Energy Insights

Natural Gas Market Indicators

Market Summary

- **Natural gas prices at the Henry Hub are relatively stable trading at around $4.40 as of February 28, presenting a sharp contrast with prices in European and Asian markets, which ranged between $23 and $43 over the last two weeks of February.**
- Thus far, natural gas prices in the US remain relatively stable following the outbreak of the War in Ukraine.
- Dry gas production is expected to remain strong even as demand falls as temperatures across the US become warmer.

January 2023 futures are trading at **$4.86 per MMBtu** as of February 28.

In 2021 the US became **the largest source of LNG** to Europe.

The GFS model expects the first week of March to be **warmer than normal**.

Weather

The final two weeks of February were colder than normal as two cold fronts moved across the US. The Mountain, West South Central, and Pacific regions saw the coldest temperatures, but most weather services expect the remainder of the winter to be warmer than normal. NOAA's GFS model expects the first week of March to be significantly warmer than normal for the majority of the US, but to cool down moderately over the second week of March.

Demand

As February closed, total natural gas demand remained relatively stable across the US following the late January surge that saw average demand rise above 140 Bcf per day. Domestic demand in February 2022 averaged around 103 Bcf per day, down 5 percent year-over-year as 2022 did not produce a winter storm of the magnitude of Winter Storm Uri. In contrast, total demand is down only about 1 percent from 2021 as record-setting LNG exports significantly offset a reduction in residential and commercial demand. As temperatures continue to drop over the first half of March, domestic demand is expected to continue to drop as well.

Natural Gas Production

Dry natural gas production averaged 92.5 Bcf per day in February, an 8.6 percent increase from February 2021. Producers seem to be reacting to the booming demand created by cold temperatures, the post-pandemic economic recovery, and increasing LNG exports. While the increase in production has lagged demand growth so far this year, production is expected to remain stable at around 93.6 Bcf over the first two weeks of March even as demand begins to drop due to higher temperatures. S&P Global Platts expects US dry gas production to increase by half a percent over the first two weeks of March while domestic demand drops by 16 percent.

Pipeline Imports and Exports

Gas volumes from Canada averaged 6.3 Bcf in February, consistent with February 2021 volumes. Similarly, pipeline exports to Mexico have averaged 5.6 Bcf per day, an increase of 0.4 Bcf per day from February 2021.

LNG Markets

Global LNG markets have been experiencing very high prices over the past year (prices have been 500 to 600 percent higher in Europe and Asia than at the Henry Hub). However, on February 24 as the War in Ukraine unfolded, prices at the Dutch TTF spiked to $43 per MMBtu, a 50 percent increase from the day before. Prices came back down to about $30 by February 25 and closed at $32.52 on February 28, but the high prices and volatility in international markets stands in stark contrast to the stability of prices in the US. The burgeoning markets for LNG overseas continue to provide a tremendous incentive for US LNG exports, which averaged 12.4 Bcf per day in February and are expected to average nearly 13 Bcf over the first two weeks of March. On February 22 the EIA reported that in 2021 the US became Europe's largest source of LNG, culminating a span of unprecedented growth considering the US was not a part of the European LNG market as recently as 2016. Additionally, 70 percent of the LNG delivered to Europe in 2021 came from the US, Russia, and Qatar. Thus, the long term impact of the situation in Ukraine on the European LNG markets remains to be seen. On February 27 German Chancellor Scholtz announced the construction of two LNG terminals as part of a sweeping effort to reduce Germany's dependence on Russian natural gas.

Underground Storage

US gas inventories in underground storage fell 159 Bcf for the week ending February 18. Stocks remain within the lower end of the five-year historical range and 10.5 percent below the five-year average. The colder temperatures over the first two weeks of February led to the strong pulls, with the strongest average pulls occurring in the Midwest, East, and South Central Nonsalt Regions.

Reported Prices

On February 28, Henry Hub prompt-month future prices closed around $4.40 per MMBtu, a 6 percent decrease for the day. Prices continue to drop as production remains strong but demand is expected to continue to fall. Concurrently, European natural gas prices remain in a state of high volatility. Prices went up by 50 percent on February 24 but dropped 30 percent on February 25 before increasing by 6 percent on February 28. The majority of the US has access to adequate and timely domestic natural gas supply. As a result, natural gas prices remain largely unaffected by the War in Ukraine and are expected to remain fairly stable for the foreseeable future. January 2023 futures are the highest priced futures on the board as of February 28 at $4.86 per MMBtu.

Rig Count

Gas rigs are up 3 for the week ending February 25 and up 35 year over year. Producers appear to be responding to strong demand and higher prices by increasing production. As of February 25, 80.3 percent of the rigs in operation in the US are oil directed and 19.5 percent are gas directed.

Please direct questions to Richard Meyer at rmeyer@aga.org or Juan Alvarado at jalvarado@aga.org. If you would like to add someone to the bi-monthly distribution list for this report, please notify Lucy Castaneda-Land at lcastaneda-land@aga.org