NATURAL GAS MARKET INDICATORS

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Natural Gas Market Summary – US exports of natural gas are at all-time highs, boosted by strong pipeline flows to Mexico and near-full utilization of LNG export facilities. Still, prices remain relatively stable and moderate, having traded below $3.00 per MMBtu since November. Robust gas production and strong imports from Canada combined with warmer-than-normal temperatures have contributed to the market's current price rationalization. Looking ahead, temperature forecasts for the US show a colder trend through the first half of February. Additional winter demand may be on the way.

Reported Prices – the modest price rally to begin 2021 has moderated in recent days. Front-month contracts rallied to $2.76 per MMBtu by January 27. The prompt-month index fell to $2.56 per MMBtu as the contract flipped from February to March delivery. The end of the rally coincided with the release of EIA's natural gas storage report, which showed smaller-than-expected withdrawals from storage through the end of January. Overall, prices remain relatively low as the market grapples with relatively high gas inventories and uncertain temperature forecasts across the US. Oil prices have remained relatively stable since January 15. Over that period, Brent prices increased to $55 per barrel, and West Texas Intermediate traded around $52 per barrel.

Weather – according to preliminary estimates from S&P Global Platts data, weather across the northwestern and southwestern US turned significantly colder this week, helping boost demand to a year-to-date high. This colder weather pattern might continue through, at least, mid-February. The GFS-16 day forecast expects colder-than-normal temperatures to hit the Northwest and Midwest by the end of the first week of February. Whether and how far those colder temperatures will begin to push eastward over the second week of February is still unclear. While the GFS model shows those cold temperatures settling over the East Coast, the Euro model predicts much milder temperatures across the East. Even with the short-term cold-snap, weather across the lower-48 remains warmer than the 30-year normal. As of mid-January, every week of 2021 so far has been warmer than normal, with the week ending January 23 posted temperatures 15.1 percent warmer than the thirty-year average. In aggregate, heating degree days since October have been 13.3 percent warmer than the thirty-year normal and 5.4 percent warmer than last year. As of the week ending January 23, every census region has been cumulatively warmer than normal since October.

Working Gas in Underground Storage – net withdrawals from underground storage totaled 187 Bcf for the week ending January 15. One week later followed a withdrawal of 128 Bcf, which widened the excess over the five-year average. A survey by Estimize expected withdrawals of at least 147 Bcf. The lower-than-expected withdrawals may have helped spur the end of a week-long rally in March future prices. The resulting inventories are 9.3 percent above the five-year average and only 2.8 percent above this time last year. Of note, stocks in the Mountain and Pacific regions are well above their five-year averages by 14.9 and 22.2 percent, respectively.

Natural Gas Production – compared with last year, domestic daily dry gas production in January averaged 2.4 Bcf per day less than in January 2020, with a year-to-date average of 91.2 Bcf per day. North production has seen an increase in flowing supplies compared to year-ago levels, up 1.5 Bcf per day from January 2020. In contrast, output in the South and West regions is down 2.3 and 1.5 Bcf per day from a year ago, respectively.

Rig Count – the number of rigs in service across the US continued to climb over the last two weeks of January. As of January 29, there are 384 rigs in operation, of which 295 are oil and 88 are gas. The number of rigs in service has increased by over 57 percent since August 2020 but remains about 50 percent below year-ago levels.

Pipeline Imports and Exports – month-to-date inflows of gas into the Pacific Northwest from West Canada averaged a record high of 3.76 Bcf per day, according to an S&P Global analysis on January 20. These flows have contributed to overall strong pipeline imports of gas into the US, which are up month-to-date 37 percent from last year and reached as high as 6.7 Bcf per day on January 28. Meanwhile, exports to Mexico are up nearly 8 percent.

LNG Markets – the outlook for US LNG continues to improve, as shown by the high number of cargoes exported in December. According to the latest Short-Term Energy Outlook from the EIA, all six US LNG facilities operated near full capacity in December, shipping a record 89 cargoes. The EIA estimates that US LNG exports will average 8.5 Bcf per day in 2021 and 9.2 Bcf per day in 2022. Expected growth in the sector is likely driven by a gradual post-COVID-19 recovery in global LNG demand, high winter LNG demand in Asia, and expansions in global LNG import infrastructure. Today, US LNG feedgas for export have averaged 10.6 Bcf per day in January, 24 percent (2.1 Bcf per day) greater than January 2020.