

# NATURAL GAS MARKET INDICATORS

AMERICAN GAS ASSOCIATION

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**Reported Prices** – with crude prices below \$83 per barrel, natural gas cash prices at Henry Hub registering about \$6.50 per MMBtu and the NYMEX futures strip for November 2008-March 2009 between \$6.54 and \$7.25 Per MMBtu on October 10, expectations for residential and small commercial consumer winter heating bills have fallen significantly. Where companies were discussing winter bill increases of 30 to 40 to 50 percent over the 2007-08 winter heating season in June and early July, the Energy Information Administration now estimates that bills may be 18 percent higher. Continued downward pressure on Henry hub prices may push that outlook even lower. However, it should be remembered that during a peak winter month, as much as 30 percent of the natural gas supplied may come from underground storage and a significant portion of that gas was placed in storage when natural gas prices were much higher than they are today.

**Weather** – aggregate cooling degree day data from May 3, 2008 through September 27 shows national temperature conditions to have been 5.6 percent warmer than normal. With that said, the warmest two weeks of the summer (compared to normal conditions) actually occurred in the late spring with national temperatures rising 42 percent and 64 percent warmer than normal during the weeks ending June 7 and June 14, respectively. For the balance of the 2008 summer temperatures were generally slightly warmer than normal with very few brutal days or weeks of sustained hot conditions. By comparison in 2007, aggregate temperatures from May to late September were 13 percent warmer than normal. During the summer of 2008, only the north central region of the country, since May, has been cooler than normal. All other regions have been warmer with the Pacific region much warmer than normal (32 percent).

**Working Gas in Underground Storage** – for the weeks ending September 26 and October 3, a total of 175 Bcf of natural gas was injected into underground storage – very solid for this time of year. By comparison, the same two-week period last year netted 130 Bcf of injections. Working gas inventories are now 3.2 Tcf and exceed the five-year average by about two percent.

**Natural Gas Production** – if numbers don't lie, then U.S. natural gas production is making a **remarkable recovery from the disruptions of hurricanes Ike and Gustav. Domestic natural gas** production dropped to about 46 Bcf per day with the influences of the hurricanes but has rebounded to over 53 Bcf per day (prior to extraction losses), according to *Bentek Energy LLC*. Production increases reflect a quick recovery from the hurricane shut-ins but also demonstrate that domestic onshore production continues to increase. Another influence that is beginning to emerge in various publications, however, is that of lower wellhead prices and the overall credit crunch. Some companies have already announced reductions to their 2009 drilling investment programs in the face of the new financial challenges. Whether that has an immediate impact on growth in domestic production capability remains to be seen.

**Rig Counts** – U.S. rotary rig activity has fallen to 1,990 but remains 223 above the total at this time last year. Seventy-eight percent of the rigs operating are drilling for natural gas. Only four percent of rigs operating are offshore and about one-third of the rigs (32 percent) drilling in the U.S. today (626) are drilling horizontal holes.

**Pipeline Imports and Exports** – pipeline imports from Canada have fallen about seven percent during the period January through September 2008 when compared to the same period in 2007. Coincidentally, Canada's *National Energy Board* estimates that natural gas production in Canada will be down about seven percent from January 2008 to December 2008, also. For the first two weeks of October, Canada has exported about 7.8 Bcf per day via pipeline to the U.S. On the other hand, U.S. exports to Mexico have averaged just below 1 Bcf per day in October 2008.

**LNG Markets** – the September 30 market indicators report contained an error when it stated that LNG supply would increase 85 Bcf per day worldwide early in 2009. The increase reflects capacity growth of 85 Bcf per month, not per day. Thanks to the readers that brought the error to my attention. LNG imports continue to average about 1 Bcf per day in the U.S., as they have all year. At this pace, total imports will end up to be less than half (about 350 Bcf) of what they were in 2007 (771 Bcf). With strong inventories in Asia but increasing demand in Europe, the United States remains a destination of last resort for suppliers. QatarGas Train 4 may see output as early as November 2008 and ultimately the complex may pump 31-36 Bcf per day – a significant boost to world supply capabilities.

**Natural Gas Market Summary** – even without 2.8 Bcf per day in Gulf of Mexico production (as of October 10), domestic gas supply continues to grow from onshore sources and working gas injections have remained strong. Some analysts believe that industrial consumption of natural gas may fall slightly as the U.S. economy slows, while the natural gas futures outlook for November 2008 through March 2009 placed contracts at values below \$7.25 per MMBtu (as of October 10, 2008). Winter weather will become the final piece of the puzzle, even as the forward market reflects a solid storage position and increasing strength in domestic production.

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