Natural Gas Market Indicators

AGA
American Gas Association

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Reported Prices – price stability is the name of the game as prompt-month futures turned over and June 2017 contracts posted $3.25 per MMBtu to open the new month. The futures strip remains in $3+ territory through March of 2018 but then dips into the high $2 range. It's worth keeping in mind that traded volumes on these out-month contracts are relatively light. Meanwhile, oil markets seem to be chasing bears. Stronger-than-expected draws on US crude oil inventories were offset by strong oil production, which is approaching levels not seen since August 2015. The resulting market sentiment has priced West Texas Intermediate crude just above $46 per barrel.

Weather – it's the beginning of May and therefore time to look to the various hurricane forecasts for the Atlantic basin this season. Tropical Storm Risk in the UK anticipates North Atlantic hurricane activity may be below normal. Colorado State University's extended range forecast follows suit with a "slightly below average activity" outlook. And researchers at North Carolina State University say that the Atlantic hurricane season will be in line with overall averages back to 1950. In summary, it looks like an average season is expected. Note there has already been one named event, Arlene, a Tropical Storm active in mid-April. Looking to temperatures, the current two-week outlook from the National Oceanographic and Atmospheric Administration (NOAA) shows lower temperature probabilities for the Rockies to the Pacific Ocean and higher temperature probabilities for the eastern two-thirds of the country. Finally, AGA accounting of seasonal cooling degree days has resumed. The week ending May 6, 2017, saw 23 percent warmer than normal conditions.

Working Gas in Underground Storage – EIA reported an injection of 45 Bcf for the week ending May 5. The build brings inventories to 2,301 Bcf or 13.6 above the five-year average. As of the beginning of May, there were about 180 days remaining in the traditional underground storage injection season. With working gas now above 2.3 Tcf after the recent EIA storage report, let's consider a hypothetical: If 1.8 Tcf of net injections were to occur over the next six months, working gas would find itself back near record inventories. Simple math puts the daily requirement to meet that outlook at 10 Bcf—a volume that is middle of the range for past storage injection rates.

Natural Gas Production – at 70.9 Bcf per day the first two weeks of May, dry natural gas production has rebounded slightly but is still 1.4 Bcf per day lower than one year ago. That means that production is down about 1.9 percent from this time last year and is, of course, part of the market balancing that has sustained Henry Hub prices above $3 per MMBtu for more than a month.

Shale Gas – the first greenfield nitrogen fertilizer facility to be constructed in the United States in more than 25 years is now open. The Iowa Fertilizer Company plant in Wever, located in southeast Iowa, will produce 1.5 to 2 million metric tons of nitrogen fertilizer products annually and will be a major consumer of natural gas both as a feedstock and fuel. Other industrial projects that consume large volumes of natural gas are expected in the coming years. The rise of shale gas in the United

States means low-cost natural gas inputs to these facilities, providing those companies a competitive advantage compared with facilities overseas that may have higher energy costs.

Rig Count – the count of oil and gas rigs continues its gain. At 877 rigs, activity is up 5 percent since the first week of April and up 32 percent for the year. Gas rigs, which totaled 173 for the week ending May 5, have climbed 28 percent since the year began. Year over year, the number of rigs operating in the Marcellus has jumped 17 (+65 percent); rigs in the Haynesville are up 27 (+245 percent); rigs operating in the Permian have climbed 217, a gain of 164 percent.

Pipeline Imports and Exports – *imports* from Canada are up compared with May last year. Volumes are flowing at 6.2 Bcf per day month to date, up from 5.7 Bcf per day in May 2016. Year to date average is and 5.4 Bcf per day. Pipeline *exports* to Mexico have also strengthened to 4.1 Bcf per day during the first two weeks of May. Combined LNG and pipeline exports have been consistently more than 6 Bcf per day for more than a week.

LNG Markets – exports of LNG to Europe, although less than 10 percent of Sabine Pass shipments from February 2016 through January 2017, seem to be gaining traction with a spot cargo headed to Poland. Recent market analysis from Wood Mackenzie points to as much as 60 percent of US exports landing in Europe by 2020. At least one reason for the change rings a familiar tone: reducing dependence on Russian pipeline supplies to central and western Europe. Meanwhile, feedgas for LNG exports has held steady between 2.3 to 2.4 Bcf per day during the past week; year-to-date volumes have averaged 1.9 Bcf per day.

Natural Gas Market Summary – total gas consumption is flat, but sector demand has shifted compared with May of last year. Natural gas flows to power generation are running 10 percent or 2.5 Bcf per day lower this month compared with 2016. These declines have been offset nearly one-to-one by gains in exports. Combined LNG feedgas and pipeline gas to Mexico are *up* 2.5 Bcf per day for the same period. Industrial demand is up a modest 0.1 Bcf per day; residential/commercial demand is unchanged month-to-date from last year. With production holding steady and domestic natural gas consumption relatively flat compared with last year, acquisition pricing remains firmly above $3 per MMBtu. So, what’s ahead? Weather, as always, will be key, but other factors such as renewables deserve attention. Increased runoff has boosted hydroelectric generation, and additional build of solar and wind is also expected to offset some natural gas power generation this summer. One estimate from Bloomberg New Energy Finance has an average of 1.5 Bcf per day of gas generation volumes offset on average between April and October. These bearish signals may be offset by additional gains in gas exports. We will keep a close eye on the market as summer approaches.