Natural Gas Market Indicators

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Reported Prices – crude prices saw another sharp fall on Monday, March 30, as the coronavirus pandemic worsened, and the Saudi Arabia-Russia price war showed no signs of abating. West Texas Intermediate crude oil fell to $20 per barrel. Brent crude is trading for less than $23. Natural gas prices are also lower, though for different reasons. Persistently warmer-than-normal temperatures and continued resilient flowing gas production has contributed to US natural gas prices remaining well below $2 per MMBtu since mid-January. Next-month futures at Henry Hub currently call for $1.66 per MMBtu as of March 30.

Weather – one has to go back to mid-December to find a week where cumulative heating degree days reflected colder-than-normal conditions. That means thirteen weeks of temperatures that were warmer than the 30-year average (and one week with no change from the normal). Cumulatively, heating degree day data since October shows every division of the continental US to be warmer than normal, and the lower-48 as a whole has been 8.8 percent warmer than normal. Zooming in on the last full week of March, only the Mountain and Pacific regions were colder than normal. Heating degree days for the US as a whole were 6.2 percent fewer (warmer) than normal and 4.7 percent behind last year.

Working Gas in Underground Storage – the EIA reported a 29 Bcf withdrawal from US natural gas stocks for the week ending March 20, 2020. Storage inventories now sit at 2,005 Bcf. Working gas volumes are running 80 percent higher than the year-ago level of 1,117 Bcf and 17 percent more than the five-year average of 1,713 Bcf. Regionally, the Midwest and Pacific regions show the most significant deviations from the 2018-2019 winter heating season at 93.7 percent and 90.2 percent above year-ago levels.

Natural Gas Production – US natural gas production remains stable and consistently above 90 Bcf per day. Lower-48 dry gas flows reached 92.9 Bcf, its highest level of 2020 on March 20, according to data from S&P Global. Lower-48 dry gas production during March 2020 averaged 92.2 Bcf per day—4.2 Bcf above the average in March 2019.

Rig Count – the US oil and natural gas rig count dropped by 44 to 728 rigs on the week, 40 of which were directed toward oil, according to rig data from Baker Hughes. The drop in rigs was the largest single-week hit since the final week of December 2015, according to S&P Global. The Permian basin alone shed 23 rigs. However, both the Marcellus and Utica, gas-focused shale plays, saw no change in their rig counts. Recent guidance issued from operators shows lowered capital expenditure plans and suggests the coming weeks may bring further reductions in the number of operating rigs.

Pipeline Imports and Exports – imports from Canada are averaging 3.6 Bcf per day during March 2020, which is 1.1 Bcf lower than March 2019, influenced by higher domestic production and lower demand. On the export side of the ledger, the US is currently flowing about 5.5 Bcf per day of pipeline gas to Mexico, which is 0.6 Bcf per day higher than one year ago. The combination of LNG feedgas and pipeline exports to Mexico reached 14.8 Bcf per day on March 25, the highest level since January 25, 2020, according to S&P Global.

LNG Markets – natural gas prices in Europe and Asia are showing significant weakness. The UK National Balancing Point currently prices April-2020 futures at $2.09 per MMBtu, less than one-third of the price the contract called for in September 2019. Warm temperatures across many gas-using regions have pushed gas inventories in Europe to record highs, according to S&P Global. The impacts on international energy demand resulting from the coronavirus pandemic have added further bearish influences. The Japan-Korea Marker benchmark spot price for LNG delivered to North Asia has fallen below $2.70 per MMBtu. Despite these global signals, gas demand at the six major US LNG terminals remains strong. Total US LNG feedgas volumes surged to 9.4 Bcf per day on March 23, the first time feedgas volumes have surpassed 9 Bcf per day since late February, and the highest since feedgas reached a record of 96 Bcf per day on January 31.

Natural Gas Market Summary – the tumult in global energy markets does not appear to have led to significant impacts on US natural gas fundamentals. Dry gas production reached a year-to-date high in mid-March and remains relatively stable. While European power and gas demand has shown declines relative to prior years, there is little sign so far of significant US natural gas demand declines due to the coronavirus, according to S&P Global analysts. Will this change? If so, how? Every day brings news of more cities and states issuing stay-at-home orders and other social distancing measures to mitigate the spread of COVID-19. The facts around the impacts of the coronavirus and how people and governments respond are evolving. Thus, the short and long-term effects on energy markets and US natural gas remain highly uncertain. What is clear, however, is the vigilance of those people laboring across so many industries to help keep us healthy, protect our communities, and ensure essential functions are operating. We are thankful for all of them. Stay well and be safe, and the *Market Indicators* will be back in two weeks.