Natural Gas Market Indicators

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Reported Prices – oil prices began to show signs of stabilization during the week of May 25, supported by lower US crude inventories, OPEC-led supply cuts, and recovering demand as governments ease restrictions on people's movements imposed due to the coronavirus crisis. West Texas Intermediate crude oil maintains a steady trend above $30 per barrel, the first time the commodity has pushed above $30 per barrel since mid-March. Brent crude also shows signs of stabilization with prices at $35 per barrel as of May 28. Meanwhile, next-month delivery of natural gas is trading at $1.87 per MMBtu. The index has closed above $2.00 per MMBtu only one day since January.

Weather – hurricane season made an early appearance in South Carolina when Tropical Storm Bertha made landfall on Wednesday, May 27. Bertha is the same system that drenched Florida over the Memorial Day Weekend, bringing record rainfall to several South Florida communities. Atlantic Hurricane Season does not officially begin until June 1, though this was the sixth consecutive year the season's first named storm developed before June 1. Following Tropical Storm Arthur earlier this month, this season is only the fifth season on record that produced two named storms before June 1, according to The Weather Channel. Turning to temperatures, cooling degree day data reported by the National Oceanic and Atmospheric Administration point to US conditions from May 1 to May 23 that have been 2.9 percent cooler than normal and 16.3 percent cooler than this time last year. Some parts of the country have not been as mild or cool. The West South Central and Mountain regions have posted cumulative temperatures 19.4 and 42.6 percent warmer than normal over this period.

Working Gas in Underground Storage – storage injections have outpaced the average by 2.3 Bcf per day so far in May. EIA reported a 109 Bcf injection into natural gas storage inventories for the week ending May 22, which followed a lower-than-expected injection of 81 Bcf into storage for the week ending May 15, which was the only week this month with a below-average injection. Working gas volumes of 2,612 Bcf are running 42.4 percent more than the year-ago level of 1,834 Bcf and 19.3 percent more than the five-year average of 2,189 Bcf.

Natural Gas Production – production declines over most shale plays during the past four weeks have pushed aggregate dry gas flows to their lowest levels since mid-2019. Curtailments in the oil patch have reduced associated gas flows. Dry gas plays have also seen declines. Temporary production curtailments combined with an incident on the TETCO pipeline has contributed to reduced production from the Northeast. However, the Haynesville has seen increases in production during the past four weeks. Over Memorial Day Weekend, lower-48 dry gas production fell to 85.6 Bcf per day—its lowest level since March 2019. Average daily dry natural gas production in May is 87.9 Bcf per day, 1.2 Bcf less than the average in May 2019.

Rig Count – Operators have reacted to the oil crash by reducing activity with a sharp decline in oil plays. Baker Hughes reported the number of active US rigs drilling for oil dropped by 15 to 222 for the week ending May 29, 578 below year-ago levels. The oil rig count has now fallen for 11 weeks in a row. US gas-directed rigs dropped by two to 77 rigs in operation for the week, 107 rigs below this week in 2019. Total active US rigs stand at 301.

Pipeline Imports and Exports – US pipeline flows to Mexico are lower year over year, but the slow reopening of the Mexican economy may increase transported volumes heading south of the border. Currently, the US is flowing about 4.7 Bcf per day of pipeline gas to Mexico, 0.3 Bcf per day lower than one year ago. The combination of LNG feedgas and pipeline exports to Mexico reached 10.2 Bcf per day on May 24, the lowest level since August 2019. On the import side of the ledger, gas flows from Canada are averaging 3.5 Bcf per day during May 2020, which is 0.8 Bcf lower than May 2019.

LNG Markets – five tanker ships hauling US LNG to China in March offered a rare bright spot for exporters and the global gas market. However, poor market conditions have persisted and may diminish prospects of increased shipments to China, according to S&P Global Platts. Roughly 45 LNG cargoes scheduled for export in July from US ports were recently canceled, twice as high as the cancellations for June. That puts the volume of gas exported from the US down by about one third. Feedgas flows to US liquefaction facilities fell the week of May 18 to the lowest level since October 2019. US LNG feedgas deliveries are averaging just 6 Bcf per day in late May, down from record levels of over 9.5 Bcf per day just two months ago.

Natural Gas Market Summary – ongoing declines in oil rig activity may be showing signs of a slowdown as oil prices have recovered in recent weeks. The volatility in the oil patch stands in contrast to the relative stability of the North American natural gas market. Aggregate natural gas demand in the US continues to be steady. Recent gas production declines have not coincided with a commensurate increase in natural gas prices, in part due to the US's underground storage assets providing flexibility to producers and consumers alike. As the COVID-19 pandemic continues to upend people's lives and disrupt the economy, the stability of the US natural gas market alongside the value and services that local gas utilities provide to customers are bright spots the *Market Indicators* are happy to be able to highlight.