

Natural Gas Market Indicators



August 31, 2016



Reported Prices – crude oil prices have firmed to \$47 per barrel for West Texas Intermediate and \$49 plus for Brent. This is a \$5 uptick from two weeks ago, so qualifies as a significant movement. Meanwhile natural gas futures at Henry Hub pushed up to \$2.88 for prompt-month contracts and the winter strip average for 2016–17 is higher at about \$3.25 per MMBtu.

Weather – it has been hot all summer. As we approach the heart of the normal hurricane season, one might ask, “How will the persistent heat influence the intensity or number of potential Atlantic basin storms?” Well, the National Oceanographic and Atmospheric Administration (NOAA) is saying that 12–17 named storms may appear in the Atlantic this season and five to eight may become hurricanes, which is slightly higher than their earlier seasonal forecast. As of August 11, there had already been five named storms and two hurricanes, Alex and Earl, and during the final week of August there was tropical storm activity in the Gulf of Mexico and Atlantic. There has been little to no significant impact on offshore oil and gas operations in the United States due to the storm season, so far in 2016. Since May 28, 2016 every week of the late spring and summer season has incredibly been more than 10 percent warmer than normal for the nation as a whole, as measured by cooling degree days. In fact, seven of the fourteen weeks have been more than 25 percent warmer, leaving the cumulative total of cooling degree days at 22.1 percent more than normal for the country, since the beginning of May. Every region of the country has seen more cooling degree days than normal since May, though New England and the Middle Atlantic regions have significantly warmer than normal this summer at 132 percent and 62 percent respectively.

Working Gas in Underground Storage – after a working gas net withdrawal at the end of July, storage inventories have continued a slow build. The closer we get to November 1 the more the current inventory will likely converge with the five-year average; as such, working gas volumes are expected to be strong entering the 2016–17 winter heating season. Current working gas at 3.35 Tcf is about 9 percent higher than this time last year and nearly 12 percent higher than the five-year average.

Natural Gas Production – domestic gas production in the lower-48 states was 71.8 Bcf per day in August, which is 0.8 Bcf per day less than August 2015 but a higher number than the sub-70 Bcf per day volume that production flirted with earlier in the summer.

Shale Gas – TransCanada has indicated that it is planning to offer western Canada producers a tolling charge of just 63 cents per MMBtu to move gas from Alberta to Dawn, Ontario—this may be a response to compete directly with Marcellus and Utica shale gas delivered to eastern Canada. A challenge to shippers that wish to take advantage of the 42 percent reduction in tolling charges is that they must commit to supplying 1.9 Bcf per day for 10 years under the new agreement; a challenge to the company is that regulators in Canada must approve the deal. Clearly this is one more example of the knock-on effects from the growth in Marcellus- and Utica-related production and infrastructure continue to extend beyond the nearby regional markets.

Rig Count – the count of active rigs has made quite a comeback this summer on the back of a steady increase in oil-directed activity. Starting from the bottom of the count in May, oil rigs have since climbed 28 percent through August 26, holding steady at 406 rigs the past two weeks. Does this mean that operators needed only the signal of \$50 prices for crude oil to ramp up activity? If so, the response was fairly quick. Only 15 weeks separated the bottom of crude oil prices in March from the turnaround in the oil rig count in May. Meanwhile, amid persistently low commodity prices, the natural gas rig count has not fared quite as well. Gas-directed activity fell 7 percent during the same time period since May to 81 rigs in the most recent report from Baker Hughes. The total rig count is now close to 500 once again.

Pipeline Imports and Exports – LNG exports surged sufficiently in August to average 0.8 Bcf per day, while pipeline exports to Mexico netted 3.7 Bcf daily, making both LNG and pipeline exports higher than prior months. Imports from Canada are strong primarily because power generation demand continues to draw volumes across the border. With monthly volumes in August of 6.2 Bcf per day, net imports from Canada are 0.8 Bcf per day higher than in August 2015.

LNG Markets – according to a recent Deloitte Center for Energy Solutions report on US LNG exports, the critical acquisition pricing balance that keeps domestic producers whole but competitive in the world LNG market is in the \$3.75–\$4.35 per MMBtu range, which even at the low end is a Henry Hub price that most producers have not seen in two years. Dry gas production has been as much as 73 Bcf per day but will need to ramp up to 84 Bcf daily in order to meet domestic and international demand—a target that Deloitte also sees as attainable. In the here and now, feedgas for LNG exports in August averaged 0.8 Bcf per day while imports averaged 0.3.

Natural Gas Market Summary – an interesting dynamic has developed this year regarding storage injections. While injections have been modest due to power generation loads but consistently positive in the East, Midwest and Mountain regions, the South Central region has demonstrated a different pattern: working gas inventories in the South Central (producing) region have *declined* for eight of the nine weeks going back to mid-June. This is, of course, partly a function of salt cavern flexibility in injection/withdrawal cycling and the demand created by a hot summer. Compared to historical operations, this is remarkable. It is also indicative of where exactly the market is working to rebalance following tepid withdrawal season that left a near 50 percent above-average supply glut as injections resumed earlier in the year. The flexibility of the US natural gas market is shown here in high relief.

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