Natural Gas Market Indicators

American Gas Association

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Reported Prices – just before the New Year expectations for the arrival of winter weather in the eastern United States helped pull natural gas prices up. As of January 13, prompt-month (February) 2016 contracts call for $2.27 per MMBtu as temperatures dropped. Meanwhile, oil prices again continue to fall. Brent crude oil has dropped below $32 per barrel despite geopolitical tensions in the Middle East. Growing petroleum supplies seem to eclipse fears from a diplomatic fallout between Iran and Saudi Arabia, though opinions vary as to the consequences of the rift. Fears of supply disruptions often lead to risk premiums; however, a strained relationship between Saudi Arabia and Iran could make any possible OPEC agreement toward production cuts in 2016 less likely, which might then suppress prices. The New Year is off to an interesting start.

Weather – the warm beginning to winter has helped to keep prices depressed, but temperatures have turned somewhat colder in recent weeks. According to data from the National Oceanic and Atmospheric Administration, cumulative heating degree days have been 23 percent lower (warmer) than normal since early October. The week of January 9 was colder than it had been across much of the country, though heating degree days were still 8.4 percent warmer than normal, with the Pacific area being the only part of the country showing colder than normal temperatures.

Working Gas in Underground Storage – the final drawdown of 2015 was a mild 58 Bcf, leaving more than 3.7 Tcf of working gas left in storage to close out the year—a remarkably high number. By way of comparison, inventories for the week ending December 25 were 500 Bcf higher than one year ago and nearly 14 percent above the five-year average. Colder weather has subsequently brought stronger drawdowns. The week ending January 1 saw a 113 Bcf drawdown; the following week ending January 8 showed a 168 Bcf reduction in stocks. Inventories now stand at 3,475 which is 16 percent above the five-year average.

Natural Gas Production – October 2015 dry gas production in the US was the highest for the month since data reporting began in 1973, according to the Natural Gas Monthly report from the Energy Information Administration. Currently daily production reported by Bentek indicates lower-48 dry gas production around 71 Bcf per day to begin January. These flows are nearly 1 Bcf per day above last year for the same period.

Shale Gas – aggregate shale gas production has slowed during the past few months according to EIA's Drilling Productivity Report. The production decline is contributed from downturns in the Marcellus and the Eagle Ford, both of which has seen lower drilling activity in recent months. Incredibly, the Haynesville shale play is expected to demonstrate a modest *increase* in production for February. The report also shows the Utica shale basin with growing gas production as well. Continued improvements in new-well gas production per rig keeps pushing the expectations of what's possible out of these resource plays.

Rig Counts – oil and gas rigs took a big hit for the week ending January 8, dropping 34 to a total of 664 rigs in operation – a five percent drop for the week. Oil and gas rotary rig counts both declined, with oil shedding 20 and gas giving up 14. What remains to be seen is whether this drop indicates a different motivation for companies reacting to low commodity prices in the year ahead, or whether temperatures and other factors have compelled a short-term drop.

Pipeline Imports and Exports – Mexican export capacity is set to grow incrementally with the expansion of the Trans-Pecos Pipeline and the addition of the Tuxpan pipeline, among others. Data from Bloomberg New Energy Finance suggests that total incremental capacity from 2013 to 2019 will more than double installed capacity. Meanwhile, import volumes from Canada at 5.7 Bcf per day are down 1.3 Bcf per day year over year due to in part less demand pull in the US. Looking southward, exports to Mexico are 1.2 Bcf per day higher than January 2015 with total volumes averaging 3.3 Bcf per day for the month.

LNG Markets – a recent study sponsored by the US Department of Energy has found that exporting up to 20 Bcf per day of liquefied natural gas presents a case for marginally positive macroeconomic benefits to the domestic economy ($7 to $20 billion annually) during the period 2026-2040. In addition, *The Macroeconomic Impact of Increasing U.S. LNG Exports* expects that gas supply for the exports will come from increases in domestic production, not decreases in other demand. Domestic prices are said to rise and international prices to fall in order to bring the two together. To the extent that there are negative impacts to the economy from slightly higher energy costs, positive impacts economy-wide are expected to offset the negative. And in recent news, LNG Canada became the first export project in British Columbia to receive a facility permit. Roughly 20 other proposed LNG export projects are on the table. In terms of current volumes, US LNG sendout volumes from import terminals are 0.3 Bcf per day on average this month while observers wait on news from Cheniere regarding the first expected export volumes from its Sabine Pass terminal.

Natural Gas Market Summary – final data for 2015 is not yet in, but preliminary data from Bentek and other sources suggest the following: last year was a record year for US natural gas production, consumption, volumes in storage, exports to Mexico, and volumes to power generation. Meanwhile, economy-wide US carbon dioxide emissions likely dropped 1 percent, according to projections from EIA. So where does that leave us for 2016? Rig counts continue to drop and natural gas production has flattened. Volumes to power generation are higher still, but many of the structural drivers in 2015 will not be present in 2016, such as implementation of the EPA MATS rule that spurred many coal-fired power plant retirements. Questions about 2016 demand remain, but supply indicators appear strong as the next three months of winter unfold.

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