Natural Gas Market Indicators

AGA American Gas Association

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Reported Prices – many developments continue to shape expectations for oil supply, demand, and prices. By April 13, 2020, OPEC and Russia had reached a deal that would aim to remove nearly 10 million barrels per day of global oil supply from the market. Potential reductions from the US and other countries could push the total supply cut even higher. On April 14, the Texas Railroad Commission listened to arguments as it weighed the possibility of requiring production cuts in the state to mitigate the global glut in supplies and the resulting financial impacts on the oil industry. US crude oil prices are trading at $20 per MMBtu as of April 15, the lowest nominal level in nearly 20 years. Meanwhile, current prompt month pricing for natural gas at Henry Hub is $1.60 per MMBtu.

Weather – final heating degree day data is in for the 2019-20 winter heating season, and AGA has aggregated data from the first week in October through April 4. For those 27 weeks, five were colder than normal, twenty-one weeks were warmer, and one "no change," for a final reading of 8.7 percent warmer than normal for the lower-48 states in aggregate. The data from the National Oceanographic and Atmospheric Administration also show that only November was colder than normal, while all other months were collectively warmer than normal this past winter heating season. The relatively coldest areas of the country for the six months were the Mountain and Pacific regions, while the most consistently warmer-than-normal states were in the South Atlantic and East South Central regions.

Working Gas in Underground Storage – changes in underground storage flipped for the week ending April 3 to a net injection of 38 Bcf. Inventories at 2,024 Bcf remain 19.1 percent above the five-year average and 76.3 percent ahead of this time last year. With stocks beginning the injection season well above average, how will demand declines due to the Coronavirus affect the pace of injections this summer? The spread between current cash prices and winter contracts is higher than at any time in five years and could further incentivize a strong injection season.

Natural Gas Production – the Energy Information Administration in its *Short-Term Energy Outlook* cut its estimates for 2020 US natural gas production by 3.8 percent to 91.7 Bcf per day on average to account for the impact of COVID-19 on the level of drilling activity. The EIA expects total US dry gas production to fall from 94.4 Bcf per day in March to 87.5 Bcf per day in December. The EIA expects output to drop an additional 5.5 percent through 2021 to 87.8 Bcf per day on average.

Rig Count – rig counts nosed down once again, primarily due to oil-directed activity. Oil rigs fell by 58 and gas-directed shed 4 for the week ending April 9, 2020, according to Baker Hughes. The Permian basin alone saw a decline of 35 rigs. Total rigs in operation have fallen by 420 from year-ago levels. The US gas rig count now stands at 96, which is 93 less than one year ago. Despite the decline in rig activity, the Marcellus and Utica shales, which remain gas-focused plays largely, have seen only a small decrease in total activity.

Pipeline Imports and Exports – pipeline natural gas import volumes from Canada are down from this time last year with current monthly volumes at 3.6 Bcf per day compared to 4.4 Bcf per day in April 2019. Pipeline exports to Mexico have been strong in early 2020 and are now 5.2 Bcf per day, year-to-date, which is 0.3 Bcf higher than the same period in 2019.

LNG Markets – six US LNG vessels are bound for China, according to S&P Global. The cargoes en route mark a turnaround after LNG flows between the US and China had been cut off due to the trade war. According to S&P Global, the combined cargo volume would average 0.7 Bcf per day from April 15 to May 15, the expected delivery period. Meanwhile, year-to-date flows of US natural gas feedgas for export have reached 8.6 Bcf per day and is 4.2 Bcf per day higher than the first 14 weeks of 2019. The largest differences in year-to-date averages are seen in the Southeast-Texas region, averaging 114 percent higher than this time last year.

Natural Gas Market Summary – US natural gas demand declines resulting from shut-downs and social distancing measures to mitigate the COVID-19 pandemic are beginning to materialize in the data. US electricity load is about 5 to 6 percent below weather-adjusted levels, and industrial natural gas demand is down about 1.5 Bcf per day from historical levels, according to S&P Global. However, weather and prices are offsetting those declines. Cooler temperatures have fostered additional residential and commercial demand, and the low price of gas for power generation has boosted gas's share relative to coal. Meanwhile, underground storage volumes begin the injection season nearly 20 percent above average. The pace of refills could be hastened if US gas demand remains depressed due to COVID-19. But that pace also depends on natural gas production. At the moment, US dry gas flows remain steady and well-above year-ago levels. However, EIA analysts are forecasting gas production to decline through December. A primary driver may be weak oil prices, which could lead to a drop in future associated gas production. How much is the question? Any unpredictability in the oil market is further complicated by uncertainties related to COVID-19. Still, amid this time of anxiety, we see a natural gas market that is working to deliver essential energy across the US.