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Producers' optimism is driven only to the extent that capital markets will continue to fund them—"certainly on the public side," said Randy King, managing partner, Anderson King Energy Consultants LLC.

Previous page, as home to many energy investment banks and A&D advisory firms, Houston is the epicenter for much of the energy industry's dealmaking.

Facing page, Houston's MetroRail Main Street Square station downtown is a hub for access to destinations north and south, while two connecting lines reach destinations east.

Bill Marko is usually bullish about U.S. M&A market conditions. In mid-July, though, he was "considering being bearish and down in the mouth" for the first time. "I don't see an easy way out of this," the Jefferies LLC managing director said.

The WTI prompt-month contract took hold below $50 again in the second quarter. In late July, a contract didn't begin with a "5" until December 2019.

Public E&Ps bought assets during the past year on a premise, he said, that "'I'm going to add six rigs or three rigs or 10 rigs,' and all of the analysts said, 'Okay, go do that.' They've got to grow and add rigs. They have to demonstrate the type curves they had when they went to the public markets six or nine months ago."

Thus supply, particularly from the Permian Basin, is growing. Lower 48 production was 9.005 million barrels a day (MMbbl/d) on July 21, approaching the modern high that was set in mid-June 2015 at 9.19 million, according to U.S. Energy Information Administration (EIA) data.

The post-2014 low was found at 7.969 million last October. In nine months since, Lower 48 producers added more than 1 MMbbl to daily supply—nearly as much as OPEC members' targeted cut.

Randy King, a managing partner for Anderson King Energy Consultants LLC, said, "We have three deals that are just sitting on hold ready to go when prices get to a sustainable level.

"It feels like this oil-price debacle is a little bit self-inflicted. I understand the nature of entrepreneurial companies: Everyone wants to get their fair share and grow. But the collective nature sort of works in cross-purposes. It's frustrating."

Producers are near-term frustrated too, "but they're not frustrated enough to slow down in terms of their operational development. They work from a perspective that it's a tough resource to get. It's generally in short supply. And, at some point, prices will recover and they will be well-positioned with a volume story and a growth story."

Help us help us

In late July, the EIA forecast that total U.S. production—including Alaska—will average 9.9 million a day in 2018 with 515,000 of the extra barrels coming from the Permian. (The all-time, all-U.S. high was 10 million a day in the fourth quarter of 1970.)

Al Walker, chairman, president and CEO of Anadarko Petroleum Corp., told investors in June in a keynote speech at a Wells Fargo conference, "The biggest problem our industry faces today is you guys. You don't reward capital efficiency; you reward growth.

" … As long as investors continue to invest in companies with growth with marginal wellhead economics, you'll get more growth. So you guys can help us help ourselves." Joseph Triepke, founder of and principal research analyst with Infill Thinking LLC, first shared the transcript, which was widely circulated on Twitter.

King said, "Yeah, he sort of chided us." Producers may state, for example, that follow-on funding will be for 50% ROR wells, and analysts agree. Yet "we never see the actual data behind it," King said.

Greg Armstrong, chairman and CEO of Plains All American Pipeline LP, said something similar at an investment conference in 2003 when discussing acquisitions: "If you're going to use the word 'strategic,' you had better have the word 'accretive' in there somewhere; otherwise, it's just not worth doing," *Oil and Gas Investor* quoted him at the time.

In a study this spring, Michael Hanson, a founding member of Parkman Whaling LLC, looked at the top 40 Permian operators' guidance on production growth. If hitting those targets, they would double daily output from the basin to 4.5 MMbbl by 2020.

But they can't, Hanson concluded: Oil prices would fall, oilfield service costs would rise, infrastructure would be insufficient and $150 billion of additional capital would be needed.

"In their quest for growth for growth's sake, operators seem to be missing the forest for the trees," Hanson said. "They're so focused on their own growth that they miss how the collective growth goals of their peers are affecting the economics of the industry."

He wrote in the firm's newsletter in late June: "[Capital] market sentiment is about as bad as it's been in quite some time." Among indicators, "even the invincible" Permian stocks were down 20% year to date.

Within A&D, "we are aware of multiple failed sale transactions over the past month. We've noted not only bids not meeting seller expectations but also, fewer bids. Buyers are saturated with existing projects, it appears, as investors' appetite for new acquisitions seems to be waning."

Regarding Walker's remarks, he wrote, "Perhaps some [investors] are beginning to heed his message." In late July, Walker announced that Anadarko would pare its 2017 capex budget by $300 million.

'Off a cliff'

King noted that producers' optimism is driven only to the extent that capital markets will continue to fund them—"certainly on the public side."

Marko said public markets won't fund equity issuances right now. "What you had were circumstances where you had a firming oil price, a good gas price, really good public markets and a lot of private owners thinking, 'Hey, it's time to rotate out of these assets.'

"All of that came together. In the Permian, Scoop/Stack and a few other areas, it caused a lot of deals to get done. It was a really buoyant market."

Currency included stock that was strongly valued. For example, shares of RSP Permian Inc. were trading at an all-time high in January at more than $45 when WTI was about $54;