Natural Gas Market Indicators

AGA American Gas Association

December 14, 2018

EDITION 335

Reported Prices – the tumble in oil prices seemed to recently end as both Saudi Arabia and Russia agreed to manage oil output and thus reduce the surplus in today's global market. Even Canada announced a reduction of more than 300,000 barrels per day from Alberta given the recent plunge in prices. During the first week in December, domestic oil and Brent crude prices bounced up to $53 and $62 per barrel, respectively, a rebound of $3 after oil had fallen by $17 per barrel during the prior four weeks. Meanwhile, gas futures movements have been less eventful for January 2019 with prices per MMBtu staying in the low-to-mid $4 per MMBtu and not moving as sharply as oil.

Weather – five straight weeks of colder-than-normal temperatures for the continental US positioned the weekly comparison of heating degree days since early October to December 8 at 5.7 percent colder than the 30-year normal and 24.7 percent colder than the same period in 2017. Regionally for the same period only the Pacific region has been warmer than normal with all other regions now colder.

Working Gas in Underground Storage – now four weeks reported in the withdrawal season and working gas in storage has dropped 20 percent below both the five-year average year-ago levels. Current working gas inventory in storage is at 2,914 Bcf with many weeks of winter still ahead.

Natural Gas Production – dry natural gas production is now routinely recording 86 Bcf per day and even reached 87 Bcf per day on November 30, according to S&P Global. Moreover, the longer-term prospects continue to grow. Indeed, stronger oil and gas prices and continued development of natural gas and liquids from low-permeability shale formations have positioned US hydrocarbon reserves higher than ever before at year-end 2017. Natural gas reserves increased 36 percent from 2016 and set a new record at 464.3 Tcf, according to the latest Energy Information Administration accounting. At 39.2 billion barrels, oil reserves are also at a record after having grown 19.5 percent since 2016. The new high-water mark for oil reserves now exceeds the previous record established in 1970.

Shale Gas – a December 6 report from the US Geological Survey points to the largest continuous oil and gas resource potential ever assessed by the survey for a single basin. The report identifies the Delaware basin of west Texas and southeastern New Mexico showing technically recoverable resources of 46.3 billion barrels of oil, 281 Tcf of natural gas, and 20 billion barrels of natural gas liquids. The Midland and Delaware basins are part of the Permian Basin in Texas and New Mexico.

Rig Count – the number of gas rigs in operation gained eight for the week ending December 7, 2018, which represents a net gain of four since the previous *Market Indicators*. Gas rigs are up 18 units or 10 percent from year-ago levels, and aggregate gas activity is now just slightly below the 2018 year-to-date high of 200 rigs. Meanwhile, oil-directed rigs declined by 10 for the same week in December but are still up 17 percent from this time last year.

Pipeline Imports and Exports – imports from Canada are up from last month. At 4.1 Bcf per day, pipeline flows from Canada are 15 percent lower than December 2017; this compares to a 23 percent deficit month-over-month in November. Exports to Mexico are strong and consistently above 4.5 Bcf per day, averaging 4.7 Bcf per day so far this December, a gain of 0.3 Bcf from last year at this time.

LNG Markets – the Energy Information Administration expects that LNG export capacity in the United States will double by the end of 2019. At 8.9 Bcf per day of aggregate export capacity potentially online by the end of next year, the US would move past Malaysia as the third largest exporter of liquefied natural gas. That would put the US behind only Qatar and Australia in the world LNG supply market. Capacity additions at Sabine Pass, the opening of Corpus Christi for export volumes, Sempra's Cameron LNG, Freeport LNG Development in Texas, and Kinder Morgan's modular liquefaction units in Georgia will continue to add capacity during the next year and a half. Overall, US LNG feedgas for export has averaged 4.5 Bcf per day this December, which is 1.5 Bcf per day more than December 2017.

Natural Gas Market Summary – the big question for the market is whether colder-than-normal temperatures, now five weeks in a row and running, will persist into January and February. With lower volumes of working gas in inventory and increasing exports, perhaps some market participants will begin to feel even more bullish. January futures have settled in a range of $4.30 to $4.50 during the past two weeks even though storage inventories are about 19 percent below the prior five-year average. What does this price response mean for future supplies? Gas-directed drilling is near its highest level this year, though it seems too early to suggest that November's commodity price increase for natural gas is affecting drilling, especially since prices retreat again below $3 per MMBtu on the forward curve.