

Natural Gas Market Indicators



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Reported Prices – on the oil side of energy pricing, futures turned lower on October 14, giving back much of their gains from the week prior. Trade negotiations between China and the US continue to influence the market as news of a potential deal—or not—shape macroeconomic expectations, and thus requirements for energy. Crude oil at West Texas Intermediate is priced at \$53 per barrel while European Brent crude is trading just above \$59 per barrel. Meanwhile, natural gas futures, after seeing some uplift in mid-September, have fallen back to \$2.29 per MMBtu as of October 15, near the levels where gas has traded since July. Modest price support can be seen in the future strip for the winter season, with December through March trading in the range of \$2.50 to \$2.60 per MMBtu.

Weather – the first two AGA heating degree day summaries for this winter season show a warm start. The first week of October was 21.1 percent higher (warmer) than normal. Granted, there are typically few heating degree days this early in the season, so small changes in heating degree days can lead to big percentage differences. Still, much of the country has been unseasonably warm. Temperatures remained seasonally warm through the second week of the month at 12.7 percent warmer than normal. Cumulatively, weather in the United States is 16.1 percent warmer than normal and 30.0 percent colder than this time last year. According to the EIA’s *Winter Energy Outlook* released last week, NOAA forecasts US heating degree days this winter to be 4 percent lower than last winter and 1 percent lower than the 10-year average.

Working Gas in Underground Storage – inventories of working gas in underground storage increased 98 Bcf for the week ending October 4. At 3,415 Bcf, working gas totals are 16 percent above year-ago levels and trail the five-year average by 0.3 percent. Inventories are nearing 3.5 Tcf and still growing. It appears the gas market is well-positioned in terms of supply as we head into winter.

Natural Gas Production – dry natural gas production has remained consistently above 90 Bcf per day and often above 91 Bcf per day during the first half of October. Average daily dry gas production year-to-date at 88.2 Bcf is running 7.0 Bcf per day higher than the same period in 2018. The 30-day average dry gas production in the northeast is up 10 percent from last year. Southeast onshore production is up 4 percent month-to-date compared to October 2018. And production in the west is up 3 percent for the same period.

Shale Gas – the Natural Gas Supply Association released its Winter Outlook Forecast, noting record production and record demand. Daily dry gas production is predicted to average a record 92 Bcf per day this winter. Associated gas production from the Permian Basin comprises the largest production gains among the shale basins, supported by new pipeline connections, according to the Outlook reported by S&P Global.

Rig Count – after falling for seven weeks straight, the combined oil and natural gas rig count in the United States halted its decline and rose by one to 856 for the week ending October 11, according to Baker Hughes. However, rigs in operation are down 207 or 19.4 percent from one year prior. Breaking that down, gas-directed drilling at 143 was down one rig from week-ago levels, and down 50 rigs from the same time in 2018. Meanwhile oil-directed activity was being carried out by 712 active rigs, up two from a week ago but still trailing year-ago levels by 157 rigs.

Pipeline Imports and Exports – month-to-date daily natural gas pipeline imports from Canada registered 4.0 Bcf per day on average so far in October 2019, which is 0.8 Bcf per day below the volume imported in 2018. In contrast, higher flows on the newly constructed Sur de Texas pipeline, which connects Texas to Mexican markets via an underwater route through the Gulf of Mexico, lifted US exports to Mexico to 5.9 Bcf per day on October 11, according to S&P Global Platts. Gas volumes to Mexico via pipeline now have a month-to-date average to 5.5 Bcf per day, up 0.6 Bcf per day compared to one year ago. Total exports of pipeline natural gas and feedgas for LNG now routinely reach above 11 Bcf per day, representing 14 percent of daily dry gas production.

LNG Markets – on October 4, within a week of receiving approval from FERC, Kinder Morgan and EIG Global Energy Partner’s Elba Liquefaction project announced the start of commercial service of the first of its ten liquefaction units, according to S&P Global. The Elba Island facility, previously designed as an LNG import terminal, is expected to have a total capacity of 2.5 million tonnes per annum of LNG across the ten trains when completed. For the lower-48 as a whole, feedgas volumes for LNG export is currently 6.3 Bcf per day on average in October, which is 3.5 Bcf per day higher than one year ago.

Natural Gas Market Summary – average household expenditures for all major home heating fuels are expected to decrease this winter compared with last, according to EIA’s *Winter Fuels Outlook* report. The decrease in expected winter consumption compared to last year is largely attributable to milder temperatures forecasted compared with last year. Although NOAA is forecasting a generally warmer winter for most of the country, the biggest decline in heating degree days from last winter is expected in the Midwest. The EIA projects that US residential sector gas consumption this winter will average 22.1 Bcf per day with an average household consumption for the winter of 58 Mcf. On the supply front, the EIA expects working gas inventories two percent higher than the five-year average to begin the winter, suggesting a strong supply picture. All fundamentals considered, the EIA forecasts residential natural gas prices will average \$10.03 per Mcf this winter, one percent less than last winter – an affordable proposition if you heat your home with natural gas!

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