



NATURAL GAS MARKET INDICATORS

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Natural Gas Market Summary – the tropical storm season continues to generate storms at an unprecedented pace, and temperatures continue to be warmer than average despite a recent decrease in temperatures. However, over the last month, the gas supply has not been significantly strained by the weather, which has been a factor in continued relatively low natural gas prices. Rig counts continue to be low following the sharp decrease in rig counts over the past year, but there is some evidence that the number of rigs began to stabilize in the early summer. Finally, as winter approaches, natural gas production and reserves are adequate to meet natural gas customers' needs across the United States through the heating season.

Reported Prices – natural gas prices trended downward throughout September. Henry Hub future contract prices for November delivery ranged from a high of \$3.00 on September 4, to a low of \$2.52 on September 28. While future contract prices continue to remain substantially above the February 27, 2020 low point of \$2.12, this latest drop partially offsets the 40 percent increase in prices experienced between late June through early September. Meanwhile, despite some marked price variability since the beginning of the month, winter strip prices remain moderate at \$3.22 for February 2021. Finally, oil prices increased slightly over the last two weeks, as West Texas Intermediate is trading at \$39 per barrel, and Brent crude is trading at roughly \$41 per barrel.

Weather – Tropical Storm Beta formed last week in the Gulf of Mexico but was downgraded to a post-tropical cyclone on Wednesday, September 23, after moving onshore. Nonetheless, according to the National Hurricane Center, Beta's rainfall led to flash flood watches and severe weather in Southeast Texas and Southern Louisiana. This year marks only the second time since tropical storms began to be named (the first time being 2005), that the World Meteorological Organization has been forced to use the Greek alphabet following the depletion of the regular list of 21 names. However, Tropical Storm Alpha was named on October 22, 2005, while sub-tropical storm Alpha was named on September 18, 2020. At this pace, the 2020 hurricane season might include more than seven storms named after Greek letters, making it the most active hurricane season in recorded history. No off-shore natural gas production was reported shut-in due to Beta. Still, there has been a significant decline of feedgas deliveries, as Cameron, Corpus Christi, Freeport, and Sabine Pass export terminals were all in Beta's path as the storm neared land. NOAA's cooling degree data shows US temperatures for the week ending September 26 were 48.9 percent cooler than 2019 and 14.3 percent cooler than the 30-year normal. This marks only the fifth week of cooler than normal temperatures since the cooling degree day season began on May 1. Even so, cumulative temperatures since the beginning of cooling degree day season remain 17.7 percent warmer than the 30-year normal.

Working Gas in Underground Storage – inventories of working gas in underground storage increased 66 Bcf for the week ending September 18. At 3,860 Bcf, working gas totals are 15.9 percent above year-ago levels and exceed the five-year average by 12.4 percent. Additionally, inventories are nearing 3.7 Tcf and still growing. Thus, it appears that the current natural gas supply is in a strong position to meet the upcoming heating season demand.

Natural Gas Production – dry natural gas production fluctuated between 84 and 88 Bcf per day throughout September, averaging 87.0 Bcf per day for the month. As a result, over the first nine months of 2020, total average daily dry gas production is 89.6 Bcf, 1.1 Bcf per day lower than the first nine months of 2019. The Energy Information Administration's *Short-Term Energy Outlook* for September expects dry natural gas production to average 89.9 Bcf per day for the year. Additionally, the EIA expects production output to drop from a record 96.2 Bcf per day in November 2019 to 85.5 Bcf per day in February 2021.

Rig Count – the number of total rotary drilling rigs operating in the United States increased by six to 261 for the week ending September 25. This increase coincides with a minor but sustained increase in crude prices over the past few months. Of the six new rigs, four are oil-directed, and two are gas-directed. As a result, as of September 25, there are 183 oil and 75 gas rigs in operation. As previously discussed in the *Natural Gas Market Indicators*, the number of operational rigs has plummeted since early 2019. However, Baker Hughes' data shows evidence that the total number of rigs in operation has stabilized since mid-June. Of particular note, the data shows that gas-directed rigs may have begun to stabilize as early as late May.

Pipeline Imports and Exports – imports from Canada continue to lag behind 2019 numbers. Daily natural gas pipeline imports from Canada averaged 3.3 Bcf per day in September 2020, a 21.4 percent decrease from the 4.2 Bcf per day reported in September 2019. Meanwhile, pipeline exports to Mexico continue to increase month over month from 2019 numbers. Exports to Mexico averaged 6.1 Bcf per day in September 2020, a 13.2 percent year over year increase from September 2019.

LNG Markets – the 2021 outlook for US LNG continues to improve, as shown by the low number of US cargoes canceled for November and the progressive demand recovery in Asian markets. According to S&P Global Platts, only five LNG cargoes were expected to be canceled in November, a significant drop from the 40 canceled cargoes in August. Meanwhile, feedgas for LNG export continue to fluctuate due to the effect of the ongoing Atlantic Hurricane Season on operations. After rebounding to nearly 8 Bcf per day on September 18 following Hurricane Laura, flows dropped back to 5 Bcf per day by September 21 in the wake of Tropical Storm Beta. The average feedgas for LNG export is 5.9 Bcf per day for September, which is 0.3 Bcf per day lower than one year ago.

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