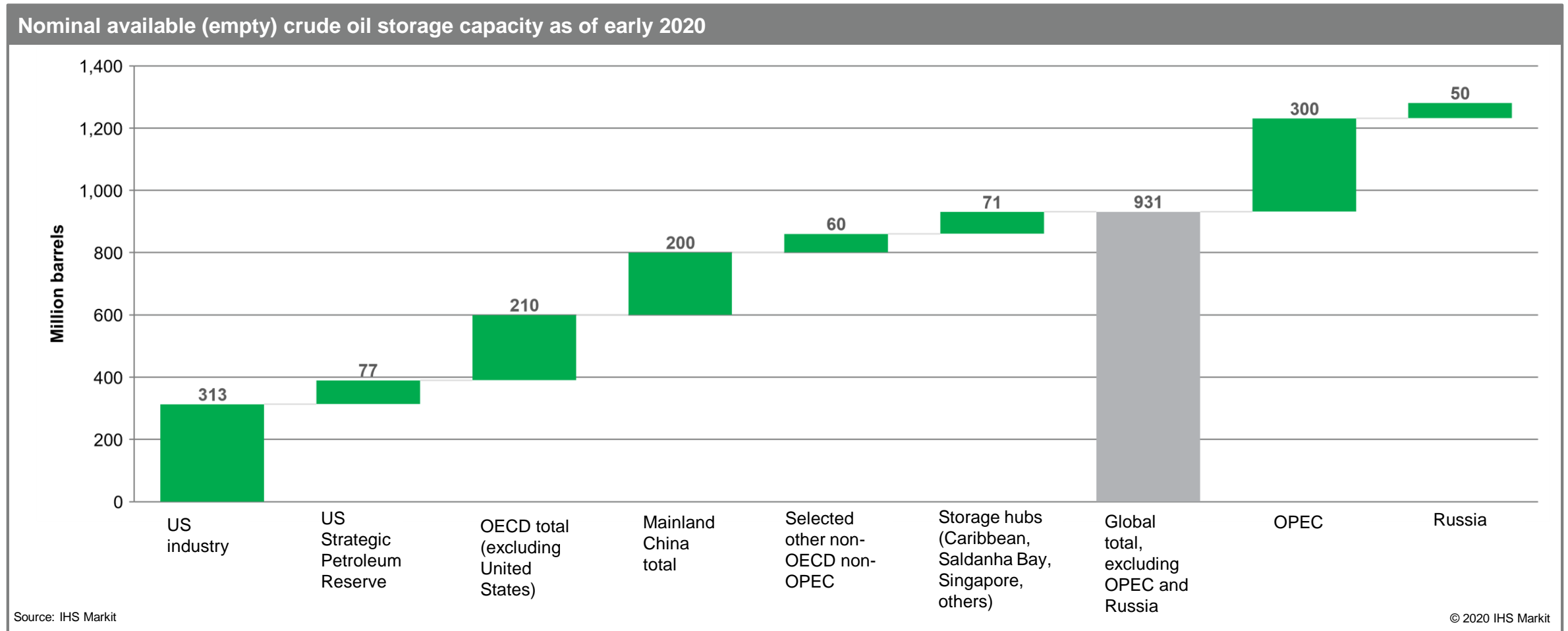
# Global oil supply surplus in first half 2020 will be largest ever—by far.

Global oil supply surplus/deficit from first half 2000 to first half 2020

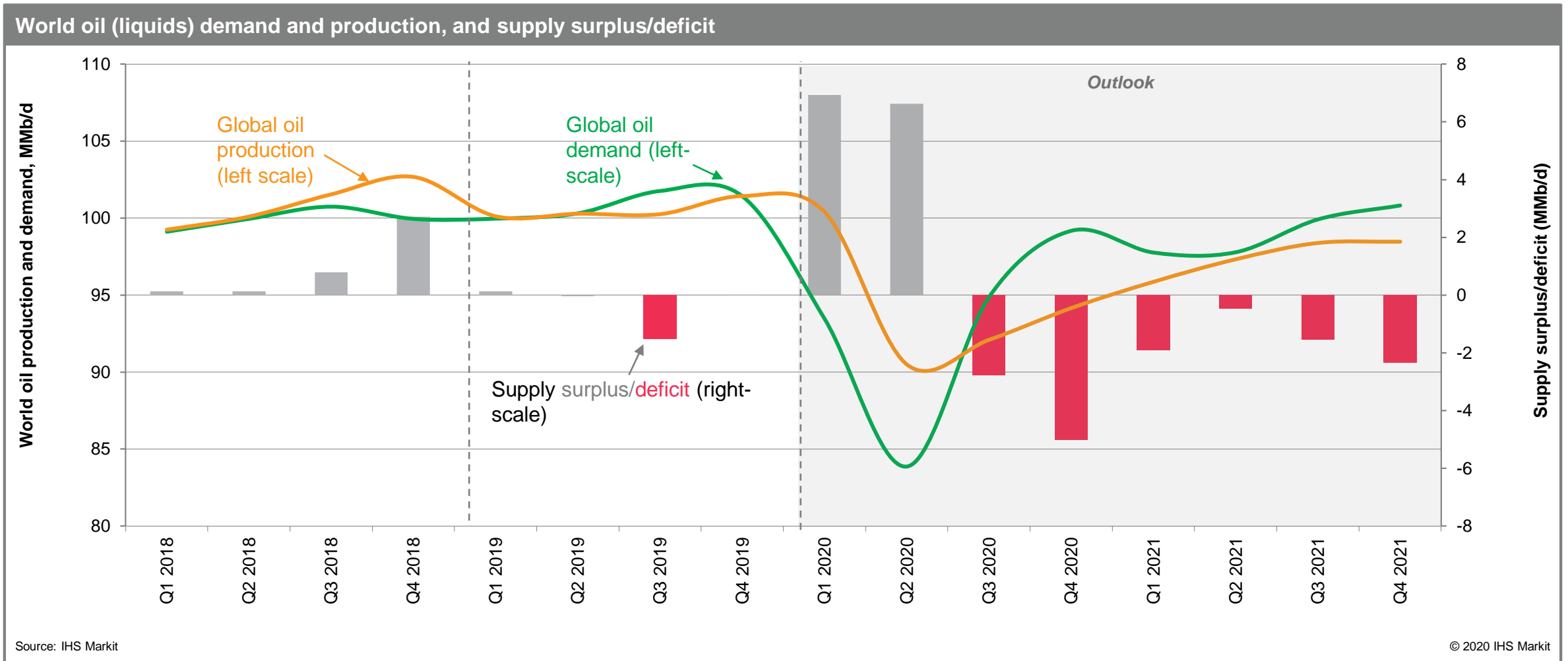


Notes: A positive difference between oil (total liquids) production and demand is a supply surplus. A negative difference is a supply deficit  
 Source: IHS Markit

A logistical tool—oil storage—becomes a prized commodity. In early 2020 nominal available crude oil storage capacity was 1.6 billion barrels globally. Practical capacity is 1.2 billion barrels. The surplus in first half 2020 cannot exceed storage capacity.



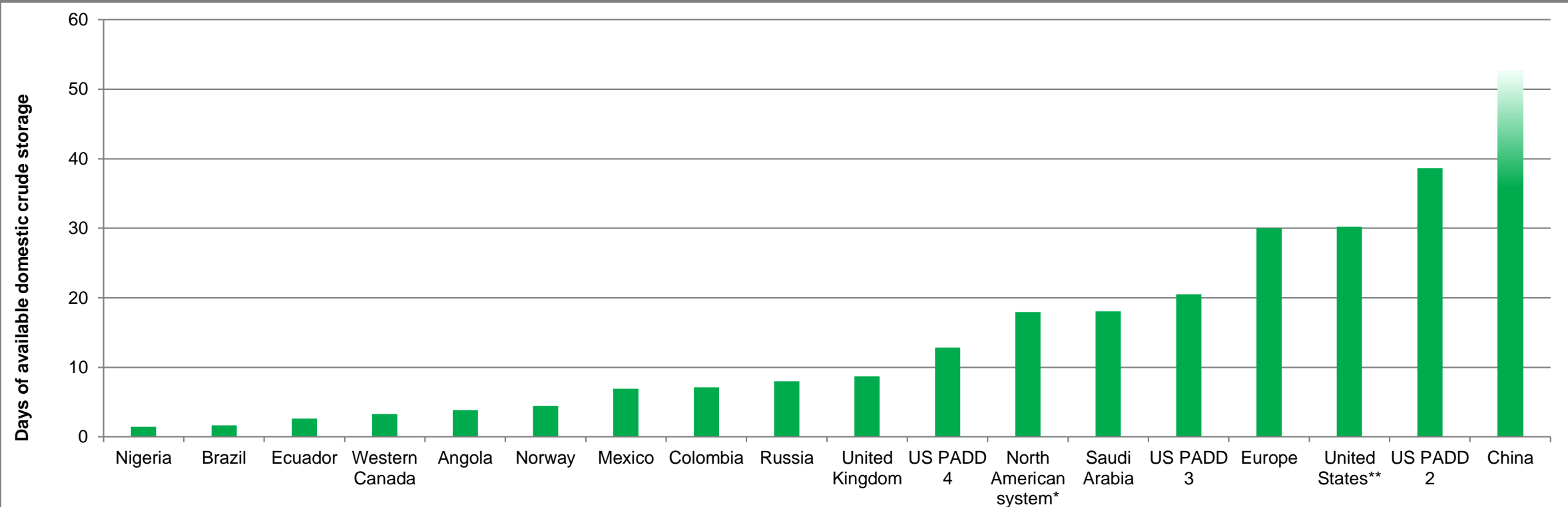
# Global oil supply surplus in first half 2020 projected at 1.2 billion barrels — with production cut by 10 MMb/d.





# “Storage vulnerability index”: Crude oil storage availability will play key role in determining where production gets reduced or shut-in

Days of available domestic crude oil storage in terms of days of daily crude oil production, as of early first quarter 2020



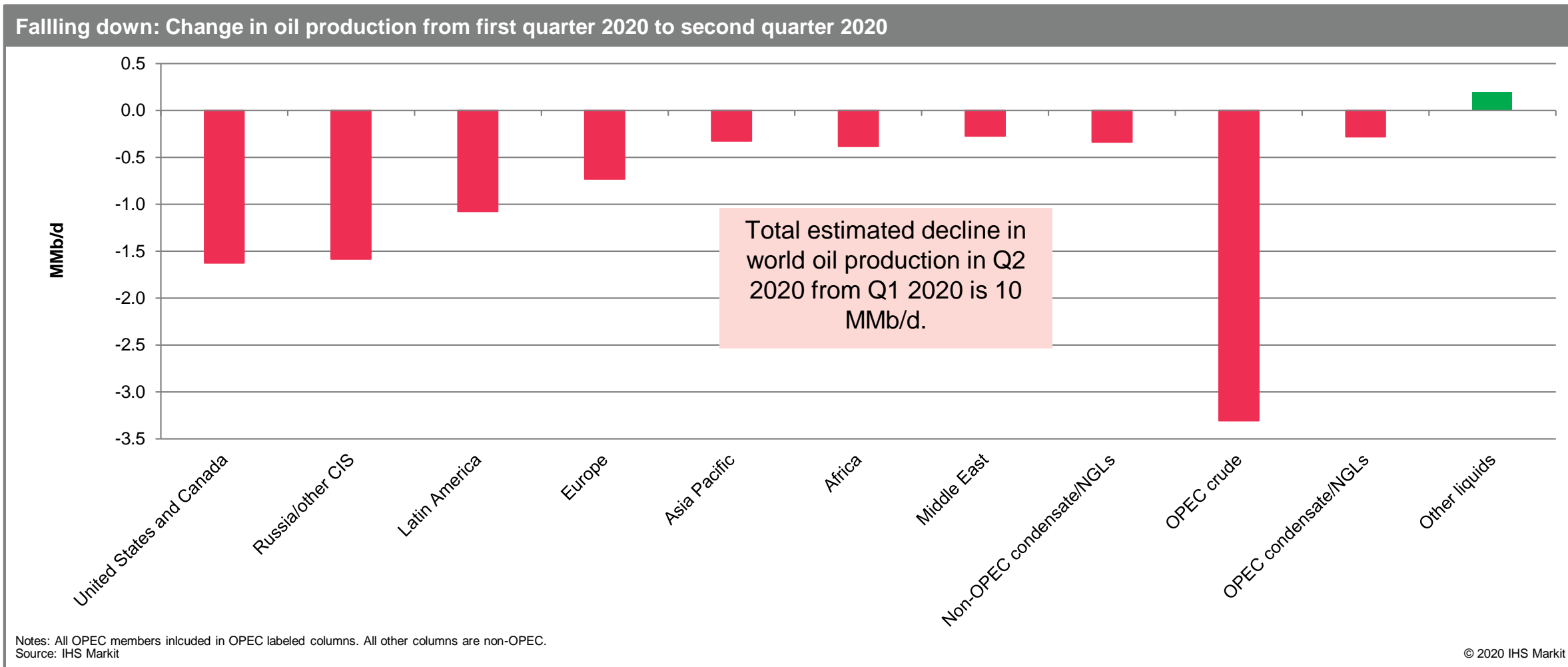
\*Canada and PADDs 2, 3, and 4 in the United States. \*\*The United States figure is for the entire country.

Notes: Days of storage is calculated by dividing our estimate of available crude oil storage by daily first quarter 2020 crude oil production. PADD = US Petroleum Administration for Defense District. There are five PADDs in the United States. The gradient coloring of the China column reflects a greater range of uncertainty about available capacity compared with other countries.

Source: IHS Markit

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# Nowhere to go: Oil production cuts expected in every region of the world in Q2 2020. Cuts in this outlook are driven by low prices and lack of storage.



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