



NATURAL GAS MARKET INDICATORS

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Natural Gas Market Summary – summer temperatures have been warmer than normal on average this year with gas volumes to power generation above 2019 levels (up 1.8 Bcf per day year-to-date) and reaching summer highs. However, increased natural gas to power generation volumes cannot offset lower industrial and residential/commercial demand levels, the latter of which is down 2.9 Bcf per day this year. The result is that 2020 lower forty-eight total consumption of natural gas has been 1.2 Bcf per day lower than total consumption during the same period in 2019. We will continue to track natural gas prices as warmer forecasts appear likely to continue to boost cooling demand and ease the pace of storage injections.

Reported Prices – During the first week of August, natural gas prices rose above \$2.00 per MMBtu, reaching their highest level since December 2019. The rise in prices is underpinned by a hot weather forecast and an improving outlook for LNG exports to Asia and Europe. Spot prices are currently trading at \$2.10 per MMBtu for September Henry Hub contracts. The forward seasonal strip at Henry Hub rises above \$3.00 per MMBtu for January 2021 but falls back into the \$2.65 to \$2.70 range for the summer of 2021. Meanwhile, as Brent has crept up to \$45 per barrel, West Texas Intermediate is above \$42 per barrel as of August 14. While the current price represents a 150 percent increase since April, it remains substantially below prices in the fourth quarter of 2019 when WTI prices ranged between \$52 and \$62.

Weather – the week ending August 8, the fifteenth week of the 2020 cooling season, saw the first week of cooler-than-normal temperatures since the middle of June. As such, it became only the fourth week in the cooling season that has registered cooler than normal temperatures. Conditions have cumulatively been 15.7 percent warmer than normal going back to the first week in May and extending through August 8 for every region in the lower forty-eight.

Working Gas in Underground Storage – inventories rose by 33 Bcf and 58 Bcf for the weeks ending July 31 and August 7, respectively. With roughly three months left in the typical injection season, the volume of working gas in underground storage as of August 7 is 3,332 Bcf, well above the 2,724 Bcf in inventory on August 7, 2019 and the five-year average of 2,889 Bcf. Most of the additional gas is being stored in the South Central nonsalt (26.3 percent) and the Midwest (22.2 percent), but the largest relative increase in storage is in the South Central salt caverns, which currently sits 56.0 percent above last year's levels.

Natural Gas Production – North production has dropped slightly since hitting a year-to-date high of 35.5 Bcf per day on August 9, according to data from S&P Global. Nonetheless,

month-to-date production in this region stands at 34.9 Bcf per day – 0.8 Bcf per day above August 2019. In contrast, production in the South and West regions is down 5.5 and 0.2 Bcf per day from a year ago, respectively. Additionally, the year-to-date average of 90.2 Bcf per day is level with the same period in 2019 for the lower forty-eight dry gas production as a whole and is averaging 87.6 Bcf per day month-to-date, a 4.9 Bcf reduction from August 2019.

Rig Count – The US rig count continues to drop. According to the Baker Hughes Rig Count report, the number of rigs in operation has decreased following the elimination of four oil-directed units in the previous week, to a record low of 244 rigs as of August 14. The resulting rig count is 691 units below the number of rigs in service in August 2019. Of the rigs that remain in service, 172 are oil seeking, and 70 are natural gas-directed.

Pipeline Imports and Exports – daily natural gas pipeline imports from Canada registered 4.4 Bcf per day in the first half of August, which is about 0.4 Bcf (10 percent) above the daily volume imported in August 2019. Similarly, pipeline exports to Mexico were also up 0.4 Bcf to 5.7 Bcf per day in August 2020 compared to one year ago.

LNG Markets – the Mexican government is considering liquefying excess natural gas imported from the United States and exporting it to Asia and Latin America, according to S&P Global. The Mexican government previously purchased large quantities of natural gas to fire several gas-powered power plants. However, when the power plants failed to materialize, the excess gas was placed into storage. While the details of the plan are uncertain as of this writing, the change could create a regional hub large enough to compete with the US-based Costa Azul facility. Meanwhile, the growth of LNG export capacity continues into August as the Federal Energy Regulatory Commission granted clearance for commercial service to begin on the final small LNG unit at Elba Island. LNG feedgas volumes are averaging 4.2 Bcf per day in the first half of August, 0.2 Bcf lower than this time last year.

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