Market Summary

- U.S. domestic natural gas demand remains very high, driven primarily by demand for power burn as temperatures rise across the US.

- As demand remains strong, so has production. Current estimates by EIA and S&P imply that July production is likely to set an all-time record.

- Storage remains substantially below the 5 year average, but continues to grow at a reasonable pace. Analysts do not expect consistent above average storage injections through the end of the month.

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Domestic demand peaked at nearly 100 Bcf on July 13.

The East South Central region posted nearly 31 percent above-normal CDDs.
Weather
Blazing temperatures across the country pushed cooling demand during the recent week. For the most recently reported week ending July 9, temperatures were 8.2 percent warmer than 2021 and 14.5 percent warmer than normal by measure of cooling degree days (CDDs). Every region except the Pacific posted double-digit percentage increases above normal. Heat in the southern part of the US pushed the CDD count in the West South Central (Texas, Louisiana, Oklahoma, Arkansas) nearly 33 percent above normal, a remarkable outcome given how typically hot it is already this time of year. The East South Central region posted nearly 31 percent above-normal CDDs. Only one week in ten since May 1 has been cooler than the 1991-2020 normal, according to data from the National Oceanic and Atmospheric Administration. Cumulatively, the country as a whole from May 1 to July 9 posted 22.5 percent more (warmer) CDDs.

LNG Markets
LNG production for the first half of July stabilized at 11.6 Bcf per day, 0.6 Bcf per day less than in 2021. The fire at the Freeport LNG facility we have previously reported on reduced LNG export capacity by about 2 Bcf per day. As a result, current exports continue to represent almost all available US export capacity. In the wake of the Freeport fire, EIA also updated its US LNG export forecast downward by about 8 percent per day through the end of the year. The fire, combined with high demand for cooling in Western Europe has likely resulted in the high prices for LNG in European markets. On July 14, prompt-month future prices at the Dutch TTF hovered at around $53.6 per MMBtu, more than double the $26.1 per MMBtu natural gas was seeking at the TTF immediately prior to the explosion.

Demand
Natural gas demand for power generation hit 47.2 Bcf on July 12, a scant 0.85 Bcf (1.8%) below the record 48.1 Bcf set on July 27, 2020, according to data from S&P Commodity Insights. The current strength in domestic power burn is remarkable given that natural gas futures on that day in 2020 were $1.71 per MMBtu compared with $6.16 this year. Southeast power burns peaked at 15.7 Bcf per day on July 7 and averaged 14.6 Bcf per day in July which is 2.8 Bcf per day higher than the five-year average. Hot weather across the country has driven strong demand, which peaked at nearly 100 Bcf on July 13, with nearly half of that demand going to power burn. Over the second week of July, average demand was 96.3 Bcf per day. S&P Global estimates that demand will continue to grow through the end of July, averaging 96.6 Bcf per day and 98.5 Bcf per day over the third and fourth weeks of July, respectively.

Underground Storage
According to EIA in its latest Weekly Natural Gas Storage Report, working gas in underground storage tallied in at 2,369 Bcf for the week ending July 8. This is 9.6 percent lower than the same time last year, 11.9 percent less than the 5-year average, and just 5.1 percent higher than the lower bound of the 5-year range. While the reported injection did not do enough to improve the storage outlook from previous weeks, the injection was on par with most analyst's expectations. S&P is forecasting an average daily injection into storage of 2.8 Bcf per day through the end of the month.

Production
Dry gas production has remained largely flat from July 1, averaging 94.6 Bcf per day, which is virtually unchanged from the month prior. However, the second week of July is closing production about 1 Bcf per day lower than earlier in the week, a decline that is driven in part by planned maintenance in the Northeast. S&P Global projects dry gas production to ramp up to around 94.4 Bcf per day over the second half of July as temporarily closed facilities come back online. Should S&P’s projections come to pass, July 2022 will likely set an all time record for July dry gas production.

Pipeline Imports and Exports
Natural gas imports from Canada in June are stronger than any time in the past four years, averaging 5.5 Bcf per day month to date, up 20 percent from the same period in 2021. Exports to Mexico, on the other hand, averaged 6.3 Bcf per day, an 7 percent decrease for the month in 2021.

Reported Prices
On July 12, Henry Hub spot prices closed at $6.81, which is $1.09 more than at the same time one week before. Prompt-month future prices have climbed steadily over the first two weeks of of July. On July 1, prompt-month futures were trading at $5.72. On July 14, prices hit $6.67 per MMBtu, a 16 percent increase. However, prices remain 22 percent lower than immediately prior to the Freeport facility explosion. Natural gas has been trading at a substantial premium outside of the Henry Hub, particularly east of the Mississippi. Transco Zone 5, for instance averaged $8.89 per MMBtu over the second week of July, a $2.77 per MMBtu average premium, and $2.16 per MMBtu greater than the average for June. In other markets, Northern Appalachian coal closed at $141.30 per ton on July 8, WTI crude closed at $96.30 on July 13, and the AAA average gas price is $4.605 as of July 14.

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