Natural Gas Market Indicators

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Reported Prices – crude prices fell at the end of May with Brent trading at $69 per barrel and West Texas Intermediate at $59 as of May 29, 2019. Futures at Henry Hub for natural gas have stubbornly remained in the $2.60s per MMBtus during the final days of May. Looking ahead, futures prices for the 2020-2021 winter heating season range between $2.70 and $3.00 per MMBtu.

Weather – cooling degree day data reported by the National Oceanic and Atmospheric administration point to US conditions from May 1 to 25 that have been 20 percent warmer than normal and 2.2 percent cooler than this time last year. Some parts of the country have been mild or cool. The Northeast, Midwest, and West regions have all posted colder than normal temperatures over this period. What's driving the national totals is the heat in the South. A heat wave engulfing cities across the Southeast drove temperatures up to 6.4 degrees above normal in the last days of May, according to S&P Global. Temperatures across that region have ranged as high as 70 percent warmer than normal for the period.

Working Gas in Underground Storage – storage inventories built by another 114 Bcf for the week ending May 24, according to the Energy Information Administration. This follows the triple-digit injections of 100 Bcf and 106 Bcf for the two weeks prior. Working gas inventories are now at 1,867 Bcf. Healthy injections are helping close the gap between the five-year average, though storage levels are still 12.1 percent below normal. The Mountain region is the lowest at this point in the injection season compared to the five-year average (and last year) at 31.6 and 17.0 percent lower, respectively.

Natural Gas Production – over Memorial Day Weekend, lower-48 dry gas production flows topped 88.0 Bcf—very close to the all-time daily high established earlier this year in March. Overall for May, production has been strong. Average daily dry natural gas production was 87.0 Bcf, 6.9 Bcf more than the average in May 2018.

Shale Gas – on May 15, the New York Department of Environmental Conservation (NY DEC) denied Transco a key water quality certification for the $1 billion natural gas pipeline. The project is intended to provide fuel to customers in New York City and Long Island. After the NY DEC decision, National Grid announced that it would not process new applications for natural gas service in those areas until the Northeast Supply Enhancement pipeline is allowed to proceed.

Rig Count – for the week ending May 24, the number of total operating rigs in the United States is 983. Down four from last week, the total is 7 percent lower (76 rigs) from this same time in 2018. Of the 983 rigs in operation, 186 were gas directed and 797 oil, an increase of 1 and a decrease of 5, respectively, from the week prior. The Eagle Ford, Marcellus, and Williston basins saw a modest increase in rig activity for the week while all other major basins stayed constant or showed a decline.

Pipeline Imports and Exports – imports from Canada averaged 4.3 Bcf per day during May, with about 2 Bcf per day into the Midwest, 3 Bcf into the West, and the remainder flowing into Northeast markets. On the export side, the US is flowing 4.9 Bcf per day of gas to Mexico, of which 4.4 Bcf is coming out of Texas. Overall pipeline exports to Mexico are up almost 9 percent over 2018.

LNG Markets – on May 16, Freeport LNG received approval to build and export from a fourth train at its LNG export facility in Texas. The fourth train may export up to 0.72 Bcf per day to countries without a free trade agreement with the US, according to S&P Global. The facility, with a capacity of more than 20 million tonnes per annum, would be the fifth largest LNG producer in the world. Meanwhile, Saudi Aramco and Sempra Energy have announced an agreement for a 20-year sale and purchase agreement for 5 million tonnes per annum from the proposed Port Author export facility. Meanwhile, the Japan/Korea futures marker has fallen to $4.70 per MMBtu, a steep decline from the 9.70 per MMBtu reached last September. UK prices at the National Balancing Point have been cut in half over that period as well, trading at $3.84/MMBtu. The bearish spot market signals a well-supplied global LNG market hungry for demand. In terms of volumes, feedgas for LNG export is currently 5.6 Bcf per day on average in May, which is 2.5 Bcf per day higher than one year ago.

Natural Gas Market Summary – the heatwave in the southern portion of the US is prompting significant electricity demand early in the cooling season. Southeast natural gas power burn is approaching an all-time high for May, according to S&P Global Platts. For the US as a whole, domestic demand in May is well above 2018 levels, boosting in large part by strong residential and commercial demand. Injections into storage are outpacing last year as well. LNG feedgas and exports to Mexico combined are up 37 percent year over year in May, adding to this picture of strong aggregate demand. Despite the ostensibly bullish indicators, natural gas pricing has held steady around $2.60 per MMBtu, no doubt influenced by the steady and strong dry gas production flowing out of the Northeast and South. Stepping back, we see a well-supplied market, strong demand, building inventories, and affordable commodity prices.