

Oil Prices Slide This Year Amid Global and Domestic Shifts

Since the start of this year, crude oil prices have fallen as much as 25%, with West Texas Intermediate (WTI) dropping from around \$80 per barrel to below \$60, and now just above \$63. While lower prices can benefit consumers, especially at the gas pump, they also present real challenges for energy producers, state and local government budgets, and the broader economy.

One of the key drivers of the recent decline is OPEC+'s strategic pivot to increase production. The coalition plans to boost output by over 400k barrels per day in June, part of a broader move to ease production caps and defend global market share. Saudi Arabia, leading the charge, aims to pressure U.S. shale producers and enforce stricter discipline on overproducing member states. With softer global demand expectations and shifting U.S. policy preferences toward lower energy prices, the outlook seems biased towards the downside.

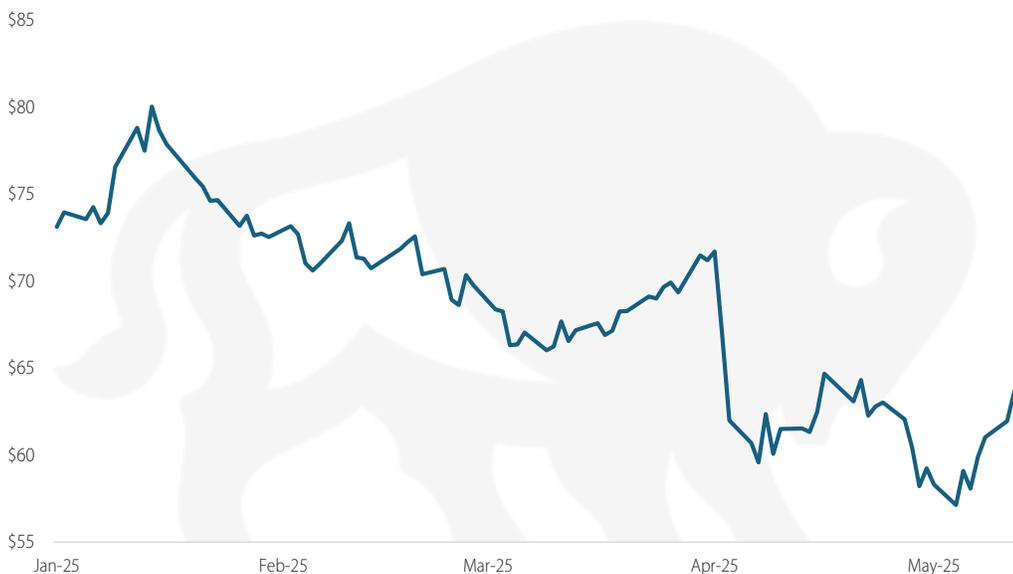
For domestic producers, especially in Texas, these dynamics are squeezing margins. The Dallas Fed Energy Survey recently reported that the average break-even price for drilling a new well has risen to \$65 per barrel, up from \$58 last year. At \$50 per barrel, companies can still profit from existing wells but will likely cut back on stock buybacks and new drilling. Analysts' earnings expectations have decreased but may fall further. With current prices today, drilling activity has slowed as producers reconsider capital spending and those associated projects. The U.S. accounts for 20% of global oil production.

Matt Harris, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Senior Vice President
512.340.1845
matt.harris@hilltopsecurities.com

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

WTI Crude Oil Futures (\$/bbl)



Source: New York Mercantile Exchange / Bloomberg

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This pullback is already showing up in public data. Earlier this month, Baker Hughes, one of the world's largest oil field service companies, reported a 4% year-over-year decline in oil & gas rig counts. In Texas, the top U.S. oil-producing state, oil and gas drilling permit applications hit a four-year low in April. That's a noteworthy signal, considering the oil and gas sector delivered more than \$27 billion in state and local taxes and royalties in fiscal year 2024. Should oil prices remain depressed, the ripple effects could extend to public services, infrastructure funding, and regional employment. Adding to the pressure are rising input costs, particularly due to tariffs on imported steel and other industrial materials, which are squeezing energy firms' profit margins further. Together, lower prices and higher costs are likely to weigh on investment, job creation, and drilling production in the months ahead.

For consumers, falling oil prices often mean lower prices for gasoline, but the economic impact goes deeper. Energy typically accounts for about 7 to 8% of the headline Consumer Price Index (CPI), though it carries significant indirect influence across the economy. When oil prices drop, so do transportation and freight costs, which can eventually reduce input costs for everything from groceries to manufactured goods. However, the transmission isn't immediate or uniform. Some cost savings take time to work through supply chains, and other sectors, such as services or housing, are less sensitive to energy costs. A sustained drop in oil prices could help ease headline inflation readings in the second half of 2025, however, concerns of lingering tariff inflation will be around throughout the year.

Like the general economy, the outlook for oil is filled with uncertainty. U.S. shale oil output has likely peaked but is not expected to decline rapidly. Much will hinge on the current trade war along with global demand and whether OPEC+ adheres to its new production caps. U.S. producers are expected to stay cautious, especially if prices remain near or below break-even levels. For public entities, especially those in energy-exposed regions, flexibility remains key. Lower fuel prices may provide near-term budget relief, but ongoing pressure on state revenue and local economies tied to oil and gas will require careful monitoring.

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Market Indications as of 11:07 A.M. Central Time

DOW	Up 18 to 42,159 (HIGH: 45,014)
NASDAQ	Up 136 to 19,146 (HIGH: 20,174)
S&P 500	Up 8 to 5,894 (HIGH: 6,144)
1-Yr T-bill	current yield 4.12%; opening yield 4.09%
2-Yr T-note	current yield 4.04%; opening yield 4.01%
3-Yr T-note	current yield 4.03%; opening yield 4.00%
5-Yr T-note	current yield 4.15%; opening yield 4.10%
10-Yr T-note	current yield 4.52%; opening yield 4.48%
30-Yr T-bond	current yield 4.96%; opening yield 4.92%

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