Natural Gas Market Indicators

American Gas Association

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Reported Prices – crude oil prices have continued to moderate the first half of August 2018 with West Texas Intermediate at nearly $68 per barrel and Brent about $73.35. Natural gas, on the other hand, has been boosted to $2.93 per MMBtu for September NYMEX trading, which is about 15 cents per MMBtu higher than two weeks ago. Even with solid domestic production growth this year, a consistantly warmer than normal summer appears to have created a level of competition between natural gas to power and natural gas destined for underground storage injections that has created upward pressure on wellhead prices at different moments during the past three months.

Weather – warmer, warmer, warmer. For the lower-48 states, every week in aggregate beginning in May 2018 through mid-August has been warmer than normal as measured by cooling degree day statistics issued by the National Oceanographic and Atmospheric Administration (NOAA). Temperatures are 23 percent warmer than normal for the 3.5 month period and 11.6 percent warmer than the same period last year. Geography has not interferred with the trend either inasmuch as every region of the lower-48 has been warmer than normal during the last 3.5 months in aggregate. New England and the Pacific regions have deviated the most from the norm coming in at 53.3 percent and 46.2 percent, respectively.

Working Gas in Underground Storage – the Washington Nationals just don't seem like they are going to break out this season and make a big run to the baseball playoffs. We mention that because, likewise, natural gas added to storage inventories for most of the injection season have been lagging. Only once since net injections began in late April 2018 have inventories increased more than 100 Bcf during a given week and that was back in June. In fact, for the past four weeks, underground storage injections have averaged only about 5 Bcf per day, which is less than half than earlier in the injection season. So, let's do the math. Beginning August 4 and going forward, the net injection season has 90-95 days remaining depending on how far it carries into November – maybe even a few more. Pick a number for an ending inventory – let's say 3.5 Tcf (low compared to recent history but still a lot of stored gas). To reach that volume would require about 12-13 Bcf per day of underground storage injections between now now and early November. We'll see. Is it ever going to cool down? Certainly, if it does some more gas can go to storage rather than to generating electricity for cooling loads.

Natural Gas Production – Texas and the Northeast have boosted production this summer as dry gas flows have reached record levels. More broadly, US production ramped up 1.5 Bcf per day in July over June. Dry gas production year-to-date for the country is currently 78.1 Bcf per day, which is running 8.5 percent above the same period in 2017. More recent daily production has reached 82 Bcf per day, however, periodically setting new daily production records as the year progresses.

Shale Gas – finding outlets for shale gas continue to encounter headwinds as construction on the Atlantic Coast pipeline has been temporarily halted due to a US appeals court ruling to vacate a right-of-way permit from the US National Park Service. New permits may be issued that would ultimately allow the Federal Energy Regulatory Commission (FERC) to permit construction to continue but the timing for such is still unknown.

Rig Count – while rigs operating fell by 14 in Canada last week, they increased by 13 in the US – ten targeting oil and three drilling for gas. Gas-directed drilling which had a recent peak of 200 rigs operating in mid-May, then dropped, is back up to 186, which is five more than one year ago. In contrast, oil operations are up 101 over last year to 868 rigs operating. Total rotary rigs operating in the US as of last Friday are 1,057 – 108 higher than the 949 one year ago.

Pipeline Imports and Exports – pipeline imports of natural gas from Canada have been 4.9 Bcf per day this August, which is 0.3 Bcf per day less than that recorded in August 2017, according to S&P Global. At the same time, US exports to Mexico have averaged a robust 5.0 Bcf per day this August, a full 0.7 Bcf per day more than in August 2017.

LNG Markets – export volumes of LNG from US facilities have steadily increased with expansion at Sabine Pass and the addition of exports this year originating from Cove Point, Maryland. Volumes today are routinely 3.5 Bcf per day combined from the two facilities and at 3.2 Bcf per day year-to-date are running 1.2 Bcf per day higher than one year ago.

Natural Gas Market Summary – consumption of natural gas in the power sector is leading the increase in overall natural gas demand in 2018, which has been 9.1 percent over total demand in 2017 without considering growth in gas exports. However, as noted previously, dry gas production is up, too, which has balanced Henry Hub pricing generally below $3 per MMBtu this summer. With more demand for natural gas in the power sector has come competition for flowing supplies during the storage injection season and recent injections have been relatively low compared to history. A stronger injection rate will be required to get underground storage to 3.5 Tcf by November.