Natural Gas Market Indicators

American Gas Association

January 31, 2019

Edition 337

Reported Prices – by mid-January domestic natural gas prompt month pricing at Henry Hub had settled at about $3.50 per MMBtu after a run to over $4 earlier in the winter heating season and a brief drop below $3 afterwards. One week later (January 24) pricing had slid to $3.07 and this week they have slipped further to below $2.90 per MMBtu, once again, even with the multiday, multistate cold spell for much of the country. Warmer than normal temperatures for six straight weeks have clearly been impacting the market. Oil has settled a bit, too. Looking at the last 52-week cycle, an upward trend in oil prices peaked over $75 per barrel in early October for West Texas Intermediate, but by the last week of December had fallen below $43 per barrel. Currently, domestic crude is priced above $54.60 per barrel while Brent is about $7.50 higher.

Weather – six weeks of warmer than normal temperatures in the lower-48 states were finally interupted by colder conditions for the week ending January 26, 2019. In aggregate, heating degree days have been 4.6 percent warmer than normal this winter (since October 1), however, 1.2 percent colder than last year. All regions of the country have posted heating degree days indicating above normal temperatures during this cumulative period and range from 1.3 percent warmer in the west north central region to 15.6 percent warmer in the Pacific region. The latest short-term polar vortex may change that some.

Working Gas in Underground Storage – underground storage net withdrawals for the week ending January 11 amounted to 81 Bcf and were followed by an even larger withdrawal of 163 Bcf one week later and 173 Bcf most recently. This left total inventories at 2,197 Bcf in the lower-48 states, 13 percent behind the five-year average and 0.6 percent lower than last year. Storage began the winter heating season in November about 16 percent below the five-year average overall, so the gap on prior year data has been closed to some degree. In fact, for the East and Midwest regions (arguably the most temperature sensitive regions with the most natural gas customers) deviation from the five-year average is only -8.3 and -8.6 percent, respectively with the Midwest slightly higher than this time last year.

Natural Gas Production – domestic natural gas production early in 2019 was influenced by freeze-offs in the Mountain West and Eastern US along with maintenance issues that have kept it below the 87 Bcf per day peak and more in the 83-85 Bcf per day range. Even so, a dry production rate of 84.6 Bcf per day on average this month is 8.2 Bcf per day higher than the average production rate in January 2018 – an extraordinary year over year increase. In Pennsylvania alone, year over year production by November 2018 (18.03 Bcf per day) was up 16.2 percent over 2017 for the top five producers in the area, which include EQT Corp., Cabot Oil and Gas Corp., Chesapeake Energy, Range Resources and Southwestern Energy.

Shale Gas – gas from the Utica and Marcellus shale plays in the eastern United States is likely to be the principle driver in continued domestic production increases through 2020, according to the Energy

Information Administration (EIA). The base case energy forecast from EIA's *Annual Energy Outlook* pointing to those near-term expectations also forecasts sub-$5 per MMBtu natural gas at the wellhead through 2050.

Rig Count – rig counts pushed up for the week ending January 25, 2019 by nine rotary rigs with all the increase due to oil-directed activity. Oil rigs now total 862 – up ten from the previous week – and gas-directed drilling is down one to 197. That leaves gas drilling up nine rigs operating from one year ago and oil up 103.

Pipeline Imports and Exports – pipeline import gas volumes from Canada have remained generally in the 4-7 Bcf per day range as the calendar year has ticked through month one. Average daily volumes to begin 2019 at 5.6 Bcf per day have been about 0.1 Bcf less than January 2018. Of course, it was very cold early in January 2018, while 2019 temperatures for much of the country have been more up and down. On the flip side of that coin, pipeline exports to Mexico have been steady at 5 Bcf per day, which is 0.8 Bcf higher (19 percent higher) than the first month of 2018.

LNG Markets – total US feedgas for export has averaged 4.4 Bcf per day this January, up 1.8 Bcf per day from this time last year. U.S. liquefied natural gas (LNG) exports set two consecutive monthly records in November and December 2018, with 32 and 36 exported cargoes, respectively. Those monthly statistics reflect new liquefaction trains at Sabine Pass (Train 5) and Corpus Christi (Train 1), which began LNG production in late November 2018.

Natural Gas Market Summary – short periods of biting cold in various regions of the country this winter have been overcome by mostly warmer than normal conditions for the lower-48 states going back to mid-December 2018. That, of course, can change but the warmer conditions have allowed storage withdrawals to be modest in recent weeks, which has had the impact of moving current inventories closer to the five-year average. Natural gas prices have reflected that recently, also, with prompt-month pricing below $3 at times. Prices can spike in given regions with weather and resulting demand, however, Henry Hub forward pricing for natural gas was about $2.90 for March on January 30, even with a new single day demand record of 150 Bcf on that day, also. The balance of the winter heating season February through March is now before us. Markets are telling us that the supply-demand balance will be managed with all assets available at relatively modest pricing. So, now we observe and will make the determination as to whether that outlook sustains itself.

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