

# Natural Gas Market Indicators



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**Edition 347**



**Reported Prices** – oil prices are on the way back up. After losing ground in May, West Texas crude oil futures gained \$9 during the past month, now priced at \$60 per barrel. Brent crude oil at \$66 per barrel gained nearly \$7 during the past month as well. Meanwhile, up and down action on the Henry Hub index shows natural gas trading between \$2.20 and \$2.45 for much of the month, currently at \$2.41 per MMBtu for next-month delivery.

**Weather** – the Atlantic hurricane season is upon us. Due to the increasing share of on-shore production (shale) contributing to overall gas supplies, hurricane events disrupting oil and gas production in the Gulf of Mexico have had less of a pricing impact during the past decade. However, we continue to track these events as they may still materially affect pricing dynamics. The Atlantic hurricane season officially began on June 1, 2019. Though for the fifth consecutive year, one named storm formed before the start; subtropical storm Andrea on May 20. As of this writing, Tropical Storm Barry located in the Gulf of Mexico is expected to impact Louisiana. Total off-shore gas production shut-ins have reached 1.35 Bcf or 49% of total Gulf of Mexico production, according the US Bureau of Safety and Environmental Performance. Stepping back, let's look at the predictions for Hurricane activity for the rest of the season. The National Oceanic and Atmospheric Administration predicts a near-normal 2019 Atlantic hurricane season due to El Niño conditions and a warmer-than-average Atlantic. NOAA's outlook shows a likely range of 9 to 15 named storms for the season; the average from 1981-2010 is 12.1. Of these, four to eight could become hurricanes. Colorado State University in their June forecast predicts 14 named storms this season with six hurricanes and two major hurricanes. "Tropical Storm Risk" published by the University College London forecasts 12 tropical storms with five hurricanes and two majors as well. And the University of Arizona's forecast shows above-average activity with 16 named storms including six hurricanes and two majors. Looking to temperatures, cooling degree data from NOAA shows the week ending July 6 was 27 percent warmer than normal across the US, leaving the cumulative cooling degree days since May 13 percent higher (warmer) than normal.

**Working Gas in Underground Storage** – storage injections continue their bearish trend. Since the week ending March 15, 2019, every weekly net change has been greater than the five-year average. From May until the present, average working gas injections have outpaced average flows by 2.5 Bcf per day. As a result, cumulative net injections have been more than 400 Bcf above the 2014-2018 average during that period. Such a significant and rapid pace of injections reflects the strong supply position and record levels of gas production in the US. Storage inventories now sit at 2,471 Bcf for the week ending July 5.

**Natural Gas Production** – S&P Global Platts reports that US lower-48 natural gas production set a daily record over the recent holiday weekend with 88.8 Bcf dry gas production estimated on July 5, 2019. Production has since fallen and at 84.9 Bcf, due in part to impacts from Tropical Storm Barry in the Gulf of Mexico. Estimated dry gas production on July 12 is at its lowest mark since May 19.

**Rig Count** – the continued decrease in domestic rig counts has slowed slightly in the past two weeks, dropping four rigs to 963 ending the week of July 4. Gas-directed drilling gained one operating rig to a total of 174. Eighty-nine percent of rigs in operation are seeking oil targets. All told, drilling activity is down by 89 rigs compared with one year ago

**Pipeline Imports and Exports** – pipeline imports of natural gas from Canada are at 4.9 Bcf per day this July, which is 0.8 Bcf per day less than in July 2018, according to S&P Global. At the same time, US exports to Mexico are averaging 5.1 Bcf per day, 0.3 Bcf per day greater than the average at this time last year.

**LNG Markets** – LNG feedgas deliveries have reached new highs, signifying continued progress at the Cameron and Corpus Christi facilities, according to S&P Global analysis. Commissioning of Cameron Train 1 continues. According to the company, the first commissioning cargo was shipped from Cameron LNG earlier this year. Cheniere on July 8 announced first production at Corpus Christi Train 2 having completed its first commissioning cargo from Train 2, which the company expects to be at full production later this year. Meanwhile, Freeport LNG remains on target for a Train 1 startup date of September 2019, according to FERC. Trains 2 and 3 are expected in January and May 2020, respectively. All told, LNG feedgas volumes are averaging 6.0 Bcf per day so far in July, an 82 percent increase from this time last year.

**Natural Gas Market Summary** – events such as Tropical Storm Barry can have an impact on the natural gas supply-demand balance in the short term. On the supply side, large 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 that the full impacts of Tropical Storm Barry have yet to materialize as of this writing, we see some of those market dynamics playing out right now based on data from S&P Global Platts. Off-shore production in the Gulf of Mexico has fallen by 1.3 Bcf per day. Southeast power burn has dropped 1.4 Bcf per day since July 10. And LNG feedgas demand to Sabine Pass has declined about 20 percent compared with the June average. Day-ahead prices of \$2.54 per MMBtu on July 12 at Henry Hub are up \$0.15 since July 9.

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