

# NATURAL GAS MARKET INDICATORS

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Edition 395

## ***Natural Gas Market Summary –***

- Weekly temperatures in the second half of July have all been cooler than July 2020, though weeks have alternated between hotter and cooler than the 30-year normal. At the same time, exports to Mexico and LNG feedgas remain more robust than ever, up a combined 8.2 Bcf per day compared to this month last year. As a result, total demand is averaging 4.1 Bcf per day more than this same month last year.
- On the supply side, levels of Canadian increased imports into the market may have offset slight declines in production, averaging 0.9 Bcf per day more than July 2020.
- These various supply and demand balances are contributing to future prices at Henry Hub above \$4 per MMBtu as of July 29.

***Weather*** – Although temperatures have not been as high across the country as they were earlier in the summer, cooling degree days were 9.1 percent higher than normal in July. Cumulative cooling degree days have been 14.1 percent higher than normal since May 1. The hurricane season was relatively quiet in July. Hurricane Elsa which became a named Tropical Storm on July 1, was the fifth and last named storm so far this season. At the time, Elsa set the record as the earliest “E” named storm in the Atlantic. However, no new named storms have formed since. For comparison, nine storms had been named as of July 31, 2020.

***Demand*** – Warm temperatures across the country have resulted in high natural gas demand, primarily for power burn. Total average domestic demand for July was 73.3 Bcf per day. Average demand was even higher over the last two weeks of July at 75.1 Bcf. Average July domestic demand was about 5.1 percent lower than in July 2020, a record setting month, but is less than one percent lower than in 2020 year over year. Total demand, however, remains substantially higher than in 2020 as demand for LNG exports has exploded. Demand for LNG exports has increased by nearly 230 percent year over year.

***Natural Gas Production*** – Natural gas production has maintained a season average of 90.7 Bcf per day for the month of July. This is 2.7 Bcf higher than last year’s daily average through July 2020. Overall, production in July has been robust with a daily average production of 90.4 Bcf. While S&P Global Platts expects production to remain around 91.5 Bcf per day through the end of July, the large demand for natural gas has tightened the supply/demand margin below 2020 levels. Through July 2021 the average daily natural gas surplus is 18 percent lower than in 2020.

***Pipeline Imports and Exports*** – According to the latest report from the EIA, US natural gas exports to Mexico set a new monthly record in June 2021. US natural gas pipeline exports to Mexico averaged 6.8 Bcf per day last month, an increase of 25 percent over June 2020, and

44 percent over the previous five-year monthly average. As mentioned in an earlier Market Indicators, new pipeline additions that went into service over the past 12 months have significantly increased the volume of natural gas flowing to Mexico. Both the Sur de Texas-Tuxpan Pipeline and Trans-Pecos Pipeline led the increase, with combined flows of 2.5 Bcf per day, up 1.5 Bcf per day from year-ago levels. Exports to Mexico remained strong in July, averaging 6.5 Bcf per day, 0.7 Bcf more than July 2020. Similarly, daily natural gas imports from Canada registered 5.0 Bcf per day in July 2021, which is 0.8 Bcf above the daily volume imported in July 2020.

**LNG Markets** – Substantial US LNG export volumes continued through July as global demand remains high. According to S&P Global Platts Analytics, US exports of LNG averaged 10.6 Bcf per day over the first seven months of 2021, an increase of nearly 3.6 Bcf per day compared with the same period in 2020. For July, LNG exports averaged 10.8 Bcf per day, 7.5 Bcf more than the average in July 2020, when nearly 45 cargo shipments were canceled due to the COVID-19 crisis. As described in previous Market Indicators, a large portion of the high export levels are being driven by high demand and prices in Europe and Asia. On July 28, the UK natural gas benchmark, National Balancing Point, reached \$14 per therm for the first time in 16 years and for the first time ever outside of the winter months. Similarly, on July 29 Asian countries like Pakistan were purchasing LNG at rates above \$15 per MMBtu, the highest price in history.

**Working Gas in Underground Storage** – The week ending July 16 saw a storage injection of 49 Bcf, a 200 percent increase from the prior two weeks, bringing the total working gas inventory to 2,678 Bcf. Following the more robust injection, the storage level remains within the five-year range but 6.2 percent lower than the five-year average of 2,854 Bcf. Additionally, the current working gas storage levels are still 16.6 percent lower than last year's levels of 3,210 Bcf. Injections remain low this year as the high demand for gas for power burn persists and pipeline and LNG exports remain at near-record levels.

**Reported Prices** – The supply/demand balance remains narrow leading to high natural gas future prices. While future prices went down just before August futures rolled off the books, as of July 29, September through February futures remained above \$4 per MMBtu. The high natural gas prices have led some generators to fire previously unused coal plants to meet demand. Projected spot prices have also seen an uptick as the EIA increased its projected Henry Hub spot price to \$3.21 per MMBtu for 2021 in its Short-Term Energy Outlook. The new outlook represents a 59 percent increase from the average spot price per MMBtu in 2020. WTI prices dropped from \$75.25 to \$66.42 per barrel (11.7 percent) between July 13 and July 19. However, as of July 29 WTI was trading at \$73.59 per barrel. Similarly, Brent prices dropped from \$76.49 to \$68.62 (10.3 percent) before recovering to \$75.08 as of July 29.

**Rig Count** – For the week ending July 23, the US had 104 gas rigs and 387 oil rigs in operation for a total of 491 rigs, the highest total in over a year. The number of gas rigs in operation stayed the same between July 16 and July 23 and the number of oil rigs in operation increased by seven during the same period. This continuing weekly increase in gas and oil rigs in operation extends the nearly uninterrupted increase that started in August 2020. Following the latest increase, the number of rigs in operation is now 197 percent above the year-ago rig count of 249.

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