



Natural Gas Market Indicators

Market Summary

- On June 14, Freeport LNG announced that an explosion at its Texas facility will keep the facility offline for an estimated 90 days. Freeport does not expect the facility to be fully operational until late 2022.
- News of the delay in reopening Freeport was promptly followed by a sharp reduction in domestic natural gas prompt-month future prices from \$8.71 per MMBtu on June 13 to \$7.18 per MMBtu on June 14.
- Following a 97 Bcf injection into storage for the week ending June 2, inventories stand at 1999 Bcf, 14.5 percent below the five year average.



All futures through the end of the year are trading **below \$8** as of June 15



Month-to-date, power burn has accounted for **around half** of all domestic demand.



NOAA predicts a **65 percent chance** of an above-normal 2022 Hurricane Season

Weather

The second week of June was 7.1 percent warmer than normal as measured by heating degree days. As of June 10, cumulative heating degree days in 2022 are 28.6 percent higher than in 2021. The higher temperatures have been particularly prevalent in New England, a region that typically posts few CDDs from May through this time of year, but that has seen temperatures 200 percent warmer than normal in 2022. The week ending June 11 was 33.8 percent cooler than 2021 despite high temperatures settling in the Pacific region, which saw a 580 percent increase in the number of cooling degree days from 2021. Over the second week of June the New England, Middle Atlantic, E N Central, and W N Central regions saw temperatures 84.2, 80.6, 85.7, and 60.9 percent cooler than in 2021 respectively. NOAA expects hot weather to persist over the next two weeks, with forecasted highs of 90s to 100s in much of the lower 48. June 1 marked the start of hurricane season. On May 24 NOAA predicted a 65 percent chance of an above-normal 2022 Atlantic Hurricane Season due to an ongoing La Niña. On June 5, a storm that had developed over the Yucatan Peninsula on May 31 was named Alex, marking the first named tropical storm of the season.

Demand

The demand for natural gas throughout the second week of June 2022 has been stronger than in June 2021, averaging around 71.4 Bcf per day which is a 1.7 percent increase from June 2021. Month-to-date, power burn has accounted for around half of all domestic demand. The preliminary number for power burn demand in the South East region on June 14 was 14.6 Bcf. If confirmed, such a demand would mark an all-time high. Year-to-date demand is up 2.5 percent from 2021.

Production

Dry gas production for the second week of June averaged 94.6 Bcf per day, representing a 2.6 percent increase from 2021. Year-to-date growth in production now stands 3.2 percent higher than in 2021. The June 13 drilling productivity report from the EIA forecasts total production in the US to grow by 781 MMcf per day, with most of those production gains coming from the Appalachia and Haynesville basins (231 and 226 MMcf per day respectively). Similarly, the Permian basin is expected to see gains of 165 MMcf per day in July 2022. Natural gas production in the Permian basin is almost entirely associated with oil production. As a result, growth in crude oil production at the Permian has also resulted in sustained growth in natural gas production since 2012. On June 2 the EIA reported that in 2021 the Permian reached a new annual high production of 16.7 Bcf per day.

Pipeline Imports and Exports

Natural gas imports from Canada averaged 5.4 Bcf per day over the first two weeks of June, a 17.3 percent increase from last year. In contrast, exports to Mexico averaged 6.3 Bcf per day over the first two weeks of June, a 6 percent year-over-year reduction.

Reported Prices

On June 6, prompt-month futures at the Henry Hub reached \$9.32 per MMBtu. The Henry Hub had not seen such prices for prompt-month futures in over a decade. Following the June 8 explosion at Freeport LNG's liquefaction facility in Quintana, Texas, Freeport LNG initially announced that the facility would be shut down for three weeks. After a brief price correction, Henry Hub prompt-month future prices settled at \$8.71 per MMBtu. However, on June 14 Freeport LNG announced that operations would partially resume in 90 days, and that the facility would not be fully operationally until late 2022. Following the update, Henry Hub prompt-month future prices dropped 16.7 percent to \$7.18 per MMBtu. The market's reaction to Freeport's announcement is unsurprising given the influx of unexpected supply that results from the short term elimination of a significant source of demand. EIA's June 7 Short Term Energy Outlook forecasted 2023 Q1 natural gas prices to average around \$7.43 per MMBtu before sharply declining in Q2 to \$3.88 per MMBtu. EIA also expects prices to average \$4.74 per MMBtu for 2023.

Rig Count

Since September 2021, the US has added gas-directed rigs every week, positively reflecting rises in natural gas prices. However, the rate of growth of new rigs has been slow in comparison to recent surges in natural gas prices. The US added 6 new rigs for the week ending June 10, all of which were oil-directed. Oil-directed rigs make up 580 of total rigs, up 46 percent from last year. In the same week, Canada added 22 new oil-directed rigs and 2 new gas-directed rigs. Gas-directed rigs make up 151 of the 733 total US rigs. Total gas-directed rigs in the U.S. are up 45 percent from last year.

LNG Markets

An onsite fire at Freeport LNG on June 8 prompted the Texas LNG export facility to shut down completely. On June 14, Freeport announced that while the facility is not expected to be fully operational until late 2022, partial operations will resume in mid-September. Freeport LNG generally makes up 16 percent of the total US LNG export capacity. Prior to the shutdown, total US feedgas shipments had been averaging 12.8 Bcf per day this month and were expected to average around 13 Bcf per day in June and 13.2 Bcf per day in July. Freeport's shut down has led to an easing of the forecast to 11.3Bcf per day. Following the fire, Henry Hub spot prices decreased from \$9.29 per MMBtu to under \$7.31 per MMBtu as the market reacted to the influx of unexpected supply. On the other hand, news of the fire saw natural gas prices rise overseas. Of note, Dutch TTF prompt-month future prices increased by 15 percent on June 14 following news of the operational delays at Freeport.

Underground Storage

On June 3 the EIA reported an injection of 97 Bcf into storage, a build comparable to last year's 98 Bcf injection for the same week last year. While the injection is robust by historical standards, it does little to move current storage closer to the five-year average. At 1,999 Bcf, current stocks remain 14.5 percent below the five year average. However, some analysts are expecting some strong injections versus the historic averages. As of June 14, S&P is forecasting an injection of 83 Bcf per day for the week ending June 9, a 5 percent increase from the five-year average, and a 200 percent increase year over year.

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