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Conoco, and oil: demand and supply act normally, once again.

Good investment management, like "good" most things, is a lot of hard, slogging work; the determination to stick with some golden rules; and the patience to endure until those rules show themselves to be right, once again. When they finally do begin to show themselves right, and when the market finally begins, perhaps, to recognize that truth . . . it's kind of fun, and that's what Outlook and clients have been enjoying lately.

We made an emphatic bet on the oil industry, with Conoco our "flagship" company, perhaps. Here are the past 90 days:

Fun, indeed . . . but before getting too giddy about it, here's a big step back for more perspective—10 years' worth:

We have a good ways to go, don't we? That 2014 top matched the oil market itself, of course. In a nutshell, we own Conoco and friends because in free (or mostly free) commodity markets, when the price collapses the world buys considerably more (eventually) and the industry supplies considerably less (eventually.) That (eventually) makes the price rise again—rise higher and longer, the lower and longer prices fell. Of course there is more to say about global supply and demand than that—as Outlook readers know—but that's still the heart of it.

One of those golden rules about the investment world is that a great many very sharp people can never bring themselves to believe that "low prices will fix themselves—this time" because the longer those low prices persist, the more it "feels" like there must be unique factors which, this time, have broken the rules of supply and demand. Certainly the main such "unique factor" has been the belief that U.S. shale oil production will wash through the world market like a tidal wave, so that demand will lag behind supply forever, pretty much. It's been a pleasure, this past year, to follow a couple of very careful oil analysts who've insisted on peering at all of the facts behind shale production. Here's one such look, from HFI—one of the best of them.

	Capex			Production boe/d		
	2H 2017	2H 2016	Y-o-Y Change	2H 2017	2H 2016	Y-o-Y Change
Anadarko	2,004	1,626	23%	630*	778	-
Apache	1,876	906	107%	460	429	7%
Continental	965	535	80%	250	209	20%
Devon	549	1,095	-50%	550	557	-1%
EOG	1,927	1,395	38%	605	569	6%
Hess	1,440	1,016	42%	308	313	-2%
Marathon	1,375	492	179%	365	413	-12%
Murphy	458	322	42%	164	169	-3%
Noble	1,235	729	69%	365	418	-13%
Occidental	1,769	1,533	15%	610	606	1%
Pioneer	1,425	963	48%	285	240	19%
Whiting	611	188	225%	125	119	5%
Total	**15,634**	**10,800**	**45%**	**4,087**	**4,042**	**1%**

*Asset divestiture
Source: Company Reports, HFI Research

The circles tell the story. In the center, the main U.S. shale producers boosted capital spending 45%, this year, on their shale fields. At the right, the circle tells us how much more oil they're on track to produce, after that big push. Hmm . . . 1%.

If this table were all about deep water drilling in the Gulf of Mexico or the North Sea, we'd have no right to any conclusion—because the payoff from production spending is 2 or 3 years, or more, in that kind of oil field. But shale is not the same. The payoff, if there will be one, is fast and dramatic . . . and then plunges downhill almost as fast, unless the shale firms keep pouring money into production. So it is fair to say that the stark figures above –which suggest that it's getting harder and costlier to squeeze more oil from most U.S. fields—are causing a good many "oil bears" in the global speculating crowd to scratch their heads and frown. (In truth, of course, only the deep thinkers in that crowd are acting like that—the traders with money on the line began jamming their fingers on their "Buy!" buttons a few weeks ago . . . hence the Conoco picture on top.)

They'll find the "Sell!" buttons again of course, plenty of times, as the oil market lurches its way up the long mountain in the years ahead. At Outlook we do indeed have a "Sell!" button, but we do not expect to use it for a good while, with our oil companies.

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