Natural Gas Market Indicators

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Reported Prices – global markets are reacting to news and developments related to the outbreak of the novel coronavirus. US stock indices fell steeply during the week ending February 28, pulling crude oil and many other commodities with it. West Texas Intermediate oil traded at below $47 per barrel, the lowest point for marker since the sell-off at the end of 2018. Meanwhile, relatively warmer temperatures have contributed to natural gas prompt-month pricing at $1.74 per MMBtu.

Weather – as of mid-February every week of 2020 so far has been warmer than last year, and seven out of the past eight weeks have been warmer than normal. Cumulative heating degree days since October have been 7.8 percent warmer than the thirty-year normal and 7.4 percent warmer than one year ago. Every region of the country has been cumulatively warmer than normal this winter heating season. And compared with last year, only the Pacific census division posted colder temperatures for the total of the season.

Working Gas in Underground Storage – warmer relative temperatures has contributed to lower draws from storage this season. As of February 21, underground working gas inventories are 2,343 Bcf, or 8.9 percent above the five-year average and 40.8 percent above year-ago levels. The strongest net withdrawals this season took place between mid-January and the end of February 2020. Five of those six weeks showed triple-digit withdrawals, the largest (-201 Bcf) taking place during the week ending January 24, 2020. If working gas withdrawals continue a course at or below five-year average levels, working gas in underground storage will remain above 1,600 Bcf when the injection season begins in the Spring.

Natural Gas Production – domestic daily dry gas production in February has averaged 92.0 Bcf and is running 4.6 Bcf per day higher than in February 2019. Average daily production is also nearly 5 Bcf per day higher year-to-date than one year ago at 91.8 Bcf per day.

Rig Count – the gas patch has seen a significant slowdown during recent months as consistently low commodity prices put pressure on producers to reign in costs. The gas rotary rig count currently totals 110, a steep decline from the 194 gas rigs in operation one year ago. The gas rig count went unchanged for the week ending February 21. The oil count at 679 rigs in operation is 86 percent of all US rotary rig activity but is down from the 853 rigs in operation during the same week in February 2019. Despite these declines, domestic gas and oil production is sustained in part by a smaller, more productive, and more efficient drilling fleet than in years and decades past.

Shale Gas – according to the latest Drilling Productivity Report from the US Energy Information Administration, steady oil growth is projected through March 2020, while month to month gas production is projected to fall modestly. Nationwide, gas production across the major shale basins is projected to be 85 Bcf per day in March, 172 MMcf per day less than February. For the month, the EIA expects the Permian and Haynesville regions as the only basins to see gas production gains in March. According to the EIA, oil production is expected to see slower but consistent growth, rising to 9.2 Bcf per day in March 2020.

Pipeline Imports and Exports – pipeline natural gas import volumes from Canada have fallen to 4.9 Bcf per day for February 2020, but that volume is 0.5 Bcf per day greater than flows one year ago in February 2019. Year-to-date daily averages have been 4.6 Bcf per day but are 0.5 Bcf per day lower when compared with the same period of 2019. On the flip side, pipeline exports to Mexico have been strong in early 2020 and are now averaging 5.2 Bcf per day for the month, which is 0.3 Bcf higher than last year.

LNG Markets – disruptions to energy and trade flows due to the outbreak of the novel coronavirus are becoming apparent in the energy data and news. Weak LNG demand has caused LNG spot prices to drop to record lows around $3 per MMBtu this month. Reuters reports February 27 that three Indonesian LNG cargoes to China have been delayed because of the virus outbreak. This follows on news from a few weeks earlier when the China National Offshore Oil Corp. declared a force majeure indicating it would not take delivery of some LNG cargoes as the outbreak constrains offtake capabilities. Back in the US, there is much activity in the US LNG export space to be sure. Year-to-date flows of feedgas for export have reached 8.6 Bcf per day and are running 4.3 Bcf per day higher than the first two months of 2019.

Natural Gas Market Summary – the global economic disruption from the novel coronavirus is still evolving and has yet to be fully understood. In terms of domestic natural gas markets, low oil and gas prices put additional bearish pressure on production. Even still, US natural gas production trended higher in February, and lower natural gas prices helped support an overall demand increase in the power generation sector. Meanwhile, US exports to Mexico and LNG feedgas volumes currently remain strong despite the broader disruptions to commodity markets and trade flows.