Natural Gas Market Indicators

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Reported Prices – oil prices slid as the US threatened higher tariffs on Chinese goods but haven't lost all support despite having given back many of the gains made in April. Brent crude is trading at $70.90 per barrel as of May 14, 2019; West Texas Intermediate crude oil prices are now at $61 per barrel. At Henry Hub, prompt-month futures at 2.65 per MMBtu, now just above where prices traded since mid-April.

Weather – May is here and so is AGA's weekly cooling degree day report. During this time of year, typically mild temperatures mean that small deviations in the cooling degree day count can lead to big percentage changes. For the week ending May 4, a cumulative total of 17 cooling degree days (CDDs) is 42 "warmer" than the 30-year normal of 12 CDDs. For the week ending May 11, temperatures were 27 percent warmer-than-normal as the US posted 18 CDDs as a whole. New England has yet mark down a cooling degree day, including New England, the Middle Atlantic, and the West North Central. The East North Central and Pacific regions have posted only 2 CDD. As always, AGA will continue its reporting on weather and temperature trends throughout the summer that affects natural gas demand, particularly power burn, and the storage refill.

Working Gas in Underground Storage – mild temperatures usually imply that dry gas production needs somewhere to flow. Right now working gas in underground storage is strong. The week ending April 26 saw 123 Bcf for the gas storage build, a triple-digit injection that followed two prior weeks of 92 Bcf of net injections. The week ending May 3 brought a net change of 85 Bcf of natural gas into storage stocks. These strong builds means that inventories are climbing back toward average levels. Total inventories now stand at 1,547 Bcf, which is 9 percent above year-ago levels and 16 percent below the five-year average, a gap which is closing.

Natural Gas Production – dry gas production remains strong. At 86.3 Bcf per day, dry gas production year-to-date is 10 percent higher than 2018, which of course was a record year itself. The 30-day average dry gas production in the Northeast is up 13 percent from last year; southeast onshore production is up 3 percent during the same period. Future expectations from the Energy Information Administration via its Short-Term Energy Outlook show dry natural gas production averaging 90.3 Bcf per day in 2019, which would be an addition of 6.9 Bcf per day from 2018. EIA expects production growth to continue into 2020 up to an average of 92.2 Bcf per day.

Shale Gas – FERC gave its approval for the Transco Pipeline northeast extension into New York. The Northeast Supply Enhancement project is expected to provide 400,000 Mcf per day of additional supply to New York City by expanding the pipeline to Pennsylvania, New Jersey, and New York. The project is designed to be complete by the 2020–2021 winter heating season. Meanwhile, the EIA inventory of wells drilled but uncompleted (DUCs) in the major shale regions the report tracks has fallen for the past two months after reaching a peak in February 2019. Total DUCs at 8,390 in the EIA Drilling Productivity Report regions represents less than a one percent change from the February 2019 total of 8,422. Overall, DUCs have steadily increased since June 2016. It is unclear if the past two months represent a turnaround in the trend or simply a blip on an otherwise upward trajectory. We will see.

Rig Count – the domestic gas and oil rig count has continued to decrease. The total count of rigs in operation at 988 for the week ending May 10 is down two rigs from the prior week and is 57 rigs lower than the same week one year ago. Oil-directed drilling is at 805 rigs operating, while gas activities rest at 183 rigs, down 39 and 16 rigs respectively from this same time last year. While most basins have seen decreases in the number of operating rigs compared to May 2018, the number of rigs operating in the Marcellus has jumped 8, an increase of 15 percent.

Pipeline Imports and Exports – imports from Canada during the first two weeks of May remain near 4.1 Bcf per day and have averaged 4.3 Bcf per day this month. Compared to last May, however, imports are down 1.1 Bcf per day, a 21 percent drop. South of the US border, exports to Mexico have remained strong with a month-to-date average of 4.8 Bcf per day, which is 0.4 Bcf higher than in 2018.

LNG Markets – the promise of a rise of new US LNG export development is threatened now that China has fought back in an escalating trade war. Effective June 1, China raised tariffs on imports of LNG from the US from 10 percent to 25 percent. There remains an open question of how much the Chinese-imposed US LNG import tariff will affect current US LNG exports. With that said, the Federal Energy Regulatory Commission (FERC) is scheduled to vote on the application for Freeport LNG's fourth LNG train, and the facility's first train could be ready to ship its first export cargo in July. In terms of current total volumes, feedgas for LNG export are averaging 5.6 Bcf per day month to date, a 60 percent increase since May of 2018.

Natural Gas Market Summary – the market continues to hum along apace during this shoulder season. Temperatures across much of the country are mild, so dry gas production volumes are making their way into storage and quickly rebuilding inventories. Underground storage stocks may remain behind the five-year average, but the gap is closing as the pace of injections remains well ahead of last year. Despite the seasonally tepid demand, total domestic consumption is up 5 percent on the back of stronger residential and commercial demand, itself up 24 percent since May 2018. So we have near-record production, strong domestic natural gas consumption, growing exports, rebuilding inventories, and a pricing environment that has found itself consistently in the mid-to-high $2 range.