NATURAL GAS MARKET INDICATORS

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Reported Prices – weekly product supplied of finished motor gasoline has steadily recovered after a severe drop in March and April. Drivers appear to be hitting the road once again. US outing requests for driving have reached pre-COVID levels, according to Apple mobility trends statistics. On the oil supply side, OPEC announced its intention to continue its production cut of 9.7 million barrels a day through July. West Texas Intermediate is trading at $36 per barrel as of June 15, and Brent crude is trading at $39 per barrel. Meanwhile, Henry Hub natural gas pricing has been maintained $1.70 and $1.85 per MMBtu; next-month delivery of natural gas is currently trading at $1.79 per MMBtu.

Weather – the Atlantic hurricane season officially began on June 1, 2020. Tropical Storm Cristobal marks the earliest arrival of a third storm in Atlantic hurricane season recorded history. Cristobal began as a depression but upgraded to a tropical storm by June 3 as it straddled the Gulf of Mexico. Several US Gulf operators activated their hurricane preparation measures, including production shut-ins and evacuations of non-essential workers. At Cristobal's peak, total off-shore production shut-ins reached 0.9 Bcf or 35 percent of total Gulf of Mexico production, according to the US Bureau of Safety and Environmental Performance. The last major hurricane to interrupt production from the US Gulf of Mexico was Barry, which made landfall last July, which shut in as much as 1.7 Bcf per day of gas production at the peak. Hurricane events disrupting oil and gas production in the Gulf of Mexico have led to less of a pricing impact during the past decade due to the increasing share of on-shore production contributing to gas supplies. Looking to temperatures, US cooling degree day (CDD) data from NOAA was 40.5 percent warmer than normal for the week ending July 6. Cumulative CDDs are 20.4 percent warmer than normal for the season.

Working Gas in Underground Storage – total inventories of working gas in underground storage reached 2,807 Bcf for the week ending June 5, 2020. A net build of 93 Bcf brings inventories to 36.3 percent above year-ago volumes and 17.6 percent above the five-year average. Steady gains in power sector demand have brought injections into storage tighter as demand increases outpace gains in supply. The July-to-January futures price spread of nearly $1.30 per MMBtu may help incentivize continued strong injections into storage.

Natural Gas Production – the Energy Information Administration, in its *Short-Term Energy Outlook*, forecasts that dry natural gas production will average 89.7 Bcf per day in 2020, due principally to declining production from Appalachia and the Permian. In the Appalachian region, low natural gas prices are one factor discouraging producers from engaging in natural gas-directed drilling. In the Permian region, low crude oil prices reduced associated natural gas output from oil-directed wells, according to the EIA. In 2021, EIA's forecast production of dry natural gas in the United States averages 85.4 Bcf per day. Currently, lower-48 dry gas production is averaging 86.5 Bcf per day this June, 3.9 Bcf per day less than the average in June 2019.

Rig Count – the trajectory of rig counts remains nose down due to declines in oil-directed activity. Oil rigs fell by seven for the week ending June 12, 2020. However, gas-directed activity added two rigs for the week, according to Baker Hughes. Total rigs in operation have fallen by 690 to 279 from year-ago levels. The US gas rig count now stands at 78, which is 103 fewer than one year ago.

Pipeline Imports and Exports – US exports to Mexico reached a new all-time high of 5.9 Bcf per day on June 10, as regional demand in Mexico continued to increase on well above average temperatures. Exports to Mexico are averaging 5.3 Bcf per day this June, an increase of four percent, or 0.1 Bcf compared to this time last year. Pipeline import gas volumes from Canada have generally remained below 4 Bcf per day through the first two weeks of June. Average daily volumes month-to-date at 3.5 Bcf per day have been 1.1 Bcf per day less than June 2019.

LNG Markets – US LNG exports have seen a tremendous decline this June to date. Only ten LNG cargoes were exported from US terminals in the first nine days of the month. If exports continue at this rate, 33 cargoes exported this June would result in a 56 percent drop from January when exports hit an all-time high of 76, according to S&P Global. The EIA also forecasts in its *Short-Term Energy Outlook* that US LNG exports will average 5.6 Bcf per day in the second quarter of 2020 and 3.7 Bcf per day in the third quarter of 2020. EIA expects that US LNG exports will decline through the end of the summer as a result of reduced global demand for natural gas. Currently, month-to-date flows of US natural gas feedgas for export have average 4.1 Bcf per day, 1.2 Bcf per day *lower* than June 2019.

Natural Gas Market Summary – sharp declines in US natural gas production during May have leveled off so far in June as crude oil curtailments moderated and, in turn, limited the reductions in associated natural gas production. Tropical Storm Cristobal contributed to a modest short-term reduction in off-shore production due to shut-ins but with little apparent impact on gas pricing. On the demand front, LNG exports fell substantially in May as global consumption impairments from the COVID-19 pandemic added to already weak demand. Reported natural gas pricing, still below $2.00 per MMBtu, has traded in a relatively stable range. But significant summer-to-winter price spreads are likely contributing to the pace of injections of gas into storage, inventories of which remain well above average.