Natural Gas Market Indicators

American Gas Association

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Reported Prices – by April 5, 2019 the forward strip for natural gas at Henry Hub had backed-off a little more such that no price above $2.97 per MMBtu was to be found in the monthly, seasonal or calendar year expectations through 2022. That has changed slightly inasmuch as the current 2019-20 winter heating season strip peaks at $3.03 according to Henry Hub futures reporting. That market view of price stability is remarkable and reflects the continued strength in domestic production of natural gas. The current prompt month price for natural gas at Henry Hub is only about $2.70 per MMBtu, while Brent and West Texas Intermediate crude have climbed to $71.27 and $64.04 per barrel on April 11, respectively.

Weather – final heating degree day data is in for the 2018-19 winter heating season, as AGA aggregates data from the first week in October through, in this case, April 6. For those 27 weeks, 14 were colder than normal and 13 were warmer for a final reading of 0.4 percent warmer than normal for the lower-48 states in aggregate. The data from the National Oceanographic and Atmospheric Administration also show that October, December and January were colder than normal, while November, February and March were collectively warmer than normal this past winter heating season. The coldest areas of the country for the six-month period were the East and West North Central regions (upper midwest and upper plains states). The most consistently warmer than normal states were in the South Atlantic and East South Central regions.

Working Gas in Underground Storage – net changes in underground storage flipped for the week ending March 29, 2019 from what had been storage withdrawals (normal for the winter heating season) to a net injection of 23 Bcf. The following week another 25 Bcf was added. Even with a relatively early start to net injections, inventories at 1,155 Bcf remain 29.6 percent below the five-year average and 13.7 percent behind this time last year. The largest differences from the five-year norm are in the Mountain and Pacific regions, although all parts of the country are showing significantly lower volumes in storage. Maybe that is a good thing. Domestic production is up from that in 2018. Excess production needs a place to go when demand levels from the winter heating season fall below production volumes in the spring and summer. Generally, production does not ramp up and down in the short-term as consumption does with seasonal and other influences. Even the gas demand for power generation during the cooling season is not enough to physically balance the market. Therefore, a robust storage system becomes a very important player in sustaining production growth in North America.

Natural Gas Production – domestic daily average natural gas production in April at 86.4 Bcf is running 7.7 Bcf per day higher than in March 2018 – March 2019 having been a record month for dry gas production at 86 Bcf per day. Average production year-to-date as we move from the first quarter to the second is a strong 7.9 Bcf per day higher than the same period in 2018.

Shale Gas – an agreement between Southwestern Energy and New Jersey Natural Gas provides that up to 14 percent of the New Jersey utility's gas supply will originate from sustainably produced wells within the Marcellus shale in Pennsylvania, according to S&P Global's *Daily Gas Report*. As many as 20 wells will be so dedicated, according to S&P Global, and others added as original wells in the program deplete.

Rig Count – rig counts nosed down once again the last week in March, primarily due to oil-directed activity, however, gas-directed drilling has fallen to 190 rigs operating, which is four rigs less than one year ago. In addition, total rigs operating (gas and oil) were down 10 rigs from the prior week at the end of March to 1,006 rigs working. That is just 13 rigs higher than one year ago but still oil and gas production continue to rise.

Pipeline Imports and Exports – pipeline natural gas import volumes from Canada are down from this time last year with current monthly volumes at 4.4 Bcf per day compared to 5.8 Bcf per day in April 2018. Year-to-date daily averages have been 4.8 Bcf per day, which is 0.8 Bcf lower when compared to the first three months plus two weeks of 2018. On the southern border, pipeline exports to Mexico have been strong in early 2019 and are now 4.9 Bcf per day year-to-date, which is 0.6 Bcf higher than the same period in 2018.

LNG Markets – a joint venture between Qatar Petroleum and Exxon (Ocean LNG Ltd.) has agreed to take all LNG volumes from Golden Pass LNG in Sabine Pass, Texas, after the two companies made a positive final investment decision in February of this year, according to S&P Global. The venture will market US gas to South America and Europe, as well as the Asia-Pacific region. Construction will begin in 2019 with an in-service target of 2024. S&P Global's *Daily Gas Report* also reports that a deal to buy LNG from another Texas developer (Rio Grande LNG) has introduced pricing tied to global crude prices. The 20-year supply agreement by a Shell subsidiary anticipates buying 2 million tonnes per year of LNG from NextDecade Corp., which plans to build in Brownsville, Texas. About three-quarters of the LNG volumes would be linked to the Brent crude pricing benchmark, with the remainder indexed to U.S. gas prices including Henry Hub. Year-to-date flows of feedgas for export have reached 4.4 Bcf per day and is 1.3 Bcf per day higher than the first 14 weeks of 2018.

Natural Gas Market Summary – as noted earlier, dry gas production in the US is running nearly 8 Bcf per day higher year-to-date than in 2018. Imports of pipeline gas from Canada and LNG are down slightly, so domestic supplies are currently 7 Bcf per day higher than last year. That additional gas supply has served power generation, increases in seasonal demand for the residential/commercial market during the first quarter of 2019 and growing LNG exports, as well as pipeline exports to Mexico.