

Natural Gas Market Indicators



February 15, 2017



Reported Prices – the NYMEX March contract for natural gas tumbled to under \$3.10 per MMBtu to begin February 2017 likely on what has been a warmer than normal winter heating season to date, the prospects of predominantly warmer conditions to continue, and a strong storage position. By Tuesday, February 14, the forward contract had slipped more to \$2.92. Oil remains in a relatively narrow pricing band of \$53 to \$56 per barrel for West Texas Intermediate and Brent, respectively. What appears to be reasonable compliance among OPEC members regarding production cuts may be the predominant factor for the relative oil price stability in recent months.

Weather – colder-than-normal temperatures this winter have basically been confined to December 2016. All other weeks, for the nation as a whole, have been warmer. Aggregate heating degree days since early October and through January were 16 percent fewer (warmer) than normal. Regionally, the Pacific was seven percent warmer than normal while the West South Central Region has been a remarkable 32 percent warmer during that time. Current National Weather Service forecasts point to warmer conditions for most of the lower-48 states through the balance of the current winter heating season.

Working Gas in Underground Storage – underground storage at 2,559 Bcf for working gas currently exceeds the five-year average for storage stocks (2,514 Bcf) by 1.8 percent. After beginning the winter heating season with the largest working gas volume in history, underground storage volumes have come back closer to normal based on that five-year average.

Natural Gas Production – US lower-48 daily dry natural gas production has averaged 70.4 Bcf per day in February, a decline of 3.8 Bcf per day from February 2016. The market continues to prove itself resilient. With rising rig counts (noted later in this report), it would not be surprising to see a production response this year.

Shale Gas – “tight oil expected to make up most of US oil production increase through 2040,” writes the Energy Information Administration (EIA). It is a recognition of the large gains in productivity in major shale plays that has led the EIA to conclude that tight oil and gas resources will continue to be the principal contributor to growing US hydrocarbon production for years to come. The growth of shale oil in particular will likely have lasting consequences on natural gas markets. Today about 20 percent of total US natural gas production comes from oil wells. As exploitation of shales in the Permian basin, Eagle Ford, and Bakken continue, so will associated gas production. To what extent associated gas sustains or grows itself may be a function of the relative price of petroleum liquids to natural gas and the availability of takeaway infrastructure to move associated gas to markets, which is a particular concern in more remote areas such as the Bakken play in North Dakota.

Rig Count – the rig count continues to rise. Gas drilling rigs have not had a negative week for 13 weeks in a row since November 18 and showing an 84 percent gain in activity since the end of August. Total gas rigs in operation are now pegged at 149. Similarly, oil rigs have performed well.

Oil-directed rigs total 591, posting growth of 87 percent since May 2016. Indeed, the modest rise in oil and natural gas commodity prices has spurred renewed activity from production operators. A reasonable question is how much longer is this forward-looking indicator primed to grow?

Pipeline Imports and Exports – imports from Canada overall have averaged 5.7 Bcf per day this month, a decline of 0.4 Bcf from February 2016. Meanwhile, exports to Mexico at 4.1 Bcf per day are 0.8 Bcf per day higher than February 2016. Regarding daily natural gas exports, the combination of pipeline and LNG exports routinely exceeds 6 Bcf today, which is remarkable when one remembers that only a decade ago many analysts believed the US would be importing 20 percent of its gas supply in the form of LNG.

LNG Markets – the Sierra Club continues to challenge the LNG export facilities approval process in federal court with a focus on Department of Energy (DOE) evaluations. The environmental group contends that DOE has tools to more fully evaluate all of the tangential environmental and other impacts of LNG exports (from continued resource development to site specific issues) but does not use them. Not surprisingly, DOE contends in court proceedings that they do, in fact, use all tools available to them. Generally, such legal maneuvering has not stopped LNG project approval, however, not every project has passed DOE and Federal Energy Regulatory Commission muster either. Here in the lower-48, LNG *imports* have started 2017 at 0.5 Bcf per day year to date. *Exports* remain strong with feedgas for liquefaction at Sabine Pass averaging 2.0 Bcf per day this month.

Natural Gas Market Summary – it is likely that OPEC Ministers had expected that adherence to production reductions would stabilize or grow oil prices worldwide. For the most part, prices have at least stabilized. Meanwhile in North America, with what is turning into another less-than-bitter winter for the lower-48 states, natural gas prices have slid below \$3.00 per MMBtu. Underground storage working gas inventories were at 2.5 Tcf to begin February and as such were within two percent of the five-year average. Without strong traditional sector demand—heating loads in homes and businesses—the market has instead found incremental demand and year-on-year growth from pipeline exports to Mexico and LNG shipments from Sabine Pass. With export capacity growth anticipated in both pipeline exports and LNG liquefaction, the market may find additional volumetric growth in these sectors during 2017.

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