

NATURAL GAS MARKET INDICATORS

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Natural Gas Market Summary –

- The tropical storm season continues to generate storms and temperatures continue to be warmer than average. The main weather event over the last two weeks of August was Hurricane Ida. Such events can have short-term impacts on the natural gas supply-demand balance.
- At the peak of the storm, offshore production in the Gulf of Mexico shut-in 95 percent of production. US power burn declined 7 Bcf per day compared with the prior week to 39 Bcf per day, due to milder temperatures and partly driven by widespread blackouts in the Southeast. And LNG feedgas demand along the Gulf Coast dropped nearly 0.8 Bcf, falling to 10.2 Bcf per day from 11.0 Bcf per day.
- Recognizing rebounds to both production and demand have historically lagged by at least one week, S&P Global Platts data shows that the most significant changes to the market dynamics occurred during the storm's peak and are forecast to return to normal within 7–10 days.

Weather – On August 26 tropical storm Ida formed in the eastern Atlantic, becoming the ninth named storm of the 2021 hurricane season. On August 29th, the 16th Anniversary of Hurricane Katrina, Hurricane Ida made landfall as a Category 4 storm near the Louisiana-Mississippi state line. At landfall, the storm had sustained 150 mph winds and storm surges of 7-12 feet, making it one of the most powerful storms ever to hit the US. Following landfall, Ida maintained hurricane strength for 16 hours over Louisiana and Mississippi before weakening to tropical storm level on Monday. Ida remains dangerous and could have large impacts as it follows its projected path from Tennessee to Connecticut. The weeks ending August 21 and August 28 posted temperatures 13.6 and 51.7 percent warmer than normal, respectively. The 2021 cooling degree season is now 15.7 percent warmer than the 30-year normal, and 1.8 percent cooler than the 2020 cooling season.

Demand – Natural gas demand averaged 75.2 Bcf for the week ending August 31. The weekly average was higher than the monthly average, but declined steadily over the last week of the month. The change in demand can almost unilaterally be attributed to demand for power burn. US demand dropped from 80.4 Bcf on August 25, to 72.9 Bcf on August 31, with almost the entire drop coming from demand for power burn. Between August 30 and August 31 national demand dropped by 3 Bcf. S&P Global Platts reports that a third of that reduction came from reductions to power burn in the Southeast as large swaths of the Southeast remain without power in the wake of Hurricane Ida.

Natural Gas Production – Despite a nearly 95 percent shut in production in the Gulf due to Hurricane Ida, daily gas production only experienced a reduction of about 2 Bcf per day (2.5 percent). Nonetheless, the limited production has kept the market balance extremely tight

despite reductions in demand. S&P Global expects production to rebound quickly over the first two weeks of September. As temperatures drop and demand for power burn wanes, S&P expects the robust production will help the US replenish its relatively low levels of working gas in underground storage.

Pipeline Imports and Exports – Pipeline exports to Mexico have remained above 6 Bcf per day throughout most of the summer, including during the last two weeks of August. The year-to-date average daily export is 6.1 Bcf, 15 percent above the 2020 average of 5.3 Bcf. Most of the increase can be attributed to near record level demand for power burn in Mexico. Imports from Canada have also remained strong, averaging 5 Bcf per day, a 20 percent increase from 2020 levels. S&P Global Platts expects imports from Canada to decline over the first two weeks of September as the end of the injection season and the beginning of the heating season approaches.

LNG Markets – Over the last week of August, US LNG daily exports averaged 10.7 Bcf per day, further increasing the year-to-date average to 10.6 Bcf per day. On August 30 and 31, total LNG exports were 10.3 Bcf per day, a significant drop from August 28 when total LNG exports were 11 Bcf. The drop can be almost entirely attributed to dips in deliveries from Sabine Pass and Freeport because of Hurricane Ida. At the time of this writing, it is unclear whether there was any lasting damage to export facilities, but S&P Global expects LNG exports to recover to near 11 Bcf by the end of the week.

Working Gas in Underground Storage – According to the EIA storage report, working gas in underground storage stood at 2,851 Bcf for the week ending August 20, following a net injection of 29 Bcf over the previous two weeks. Despite the production shut-ins caused by Hurricane Ida, as of August 31 the supply and demand balance remains positive, which has resulted in daily injections into storage from August 28 through August 31. With two months remaining in the injection season (which typically ends around October 31), current storage levels sit 6.2 percent below the five-year average and 16.5 percent below 2020 levels.

Reported Prices – Natural gas prices decreased steadily for most of the second half of August but ultimately surged as production decreased in anticipation of Hurricane Ida. Due to the narrowing of the market, natural gas contracts for September delivery are currently trading at \$4.39 per MMBtu, an 11 percent increase since the beginning of August when contracts were trading at \$3.94 per MMBtu, and the highest price since November 2018. The long-term strip experienced a similar surge, as January 2022 futures are currently trading at \$4.49 per MMBtu. Oil prices also decreased moderately throughout the second half of August. As of August 31, West Texas Intermediate is trading above \$69 per barrel, while Brent crude is trading above \$73 per barrel as of August 30.

Rig Count – Oil drilling activity increased by seven rigs for the week ending August 20, and five rigs one week later. As a result, US rigs in operation stand at 410 as of August 27. Currently, there are 97 gas-seeking rigs, 25 above year-ago levels. Total US rig activity sits at 508, the highest level of rigs in operation since April 17, 2020.

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