



NATURAL GAS MARKET INDICATORS

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Natural Gas Market Summary – events like Hurricane Laura can have short-term impacts on the natural gas supply-demand balance. On the supply side, storms present a risk to off-shore production shut-ins. On the demand front, these events can lead to lower industrial output due to shut-ins, declining power burn from cooler temperatures and outages, and slower rates of LNG feedgas consumption. Recognizing rebounds to both production and demand have historically lagged by at least one week, S&P Global Platts data shows that the most significant changes to the market dynamics occurred during the peak of the storm. Specifically, off-shore production in the Gulf of Mexico fell by 2.2 Bcf per day. Southeast power burn declined 13 percent compared with the prior week to 19.5 Bcf per day. And LNG feedgas demand along the Gulf Coast shut-in nearly 3 Bcf per day. Day-ahead prices at Henry Hub are up 41 percent since July 31 to \$2.50 per MMBtu on August 27.

Reported Prices – natural gas prices increased steadily during the month of August and surged as production decreased in anticipation of Hurricane Laura. As a result, natural gas contracts for September delivery currently trade at \$2.52 per MMBtu, a 41 percent increase since the beginning of August when contracts were trading at \$1.79, and the highest price since November 2019. However, Henry Hub futures in the long-term strip remain moderate at \$3.30 per MMBtu for January 2021, likely due to warmer temperature forecasts. Oil also experienced a steady increase in prices throughout August, albeit at a more moderate pace. West Texas Intermediate is trading above \$43 per barrel (a 2% increase from August 1), while Brent crude is trading above \$45 per barrel (a 1% increase from August 1).

Weather – in the early morning of August 27, Hurricane Laura made landfall as a Category 4 storm near the Louisiana-Texas state in line. The storm had sustained 150 mph winds and storm surges of 15-20 feet. Thus, Hurricane Laura became the most powerful storm to hit the state of Louisiana, as measured by maximum sustained winds, since the last hurricane in the 1856 season. The weeks ending August 22 and August 29 posted temperatures 9.2 and 52.6 percent warmer than normal, respectively. The 2020 cooling degree day season is now 18.8 percent warmer than the 30-year normal, and 4.4 percent warmer than the 2019 cooling season.

Working Gas in Underground Storage – according to the EIA report, following a net injection of 45 Bcf, working gas in underground storage was 3,240 Bcf for the week ending August 21. With two months remaining in the typical injection season, current storage levels sit 14.7 percent above the five-year average and 20.4 percent above last year's levels at this time.

Natural Gas Production – US lower-48 dry gas production fell to a year-to-date low of 85.1 Bcf per day on August 26. At 87.1 Bcf per day, the average month-to-date output for August 2020 is running 6 percent below the 30-day average in August 2019. Similarly, year-to-date dry gas production of 89.9 Bcf per day remains 0.5 Bcf per day lower than the same period in 2019.

Rig Count – according to Baker Hughes, on August 21, the number of oil rigs in the United States rose for the first time since January 2020. The 11-rig increase was the first double-digit increase since the coronavirus pandemic locked down a significant portion of the US. One week after the increase, oil-directed rigs declined by three, bringing the total number of working rigs to 180 units as of August 28. Meanwhile, the number of gas rigs in operation rose by three for the week ending August 28, 2020. This represents a net gain of two rigs since the last edition of the Market Indicators. As a result, total US rigs in operation now sit at 254 units, 72 of which are drilling for gas.

Pipeline Imports and Exports – month-to-date Canadian imports total 4.5 Bcf per day, a 0.5 Bcf per day (13 percent) rise from August 2019. In contrast, exports to Mexico totaled 5.9 Bcf per day for the month, an 11 percent increase from the same time last year.

LNG Markets – LNG feedgas demand accounted for the majority of the demand decline in the wake of Hurricane Laura, as LNG facilities were shut-in and evacuated. On Wednesday, August 26, total feedgas demand fell to 2.3 Bcf, a 56 percent decrease from two days prior, and the lowest level since February 6, 2019, according to S&P Global Platts data. The disruptions to LNG facilities came at a time when US export facilities have already been operating at a fraction of their total capacity because of cargo cancellations driven by low demand during the coronavirus pandemic. Out of the six major LNG facilities operating in the US, only two facilities in Texas remained in operation and were unaffected by the storm. Today, LNG feedgas is beginning to show signs of a rebound with 2.8 Bcf per day in demand as of August 31.

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