Natural Gas Market Indicators

American Gas Association

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Reported Prices – natural gas prompt-month futures for March 2016 remained below $2.00 per MMBtu for much of the second half of February. To begin the last week of the month, Henry Hub futures were $1.78. At the same time, West Texas Intermediate and Brent crude nudged above $32 per barrel and $34 per barrel, respectively. Needless to say, sub-$2 natural gas and oil at $30 per barrel has placed the producing segment of the hydrocarbon value chain under great stress. Deloitte analysts have recently reported that a third of the so-called pure-play exploration and production companies around the world exhibit a high risk for bankruptcy based on billions of dollars of debt on balance sheets in a deflationary time for energy commodity prices. In some cases here in the US, Moody's has downgraded credit ratings for producers based on poor outlooks for sustained cash flows. To put it mildly, 2016 may be shaping up as a year of struggles for the oil and gas producing sector in North America and around the world.

Weather – only two of 21 weeks going back to early October 2015 have been colder than normal this winter heating season. This meteorological fact along with strong production has conspired to drive natural gas prices at Henry Hub down as we close in on March and the end of the 2015-16 winter heating season. Cumulatively, heating degree days have been 15.7 percent fewer than normal (indicating warmer than normal) for the country as a whole. In addition, every region of the country individually has had higher than average temperatures with areas from 8.5 to 22.3 percent warmer.

Working Gas in Underground Storage – working gas inventories for the nation stand at 2,584 Bcf with volumes 31.2 percent ahead of this time last year and 28.7 percent higher than the five year average. The first 105 days of the 2015-16 winter heating season (through February 12) saw 11.6 Bcf per day on average withdrawn from underground storage and added to national gas supply alongside flowing production, imports from Canada, and small LNG import volumes. The same period last year was substantially higher at 13.5 Bcf per day on average, so milder temperatures have had a tangible impact on storage withdrawals this winter. Many analysts believe that 2,000 Bcf or more could remain in working gas inventories when this winter is over.

Natural Gas Production – domestic natural gas production set another volume record on Friday, February 19, flowing at 73.85 Bcf for the day before retreating slightly over the weekend, according to Bentek Energy. Will it be the last production record set during 2016?

Shale Gas – US domestic gas production set all-time daily records on February 15 and 16, then again on February 19 flowing 73.85 Bcf for the day. Production from the northeast dominated by Marcellus and Utica sources are driving the production growth, with northeast dry gas volumes themselves reaching an estimated 24.4 Bcf on Friday, February 19, according to Bentek Energy. Even as rig counts in the Appalachian continue their slowdown, it may not be the last as the shale production continues to grow with emerging pipeline capacity increases from the area.

Rig Counts – the collapse in the domestic rig count continues seemingly unabated. Total rigs in operation dropped by 27 for the week ending February 19, 2016, bringing the rotary rig count to 514. This represents a 61 percent drop from one year prior when total rig counts were 1,310. In fact, there are only 101 gas-directed rigs drilling, which is down from 289 one year ago. The nearly five-year period from mid-2004 into early 2009 when natural gas directed rig counts exceeded 1,000 week after week seems a lifetime ago as we currently view drilling investment and rig efficiency. Many analysts believe those days will never return nor do they need to do so. That said, the recent drops in rig count only emphasize how expectations are being reshaped.

Pipeline Imports and Exports – imports from Canada in 2016 have dropped year to date on warmer weather and lower demand from the Northeast. Imported pipeline volumes have averaged only 5.9 Bcf per day so far in 2016, compared with 6.3 Bcf per day year to date last year. Exports to Mexico on the other hand are very strong. Volumes are up to 3.4 Bcf per day on average this month, a gain of 1.1 Bcf per day from last year.

LNG Markets – Chinese imports of LNG fell one percent in 2015, the first decline since data collection began in 2006, according to EIA. Slower economic growth coupled with lower prices for substitute fuels like LPG contributed to the decline and has left market observers wondering if this data point may be indicative of a larger slowdown in the Asian economy and the LNG market. Chinese gas demand continues to grow, up 5.7 percent in 2015 according to Bloomberg New Energy Finance, but how much US-sourced LNG will contribute to China and broader Asian gas supplies remains an open question. In the US, LNG import volumes climbed as high as 2.1 Bcf on a daily basis and averaged 0.7 Bcf per day this February.

Natural Gas Market Summary – even though polar vortex-like records have not been set this year for natural gas demand on the few cold days that have occurred, gas consumption in the residential sector swung from 62 Bcf on February 13 to only 39 Bcf only three days later. Managing loads for temperature-sensitive customers is what local gas utilities do and the challenge remains the same whether temperatures trend below freezing or if conditions prove warmer than normal, as has been the case this winter heating season. Meanwhile, a real struggle is occurring in the production sector where companies are trying to survive reduced cash flows and less-than-stalwart balance sheets in the midst of energy commodity price deflation, which has produced sub-$2 gas and $30 oil. Low prices provide value for consumers but lead to great challenges for producers and midstream developers of natural gas infrastructure.