Natural Gas Market Indicators

American Gas Association

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Reported Prices – motorists aware of gasoline prices will be similarly aware that oil prices firmed, remaining above $70 per barrel for crude oil in July. Crude oil at West Texas Intermediate was about $74 per barrel while Brent was nearly $79 for much of early July. Those prices have since slide to about $71 per barrel for WTI and $74 for Brent. Natural gas prices on the other hand have remained about $2.80-$2.85 per MMBtu for prompt-month (August 2018) futures during the first two weeks of July.

Weather – the nine-week period from May 1 to June 30, 2018 was consistently warmer than normal as spring rapidly turned to summer in the lower-48 states. Every week was warmer—7 to 79 percent warmer than normal, as a matter of fact. By month-end June, conditions as measured by cooling degree days had cumulatively totaled 29.4 percent warmer than normal and 13.3 percent warmer than last year. Every region of the lower-48 has been cumulatively warmer than normal except for the Pacific region, which was 10.9 percent cooler than normal from early May through June.

Working Gas in Underground Storage – from early-May through the end of June, working gas injections averaged just under 13 Bcf per day. Those are strong daily injections although for the last two weeks of the month of June net injections dropped to 10-11 Bcf per day primarily due to strong pulls on gas for power generation. The first week of July daily injections dropped to under 9 Bcf continuing that trend. Remember, when June began we needed about 11.5 Bcf per day on average until the beginning of November to see working gas levels reach 3.5 Tcf before the turnaround to withdrawals. Strong production levels are supporting that possibility.

Natural Gas Production – the US reached a new all-time high for lower-48 natural gas dry production at 80.9 Bcf on July 4, 2018, according to SS&P Global's *Supply/Demand Balance Analytic Report*. But wait—the same report later showed that lower-48 dry gas production hit 81.0 Bcf on Sunday, July 8. While these numbers are preliminary and subject to change, natural gas production is now consistently above 80 Bcf per day in July. Much of that strength in production is centered in the Marcellus shale producing area. Specifically, in Pennsylvania, two counties Susquehanna (Northeast PA) and Washington (Southwest PA) produced more than 3 Bcf per day in April 2018. The top five producing counties in the state round out to be Greene, Bradford and Wyoming. The top five producers in Pennsylvania in April 2018 were EQT, Cabot Oil & Gas, Chesapeake Energy, Range Resources and Southwestern Energy – in that order.

Shale Gas **–** according to S&P global about 40 MMDth of US gas pipeline projects are currently announced, in early or advanced development or under construction with target dates for completion in 2018 and 2019. Most of the projects are tied to moving eastern shale gas to the Middle Atlantic region, the Upper Midwest, or designed to move associated gas from shale oil projects in Texas. In producer related activities, Ascent Resources is purchasing leasehold acreage and 93 producing wells from CNX and Hess Corp. in wet gas areas of eastern Ohio. The buying selling of acreage and other assets is not uncommon in active plays as one company divests and others seek to build value.

Rig Count – growth in total domestic rig counts has slowed slightly in the past three weeks dropping 10 rigs from the recent high to 1,052 for the week ending July 6. Eighty-two percent are seeking oil targets. Gas-directed drilling which had a recent peak of 200 rigs operating in mid-May dropped to 187 at month-end June. Even so, drilling operations are up by 107 rigs compared with one year ago, and 3 higher for gas activities, specifically.

Pipeline Imports and Exports – pipeline imports for natural gas from Canada have firmed to 5.7 Bcf per day this July, which is 0.2 Bcf per day greater than in July 2017, according to S&P Global. At the same time, US exports to Mexico are averaging about 4.3 Bcf per day, the same as the per day average in July 2017.

LNG Markets – the back and forth of a developing trade war between China and the United States featuring tariffs on goods is not expected to impact LNG exports in the near term, according to some analysts per an article from S&P Global Market Intelligence. The article dated July 6, 2018 further noted that demand for the fuel may outweigh the current political rift given China could face another severe winter as it continues to phase out coal-fired power plants. With that said, export volumes of LNG from US facilities are running solidly above 3 Bcf per day from Sabine Pass (LA) and Cove Point (MD) and, in fact, are averaging 3.3 Bcf per day in aggregate— 1.2 Bcf per day more than in July 2017.

Natural Gas Market Summary – the US reached a new all-time high for domestic natural gas dry production at 80.9 Bcf on July 4, 2018, matched it again on July 7, then exceeded it once more at 81 Bcf for the day on July 8, 2018. As that was happening, natural gas to power generation climbed as high as 38 Bcf per day—the largest volume of natural gas this calendar year directed toward power generation requirements. July and August are typically the dog days of summer, of course, and this year the hottest periods have tended to cover nearly the entire lower-48 states. Only the Pacific region in aggregate has been cooler than normal this summer. None of this is particularly surprising but even with the pull on natural gas production for power generation, prices have remained remarkably calm and generally below $2.90 per MMBtu at Henry Hub. This has been sustained even with natural gas exports via pipeline to Mexico and LNG to international targets reaching as much as 8 Bcf per day – a full 10 percent of domestic dry gas production. What will change over the next several months? We will keep you posted.