Massive Oil Discovery in Alaska to Provide More Supply as World Economy Recovers

The announcement of a massive new oil find on Wednesday couldn't have come at a better time. The 1.8 billion barrel prospect called Talitha is located next to the Trans-Alaska Pipeline on Alaska's North Slope, reducing greatly the developer's transportation costs when the field comes online in the next few years.

By that time the world's thirst for low-priced crude oil will have returned following the COVID-19 shutdown, and Talitha's low cost will help lead the United States and global economies to even higher levels of output.

Pantheon Resources updated an evaluation of an old exploration well and concluded that the prospect could ultimately produce 500 million barrels of oil, with peak production nearing 90,000 barrels a day. Pantheon's CEO Jay Cheatham told the Associated Press, "We are so advantaged because of our location, being able to be right there along the Dalton Highway [aka the 'haul road' for rigs serving the oil fields in the North Slope]."

The world is likely to need the additional supply. Reports over the weekend are that OPEC and Russia are mending their fences and have agreed, with reluctant approval of member Mexico — to cut their production by 10 million barrels a day. This has shored up crude oil prices by $3 a barrel which, prior to the tentative agreement, looked like they were headed to $10 a barrel or less. The *New York Times* reported that Russia and Saudi Arabia, the head of the OPEC oil cartel, "have retreated from threats to pump more oil into the already-saturated market." The *Times* said that a "complete free-fall of oil prices into the single digits … appears to have been avoided."

Thanks to the virus shutdown, American oil producers have already cut production, which is likely to decline by two million barrels a day by the end of the year, according to the Energy Department. U.S. crude oil producers have already cut thousands of jobs (the industry currently employs, directly or indirectly, some 10 million people), have taken hundreds of wells offline and have decommissioned rigs and fracking equipment in response to the shutdown.

Once the shutdown ends, the global recovery will need all the low-cost energy it can get in order to return to normal levels.

That return to normal could happen sooner than many expect. Ed Doherty, chairman and co-CEO of Doherty Enterprises (think Applebee's, Panera Bread, Chevy's Fresh Mex, Quaker Steak & Lube, Spuntino's, and The Shannon Rose) hopes so: "Americans will probably travel less overseas when this is over and will spend locally, which will help our businesses."

Tim Hentschel, CEO of hotel booking website HotelPlanner, is forecasting that his company will return to normal by June 1: "We are encouraging people to book their summer travel now, as it is a win-win for the forthcoming months. Flight prices are incredibly low, and airlines are allowing cancellations at any time."

Max Gokhman, who decides where the $7.8 billion he manages for Pacific Life is invested, said he expects most workers to be rehired promptly once the crisis is past. He regards most layoffs as temporary and so, once the shutdown ends, restaurants, hotels, manufacturing, construction, malls, finance, and industry "could come roaring back."

Wall Street is also expecting the economy to return to normal quickly. Last week's monster rally during the shortened trading week (markets were closed for Good Friday) pushed the popular indexes higher by nearly 12 percent. This is the best week the financial capital has enjoyed in more than 40 years and portends a rapid return to normal.

Ned Davis, the head of Ned Davis Research, noted that the stock market does better than average when unemployment spikes. Why? Wrote Davis: "It defies logic. My explanation is that … the market tends to look ahead."

Another bullish indicator for a rapid recovery is the drop in long-term investment-grade bond yields. As MarketWatch wrote on Friday: "When the Fed helps investment grade bonds [by buying them in massive quantities], it has been a good buy signal for stocks." For the record, on March 18 the yield on the U.S. 30 year Treasury bond was 1.78 percent. On Thursday the yield had dropped to 1.35 percent.

Pantheon's announcement of its new find in the North Slope is likely to turn out to be remarkably prescient. The United States and the world are going to need all the low-priced energy they can get as they recover from the shutdown and then move forward.

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