

NATURAL GAS MARKET INDICATORS

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Natural Gas Market Summary –

- Tropical Storm Fred's path in the Gulf of Mexico could lead to offshore production shut-ins.
- Natural gas demand is above 2020 levels as exports drive incremental demand, which more than offset lower domestic consumption month over month from 2020, including power and industrial end-use.
- The pace of storage injections in August has slowed relative to 2020. Working gas inventories are nearly 550 Bcf below year-ago levels and six percent below the five-year average.

Weather – Tropical Storm Fred and warmer-than-average temperatures were the top weather stories for the first half of August 2021. The season's sixth storm, Tropical Storm Fred, began in Puerto Rico and continued northwest towards Florida after being downgraded to a Tropical Depression by the National Hurricane Center. At this writing on Friday, tropical storm watches remain in effect for portions of the Bahamas, areas of Cuba, and South Florida. The previous storm, Hurricane Elsa, mainly impacted demand in Florida. However, Fred's path has the potential to cause minor offshore production shut-ins. Concurrently, summer conditions and warmer-than-average temperatures remain present across the lower-48. While temperatures, as measured in cooling degree days, were 9.4 percent warmer than last year for the week ending August 14, they were 32.9 percent warmer than average. Nonetheless, cooling degree days since May are 13.2 percent warmer than average.

Demand – Natural gas demand remains below 2020 levels, but warm temperatures continue to drive high daily consumption of natural gas to power generation. Power burn volumes reached over 44 Bcf per day late last week after a heatwave sent air conditioning demand soaring. At 73.1 Bcf per day, the average month-to-date US demand for August 2021 is running 2.1 Bcf below the average in August 2020. Similarly, year-to-date domestic demand of 81.0 Bcf per day remains 0.8 Bcf per day lower than the same period in 2020. In its latest *Short-Term-Energy Outlook*, the EIA estimates that natural gas consumption from the electric power sector in July 2021 averaged 39.5 Bcf per day.

Natural Gas Production – Daily dry natural gas production remained consistently above 90 Bcf over the first half of August, with daily peaks reaching above 91 Bcf per day. As a result, the average daily dry gas production year-to-date is now 90.1 Bcf, 0.5 Bcf per day lower than in 2020. On a regional level, the month-to-date average dry gas production in the North is up 2.6 percent compared with the same period in 2020; Southeast onshore production is up 4.0 percent, and production in the West is up 0.8 percent compared to August 2020.

Pipeline Imports and Exports – Increased US pipeline exports to Mexico continued through the first half of August. Cross border flows averaged 6.4 Bcf per day for the first two weeks of the month, according to S&P Global Platts, 0.8 Bcf per day above the average during the first two weeks of August 2020. Meanwhile, month-to-date import volumes from Canada are up 0.2 Bcf per day compared with August 2020. Daily imports from Canada have stayed consistent at 4.9 Bcf per day on average for August, generally fluctuating only 0.3 Bcf per day.

LNG Markets – US LNG exports have averaged 10.5 Bcf per day this year, 3.7 Bcf per day above the same period in 2020. LNG to Asian and European markets commands high prices, adding further incentive to the US domestic export market. In August, LNG exports averaged 10.2 Bcf per day, 0.6 Bcf per day below the July daily export average. Looking forward, the EIA expects LNG exports to remain at high levels for the rest of the year. According to the EIA's *Short-Term Energy Outlook*, LNG exports are forecast to average 9.5 Bcf per day for the year as a whole.

Working Gas in Underground Storage – Working gas in underground storage saw an injection of 49 Bcf for the week ending August 6, a net increase of two percent from the previous week. With roughly three months left in the typical injection season, the volume of working gas in underground storage as of August 7 is 2,776 Bcf, 6.0 percent below the five-year average and 16.5 percent below the inventory level for the same week last year. Looking ahead, in the August Short-Term Energy Outlook, the EIA forecasts US inventories of natural gas will enter the injection season on November 1 at 3,592 Bcf, 159 Bcf below the five-year average. Both above-average withdrawals of natural gas this past winter and light storage inventory builds this summer contributed to the forecast.

Reported Prices – During the first two weeks of August, natural gas prices rose above \$4.10 per MMBtu, reaching their highest level since November 2018. A hot weather forecast increased cooling demand, and higher pipeline and LNG export volumes contributed to prices. Spot prices are currently trading at \$3.90 per MMBtu for September from Henry Hub contracts. The forward seasonal strip at Henry Hub rises above \$4.20 per MMBtu for January 2022 but falls back into the \$3.30 to \$3.35 range for the summer of 2022. Meanwhile, as Brent has crept up to \$71 per barrel, West Texas Intermediate is above \$69 per barrel as of August 13.

Rig Count – The US rig count continues to rise. According to the Baker Hughes Rig Count report, the number of rigs in operation has increased with the addition of two oil-directed units to a yearly high of 491 rigs as of August 13. The resulting rig count is 244 units above the number of rigs in service in August 2020. Of the rigs in operation, 387 are oil seeking, while 103 are natural gas-directed. Of note, completions in some areas have risen. Data for Midland basin in the Permian shows completions at record levels, up 30 percent in the second quarter compared with the last quarter in 2019, according to data from S&P Global Platts.

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