Natural Gas Market Indicators

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Reported Prices – prices for crude oil fell strongly at the beginning of June, then rebounded all the way back. West Texas Intermediate currently calls for nearly $59 per barrel; Brent crude is trading above $65. Still, these indicies show about a $8 and $6 per barrel drop respectively from their year-to-date highs. Natural gas, on the other hand, has plummeted during the past month below $2.30, a decline of nearly $0.50 per MMBtu and reaching as low as $2.19. The highest valued Henry Hub futures contract within the next year is January 2020 at $2.68, well below the $3 it was trading at only a month ago.

Weather – two warmer-than-normal weeks in the lower-48 states in early June were followed by much cooler temperatures. Data from the National Atmospheric and Oceanic Administration showed 36 percent and 13 percent warmer-than-normal conditions for the two weeks ending June 8; temperatures then flipped and showed 15 percent and 4 percent cooler-than-normal conditions during the two subsequent weeks. Compared to 2018, all regions were cooler for the week ending June 22, and the US as a whole was 26.8 percent cooler than the same week last year.

Working Gas in Underground Storage – from early May through the end of June, working gas injections in the lower-48 states have averaged above 15 Bcf per day. This substantial injection brings current inventories to 2,301 Bcf, 11.4 percent higher than year-ago levels. The gap between current levels and the five-year average is steadily declining, and now sits only 6.9 percent below the 2014-through-2018 average for the week. If weekly injections maintain levels near 100 Bcf on average until the end of October, inventories will exceed the five-year-average ending storage level of 3.7 Tcf for the end of the injection season.

Natural Gas Production – dry natural gas production has remained consistently above 86 Bcf per day and often 87 Bcf per day during the second half of June as we transition into summer. Average daily dry gas production year-to-date at 86.5 Bcf is running 7.2 Bcf per day higher than the same period in 2018, and 6.4 Bcf per day higher than June 2018. The greatest production increase in percentage terms can be seen in Haynesville and Marcellus, where year-to-date averages are running 18.2 and 17.2 percent higher than 2018 in these regions.

Shale Gas – in the last *Market Indicators* we wrote in this section about the Vaca Meurta or "Dead Cow" shale formation in Argentina, where Exxon Mobil has announced increased future investment in developing resources in the basin. On June 6, 2019, Argentina exported its first cargo of LNG using natural gas sourced from the Vaca Muerta. The LNG volumes flowed via the Tango floating LNG barge located at Bahia Blanca, which has an LNG production capacity of 70 MMcf per day. EIA reports that Argentinian shale gas production tripled during 2018, supported in part by economic incentives from the Argentinan government.

Rig Count – the number of active rigs in operation in the United States continues to fall. At 967 total, the US has lost 85 rigs since last year, a fall of 8 percent. The US breakout shows oil rigs dominating the picture, with 789 oil-directed rigs in operation. Natural gas rigs total 177, down two from last week and down 11 from one year ago, according to Baker Hughes. The largest relative decrease can be seen in the Cana-Woodford shale in Oklahoma. Operating at 45 rigs this week, activity in Cana-Woodford is 38 percent lower than this same time in 2018.

Pipeline Imports and Exports – a force majeure on the Alliance pipeline into the midcontinental market reduced Canadian imports from June 18-21, according to S&P Global Platts. Canadian imports were able to recover slightly and total at 4.6 Bcf per day for the week of June 24, though year-to-date declines are 0.9 Bcf per day compared with the same period last year. Exports to Mexico are flowing at 4.7 Bcf per day and show month- and year-to-date changes of 0.4 Bcf per day.

LNG Markets – the Magnolia LNG terminal in Louisiana updated its construction contract to add an additional 0.8 million tons per annum, according to S&P Global Platts. Stated in a June 24 news release, the total capacity of the project would be 8.8 mtpa including up to four liquefaction trains, pending an environmental review. Earlier in June, Federal Energy Regulatory Commission staff decided to continue with a more extensive review for Magnolia's planned capacity expansion. Looking at the indicators, feedgas volumes for LNG export are averaging 5.5 Bcf per day in June, a 77 percent increase from 2018.

Natural Gas Market Summary – natural gas prices have plummeted in June amid strong production across the US. The price drop is even more remarkable given domestic natural gas consumption, exports, and injections into storage are all running above levels at this time last year. Can prices drop further? One dynamic to be mindful of is coal-to-gas switching, which can provide a backstop of demand to the market. As natural gas prices decline, market incentives may induce electricity operators to begin running natural gas plants more and coal-fired generators less. Evidence suggests this dynamic is already in play. S&P Global Platts data shows that June's US power sector gas burn in the power sector is averaging 2.5 percent above 2018 despite average temperatures being two and a half degrees cooler than last June. If natural gas prices drop farther, we could see additional volumes induced for power generation consumption, which would add demand support to the market. Coal-to-gas switching is one element in a dynamic US market that includes demand across many economic sectors, flexible injections into storage, pipeline exports, and LNG feedgas.