Natural Gas Market Indicators

American Gas Association

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Reported Prices – with WTI crude at $70.57—the first time above $70 per barrel since 2014—and Brent over $75 per barrel, Bloomberg reported on May 7 that Saudi Arabia and Iran disagree within the OPEC cartel as to what oil prices should be. Iran says about $65 per barrel and the Saudi oil minister landing closer to $80 per barrel. Now we have President Trump's pushback on the Obama-era Iranian nuclear deal, Iran and Israel testing political boundaries with Syria firmly in between, and oil prices rising even more. Geopolitical intrigue to be sure, which often has the consequence of creating oil price volatility. All the while, natural gas is trading just above $2.80 per MMBtu, which is a bargain compared to current oil prices on a Btu basis.

Weather – the first two reports of cooling degree days assembled by AGA from NOAA data for May 2018 were cumulatively 3.0 percent warmer than the same period last year and at the same time 17.2 percent warmer than normal for the lower-48 states. We recognize, of course, that the total number of cooling degree days during this time of year is low, and thus small deviations can produce large percentage changes. Still, by region, variations from normal have been all over the map. New England has been normal the first two weeks of May, the Middle and South Atlantic were much warmer than average, and the Pacific region much cooler than normal. As it is so early in the cooling degree day accounting, regional aggregate statistics may change dramatically during the next several weeks and months.

Working Gas in Underground Storage – we have *finally* seen storage build this year. It took until the end of April to see a net injection into underground storage inventories in the lower-48 state with a build of 62 Bcf for the week ending April 27. One week later an injection of 89 Bcf materialized, so we are firmly into the seasonal refilling. Remember our summary from two weeks ago: About 12 Bcf per day on average would be needed for net injections to exceed a 3.5 Tcf working gas inventory in early November. Based on the past week's report we are right on that pathway.

Natural Gas Production – having tagged 79 Bcf per day, domestic dry natural gas production has slid back in recent days. Small planned and unplanned pipeline and facilities maintenance is not uncommon in May, which can be viewed as a swing month when winter demand for natural has subsided, but power generation loads are not yet ramped up to summer requirements, thus allowing for maintenance that is often not disruptive to operations. Average daily dry production has been 78.1 Bcf this month and is a strong 7.5 Bcf more than the average in May 2017.

Shale Gas **–** some analysts believe that natural gas production from domestic shales and US LNG exporters will benefit with the politics of the US extricating itself for the Iran nuclear deal. If sanctions against Iran mean less oil purchased from the world market player, the US may see higher domestic and world oil prices from demand pressure and an opportunity to develop and produce more shale oil (and its accompanying associated gas) in areas such as the Permian Basin.

Rig Count – the domestic gas and oil rig count has pushed solidly above 1,000, reaching 1,045 on May 11, according to Baker-Hughes. That is 160 rigs higher than the same week one year ago. Oil-directed drilling is at 844 rigs operating, while gas activities are 199 rigs for the week ending May 11, which is 27 rigs higher than one year ago. Exactly half of all US drilling activity today is in Texas. Seven out of ten Texas rigs are in the Permian shale.

Pipeline Imports and Exports – imports from Canada during the first two weeks of May remain consistently above 5 Bcf per day and have averaged 5.4 Bcf per day this month. Compared to last May, however, that is 0.3 Bcf per day less than May one year ago. South of the US border, exports to Mexico have remained strong with a month-to-date average of 4.4 Bcf per day, which is 0.1 Bcf higher than one year ago.

LNG Markets – feedgas for US LNG exports in May 2018 averaged 3.5 Bcf per day, up 1.2 Bcf per day from May 2017. Of course, some of that growth can be attributed to the commercial start-up of Cove Point in Maryland earlier this year. Later this year, Elba Island LNG in Georgia is expected to begin operations, adding 0.35 Bcf per day of liquefaction capacity above that of Sabine Pass and Cove Point. After Elba Island, we may be well into 2019 until any other projects currently under construction come online.

Natural Gas Market Summary – current demand for natural gas including pipeline and LNG exports is running about 70 Bcf per day, which is less than half of the peak day consumption for the calendar year that occurred on January 1. Of course, this is not unusual as we transition from winter through spring and into summer. Storage inventories have begun robust injections to underground facilities, and the market will wait to see what summer brings for temperatures and other events such as hurricanes. Still, the market remains largely unperturbed from the $2.60 to $2.80 per MMBtu pricing range that Henry Hub futures settled into starting in February. Will that last?