Natural Gas Market Indicators

American Gas Association

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Reported Prices – remarks then actions from President Trump regarding tariffs on steel and aluminum had a downward influence on equities in the US during the first week of March. They have since rebounded. Coincidentally, or perhaps completely unrelated, oil prices fell slightly to about $61.70 per barrel for West Texas Intermediate (WTI) and about $3 more for Brent crude but then rebounded upward to nearly $63 for WTI and over $66 for Brent. Just as soon as that was observed, however, they fell again and are now about $61.15 per barrel and $65, respectively. Follow the bouncing oil price. Henry Hub futures for natural gas on the other hand have firmed to about $2.70-$2.80 per MMBtu during the same period of time and stayed there.

Weather – warmer than normal temperatures for the lower-48 states have dominated Heating Degree Day (HDD) totals for the current winter heating season, even with the extreme cold experienced for two weeks from Christmas Day to January 7. The traditional winter heating season HDD accounting for November through March shows four consecutive months (November 2017 through February 2018) that were all 1.0-11.5 percent warmer than normal – December deviating the least from normal and February the most. Cumulative heating degree days beginning October 1 have been as little as 2.7 percent warmer or 19.0 percent warmer depending on region of the country but all regions have been warmer this winter. For the lower-48 states, we have seen 7.6 percent fewer heating degree days since October 1 in aggregate.

Working Gas in Underground Storage – the net withdrawal for underground storage for the week ending February 23 was only 78 Bcf and then was followed by a 57 Bcf withdrawal one week later, which made the current inventory of 1,625 Bcf 15.6 percent below the five-year average. For that February week, also, the net withdrawal of 78 Bcf was only the second time in 11 weeks that it had come in under 100 Bcf. Of course, in March as temperatures shift to warmer patterns storage withdrawals historically slow down and within a month are likely to be swinging to injections.

Natural Gas Production – dry natural gas production year-to-date in 2018 is running at 76.8 Bcf per day, which is 5.8 Bcf per day higher than that of one year ago for the lower-48 states.

Shale Gas **–** the US is positioned to continue to be a production monster with the natural gas flows out of the Permian and Appalachia shales driving significant growth. According to a long-term forecast from S&P Global, total US natural gas production could grow an additional 14 Bcf per day by 2023, which would be 29 percent above 2017 levels. Sometimes it feels like the shale revolution is still just getting started. Interestingly enough, ownership of gas reserves in the United States (much of them shale focused) concentrated slightly in 2017 with purchases of assets such as the acquisition of Rice Energy by EQT. Securities and Exchange Commission reporting for year-end 2017 showed that EQT now has 19.8 Tcf of proved reserves and places it at number one among US producers. ExxonMobil is number two at 19.3 Tcf (also the largest producer of natural gas in the US) but is the only oil and gas "major" in the top five, which is rounded off by Southwestern Energy, Antero Resources and Range Resources – all having more than 10 Tcf of proved reserves according to SEC reporting.

Rig Count – US rigs continue to slowly add to the total. With 981 total rigs in operation in the US, plus an additional 302 in Canada, oil- and gas-directed activity remains on the rise, up 6 percent since this year's first rig report for the week ending January 5. Oil rigs constitute 82 percent of all activity; the oil and gas split has remained roughly 4 to 1 since the beginning of 2016.

Pipeline Imports and Exports – imports from Canada are averaging 6 Bcf per day during March, which is 1 Bcf higher than the average in March 2017. On the export side of the ledger, the US is flowing about 4.4 Bcf per day of pipeline gas to Mexico – 0.4 Bcf per day higher than one year ago.

LNG Markets – after docking at the Dominion Energy Cove Point LNG terminal on February 28, the Gemmata LNG ship owned by Royal Dutch Shell reported "underway and using engines" early in the AM the next morning, as reported by S&P Global Platts on March 2. The volume of the cargo and immediate destination was unknown but exports of LNG from the Maryland facility seem to be initiating. Further, on March 5 the Federal Energy Regulatory Commission (FERC) delivered a letter to Dominion Energy Cove Point granting permission for the facility to begin commercial service, meaning the US lower-48 now has two large scale LNG export facilities in operation. Now it is up to Gail (India); Sumitomo Corp. and Tokyo Gas to engage the facility in exports. On the gulf coast, feedgas to Sabine Pass has averaged 3.2 Bcf per day in March, which is 1.7 Bcf per day higher than this time last year.

Natural Gas Market Summary – following energy commodity and equity markets can be a circus when geopolitical issues, domestic policy outbursts, and trade negotiations are the order of the day. That is why we really don't do that with this report. We tend to focus on the physical trends in the natural gas market and report what we see. That vision today shows relatively low and stable natural gas prices; more natural gas serving power generation this year than last; a slight uptick in industrial usage and more gas to the residential/commercial sector. Put simply, first quarter demand for natural gas is up 10.2 Bcf per day (including pipeline and LNG exports) than the same period in 2017. Underground storage is below the five-year average but maybe aggressively refilling storage inventories will be just what the market needs to find a home for increasing domestic production. That and LNG exports, of course. Cove Point is beginning commercial operations, so the world will have even more access to the vast natural gas resource base in North America.