Natural Gas Market Indicators

AGA American Gas Association

December 11, 2015

Reported Prices – radio stations are switching formats to holiday music, meaning heaters are on and the warmth flowing. Demand has moved with varying temperatures, but natural gas markets have not really budged from the low $2 per MMBtu mark, and even seem to threaten to push below. NYMEX contracts for January delivery call for less than $2.10, as of this reporting. Meanwhile, expectations in oil markets are being influenced by the recent OPEC meeting in Vienna, which resulted in no production limits for members of the cartel, pointing to robustly supplied world oil and the likelihood of continued low liquids prices. The initial reaction in the United States to the news has been a slipping of West Texas Intermediate crude pricing to about $37 per barrel while Brent oil has slipped below $40.

Weather – for the nine-week period beginning early October through the end of November, warmer-than-normal national heating degree day totals were recorded for the lower-48 in aggregate. Every region of the country individually was warmer than normal for the same period with cumulative heating degree day totals for the country 20.6 percent lower (warmer) than normal. By the end of the first week in December, aggregate heating degree days had adjusted to 18.6 percent warmer, but the relational metrics for the individual regions remained the same – warmer than normal everywhere.

Working Gas in Underground Storage – the first consecutive 7-day period of national net storage withdrawals for the 2015-16 winter heating season occurred November 19 through November 25. With that said, a positive net injection of 9 Bcf still materialized for the week ending November 20, 2015, according to the Energy Information Administration. Therefore, working gas inventories actually exceeded 4 Tcf for a brief period of time in November. The November 27 report kicked off the net withdrawal season with 53 Bcf pulled from storage and added to flowing supplies. One week later storage withdrawals totaled 76 Bcf – all five regions in the lower-48 posted net withdrawals – which is above the five-year average for the week but still keeps stocks in record territory.

Natural Gas Production – September 2015 dry gas production was the highest for the month since the Energy Information Administration began reporting data in 1997. Reported volumes for the month were 5.8 percent higher than September 2014. Strong production persists despite the drop off in domestic rig activity, which has continued to fall in the face of stubbornly low wellhead commodity prices. Even so, Bentek Energy reports that the US Northeast set a new daily dry gas production record of 21.9 Bcf over the weekend of December 5 and 6 and total domestic production was back up to 72 Bcf per day.

Shale Gas – the dry production record for Northeast US noted previously comes on the back of Marcellus shale development, as well as new volumes flowing from the Utica shale basin. Gains in production are showing up in central and northeastern Pennsylvania, West Virginia and Ohio (with additions of Utica gas). The case can be made that the opening of REX to east-west flows has helped debottleneck Pennsylvania and Ohio production capability. Meanwhile, in the Williston basin of North Dakota and eastern Montana, Bakken oil and gas production has started to slide given low commodity costs. On the other hand, drilling has slowed but not ground to a halt. Drilling costs and field services are relatively cheap right now. If a company has the wherewithal, it may evaluate the potential benefit of drilling now and producing later when commodity prices are better.

Rig Counts – domestic rigs in operation remain at their lowest levels since April 2002. The US rig count fell by 20 during the recent two week period ending December 4, 2015. Rigs in operation have fallen 1,183 year over year. Oil rigs account for 1,030 of that decline.

Pipeline Imports and Exports – EIA's Natural Gas Monthly shows that exports to Mexico in September reached its second highest ever level and a record for the month. Current volumes, according to Bentek data, are running 60 percent higher to begin December than one year ago. Meanwhile, imports from Canada at 5.4 Bcf per day are running 5 percent lower month over month compared with December 2014.

LNG Markets – the US Government Accountability Office (GAO) believes that if domestic LNG exports are required to exclusively utilize US-built and registered ships that landing costs will be raised and possibly render US LNG export less competitive in the world market. Construction cost of a LNG carrier in the US is 2 to 3 times that of a ship constructed in Korea, for example, and requiring US officers and merchant mariners would be more expensive. The legislative sponsor of the bill was not surprised, stating that the extra cost would be worth it, citing the view that US shipbuilding needs a boost. Current LNG *imports* are clocking 0.1 to 0.2 Bcf per day given warmer than normal temperatures for much of the country, modest overall demand, and a strong domestic supply position.

Natural Gas Market Summary – September saw numerous for-the-month natural gas records. Dry natural gas production and consumption both records for September, the latter led by strong pull from the power sector. US exports of gas to Mexico were the highest ever for a September, and second highest monthly volume ever. Skipping ahead to the present, storage injections/withdrawals were net positive for November – with another national record for weekly inventories set at 4,009 Bcf. Current production and consumption data suggest the year is poised to close at all-time records on both fronts. So, what is the market rationalization for all these factors? The price of US natural gas is averaging its lowest level since 1999. Is this what abundance looks like?