

Natural Gas Market Indicators



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Reported Prices – a modest run-up in natural gas prices brought prompt-month futures close to \$3.00 per MMBtu as August progressed. Contracts for October delivery of gas currently call for \$2.94 per MMBtu; January contracts are now \$3.24. All in all, impacts to prices from Hurricane Harvey have been minimal. Meanwhile, crude oil prices firmed to a range of \$47.15-\$52.00 per barrel with West Texas Intermediate (WTI) on the low end and Brent on the high end of that spread.

Weather – August began with two cooler-than-normal weeks that were followed by two warmer-than-normal periods ending with the week of August 26, 2017. Based on NOAA cooling degree days, since May 2017, temperatures have been 10 percent cooler than last year, but 9 percent warmer than the 30-year normal since. Regionally, East and West North Central regions (upper Midwest) have been about six percent cooler than normal, while every other area of the country has posted above-average cooling degree days in aggregate. The New England and Pacific regions have deviated the most from normal with 22.2 percent and 47.6 percent more cumulative cooling degree days, respectively, since May 2017.

Working Gas in Underground Storage – this summer’s injections of natural gas into storage have been at best modest compared to prior years. The addition of 30 Bcf to working gas inventories for the week ending August 25 pushed total storage volumes to 3,155 Bcf nationwide—less than a percent above the five-year average. With about nine weeks remaining in the traditional injection season, some analyst expectations point to a storage inventory of 3.8–3.9 Tcf depending on later-season market balances and injections. Certainly, those volumes fall short of recent storage inventories that surpassed 4 Tcf at the beginning of the winter heating season. Should we be concerned from the standpoint of delivering natural gas to consumers during the peak demand periods of winter? From a national basis, this appears unlikely. Of course, storage withdrawals during the 2017-18 winter heating season will be dependent on individual company natural gas supply planning and regional temperatures as the season develops.

Natural Gas Production – domestic natural gas production, which had posted volumes of more than 73 Bcf per day for much of August, fell 1.3 Bcf to 72 Bcf per day on August 15 due primarily to brief processing facility shut-downs and other factors. A production slowdown of this magnitude is not uncommon, usually short lived, and has not offset the gains that month-to-date production has made on last year’s volumes. Oil and gas production slowed from the Gulf of Mexico during the last week of August with shut-ins and rig evacuations due to Hurricane Harvey. Natural gas production impacts offshore due Harvey were minimal at less than 1 Bcf per day. By August 31, lower-48 gas production had recovered to around 73.0 Bcf per day.

Shale Gas – EIA projects gas output from shales will increase in September and set a record. Their projected volumes would put September shale output 11.8 above 2016.

Rig Count – almost one year to the day from the bottom of the gas rig count, the continual gains in the number of gas-directed drilling rigs in operation may have finally slowed down. Last August 5, gas rigs hit a local floor of 81 rigs (they did so again on August 26). Since then, gas rigs added 137 percent—they more than doubled. But the first two weeks of August have shown the rig count to give back some of those gains, dropping from a high of 192 at the end of July to 182 and 180 rigs respectively during the past two rig count reports from Baker Hughes (the weeks ending August 18 and 25). Is this an August slowdown? Are producers finally running into the realities of sub-\$3 commodity prices? Or is another rebound on the way?

Pipeline Imports and Exports – imports from Canada have averaged more than 5 Bcf per day this August but are 0.6 Bcf per day less than in August 2016. That said, year-to-date volumes from Canada are only 0.5 Bcf per day lower in 2017 compared to the same period in 2016. Meanwhile, exports to Mexico are a strong 4.0 Bcf per day year-to-date in 2017, which is 0.4 Bcf higher than the daily average year-to-date in 2016.

LNG Markets – on August 15, the DC Circuit upheld the Department of Energy (DOE) 2011 approval of Freeport LNG to export the LNG equivalent of 0.4 Bcf per day from the South Texas facility. The court said that even if DOE had broadened its consideration of tangential environmental impacts, it may have still granted the approval on the basis of a public interest that weighs in favor of exports. Also, on August 21, Dominion requested permission from the Federal Energy Regulatory Commission (FERC) for authorization to introduce feedgas into the Cove Point LNG facility in Maryland to continue commissioning activities. Dominion expects production of LNG to commence during the fourth quarter of this year. And there is more: Lithuania received its first shipment of gas from Cheniere at Sabine Pass on August 21, which emphasizes the country's effort to diversify its reliance on Russian Gas. Exports of LNG from the United States (Sabine Pass) are currently running just below 2 Bcf per day about 0.9 Bcf higher than in August 2016.

Natural Gas Market Summary – even though summer temperatures have been warmer than normal on average this year, gas volumes to power generation remain below 2016 levels (down 2.9 Bcf per day year-to-date). Growth in gas exports has not been able to offset lower demand in both the power sector and residential/commercial, the latter of which is down 1 Bcf per day this year after a relatively mild winter. The result is that total lower-48 consumption of natural gas has been 1.9 Bcf per day less year-to-date in 2017 compared to the same period in 2016, per Bentek Energy. Unpredictable events such as Hurricane Harvey also have an impact on the natural gas supply-demand balance in the short run. Hurricanes often require temporary production shut-ins, as Harvey does, but these events can also lead to demand reductions through cooler temperatures via the storm and reduction of economic output such as reduced manufacturing or refining during the duration of the storm.

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