

NATURAL GAS MARKET INDICATORS

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Reported Prices – natural gas prices at Henry Hub hit a 25-year low after falling below \$1.50 per MMBtu in late June. Prices have since made a slight recovery on signs of rising power generation demand due to warmer temperatures. Prompt-month futures called for \$1.79 per MMBtu as of July 13, 2020. Contracts through early 2021 rise as high as \$2.83 per MMBtu. Meanwhile, oil prices were little changed through early July as the market waits for outcomes from an Organization of the Petroleum Exporting Countries (OPEC) meeting later this week to discuss potential future supply cuts. Crude oil at West Texas Intermediate is priced at \$39 per barrel while European Brent crude is trading just above \$42 per barrel.

Weather – a nationwide heatwave struck the US the week beginning July 6, with cooling degree days ending 29.6 percent higher (warmer) than normal according to data from NOAA. Every week since the middle of June has been warmer than normal, leading to cumulative temperatures of 17.5 percent above the 30-year normal since May. Warmer temperatures bring increased demand for natural gas as power generation. On July 9, the US set a record for natural gas power generation, reaching 45.8 Bcf per day amid hot temperatures and despite the ongoing economic shutdowns due to the coronavirus pandemic.

Working Gas in Underground Storage – the recent heatwave at the beginning of July has moderated US gas inventories injections. The EIA noted a storage build of 56 Bcf for the week ending July 3, bringing inventory levels to 3,133 Bcf. This summer season of strong injections dipped below the five-year average pace during these hottest days of July as gas flows diverted to power generation. Stocks are now 28.0 percent greater than inventories from the same week last year and 16.9 percent above the five-year average.

Natural Gas Production – daily dry gas production at 87.1 Bcf per day on average during July so far is 3.7 Bcf per day lower than in July 2019. However, domestic natural gas production year-to-date is running 0.5 Bcf per day higher than one year ago, held high by stronger production volumes early in 2020. The Energy Information Administration continues to update its *Short-Term Energy Outlook (STEO)*, taking into account changes in energy supply and demand patterns in 2020 related to the COVID-19 pandemic. In its latest *STEO* for July, the EIA expects US dry natural gas production to average 89.2 Bcf per day in 2020, down from 92.2 in 2019. EIA's expected decline continues in 2021, where annual dry natural gas production is forecast to average 84.2 Bcf per day, a drop of six percent.

Rig Count – the continued decrease in domestic rig counts has increased slightly in the past two weeks, dropping five rigs to 258, ending the week of July 10. Gas-directed drilling lost one operating rig to a total of 75. Seventy percent of rigs in operation are seeking oil targets, which at 181 for the week are down four rigs week over week. All told, drilling activity is down by 700 rigs compared with one year ago.

Pipeline Imports and Exports – the US reached a new all-time high for exports to Mexico of 6.1 Bcf per day on June 25, 2020. That record was tied two weeks later on July 9 as demand in Mexico remains strong amid warmer temperatures. Pipeline exports to Mexico gained four percent this July compared with the same month last year. Meanwhile, imports from Canada are down 22 percent year-to-date from 2019 as imports into the Midwest are lagging by 30 percent from last year’s volumes in July. Current imports of natural gas from Canada are averaging 3.9 Bcf per day month-to-date.

LNG Markets – as noted in previous *Market Indicators*, so far this summer, more than 70 LNG export cargoes from the US were canceled for June and July deliveries, and more than 40 LNG cargoes were canceled for August delivery. In the latest *Short-Term Energy Outlook* released on July 7, the EIA estimates that as a result of these cancellations, US LNG exports will average 2.2 Bcf per day in July and August 2020, implying a 25 percent utilization of LNG export capacity. The slowdown in exports has not stopped progress on liquefaction facilities as US LNG capacity continues to expand. Later this summer, the third train at the Cameron LNG export facility in Louisiana and three of Elba Island’s small-scale moveable modular liquefaction units are expected to come online in Georgia, bringing total US LNG export capacity to 8.9 Bcf per day. Currently, month-to-date flows of natural gas feedgas for export have averaged 3.2 per day this July, 2.8 Bcf per day lower than July 2019.

Natural Gas Market Summary – natural gas to power generation climbed as high as 45.8 Bcf per day on July 9—the largest volume of natural gas-directed toward power generation on a single day. July and August are the “dog days of summer,” and this year, the dog days tended to cover nearly the whole country. A draw-back in weekly storage injections and net outflows have supplemented production to meet the increase in summer power burn demand. All of this while prices trade between \$1.70-\$1.80 per MMBtu at Henry Hub.

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