Natural Gas Market Indicators

AGA
American Gas Association

January 28, 2016

Reported Prices – at mid-January, natural gas prompt-month (February 2016) futures were trading at about $2.10 per MMBtu at Henry Hub – the lowest mid-January futures price for natural gas in 20 years. Part of the reason was the relatively strong position for underground storage (about 16 percent above the five-year average) and solid daily production volumes. At the same time, both West Texas Intermediate and Brent crude traded at just below $30 per barrel, making for another extraordinary energy value for consumers. Since then, oil has moved up and down from $30 per barrel and natural gas pricing has remained in a steady range from $2.10 to $2.25 per MMBtu.

Weather – finally a colder-than-normal week for the nation as a whole (week ending January 23, 2016). Beginning in early October, 16 weeks passed with temperatures warmer than normal for the country. Even with the latest *colder* week, cumulative heating degree days are running about 17 percent fewer than normal for the four-month period from October 2015 to January 2016. In aggregate, every region of the country has been warmer than normal with the Mountain and Pacific regions only about six percent warmer and the rest of the country from 16 to 24 percent warmer.

Working Gas in Underground Storage – the first above-average drawdown of underground storage took place during the week ending January 15, though the pull on stocks was only 1 Bcf higher than the five-year average for the week. Even though the winter has been consistently warmer than normal, there have been two other weeks this winter where the working gas drawdown exceeded the five-year average for that week: one at the end of November and one at the beginning of December. Storage inventories again showed a strong drawdown of 211 Bcf for the week ending January 22. Working gas volumes are now at 3,086 Bcf and remain 16 percent above the five-year average.

Natural Gas Production – natural gas production largely shrugged off the Northeast blizzard dubbed "Snowzilla" that struck the US mid-Atlantic this past weekend. Bentek reports production volumes climbed 0.6 percent from January 21 through 24. Month-over-month comparisons of January production would suggest that 2016 is off to a better start than 2015. Average dry production volumes exceed 2015 levels by 0.6 Bcf. However, the 2015 baseline was affected by production freeze-offs and weather last January, perhaps obscuring what is really a flatter production profile compared with one year prior.

Shale Gas – perhaps indicative of issues faced by many independent natural gas producers in the shale gas space, Southwestern Energy has laid down its entire drilling fleet and is laying off 1,100 workers, nearly 40 percent of its workforce. A leader in shale gas development in the Fayetteville and other plays, the company says drilling will remain idle until a budget for 2016 is formed and announced later in the year. For many other exploration & production companies, outright failure or Chapter 11 protection from bankruptcy may be in the future. Cyclical changes in natural gas prices have not been uncommon in recent decades, but the current market balance of small demand growth coupled with an overtly strong supply position has suppressed market prices.

Rig Counts – there has been little support for drilling so far in 2016 as rotary rig counts shed more from its total. The US boasts 650 rigs in operation at the moment, comprised of 515 oil and 135 gas rigs. For the week ending January 15, the count of oil rigs lost 1 while gas dropped 13. In the current low price environment, many companies have cut capital expenditures and thus exploratory or production activities. Remarkable, however, is the persistent resilience of the drilling activity still underway. Texas alone has 301 active rigs active, followed by Oklahoma with 87 and Louisiana with 54. Pennsylvania, West Virginia, and Ohio together total 51 rigs in operation. There's a lot of reasons for the continued resilience. Companies may be continuing to pursue resource plays amid the low commodity price environment because of factors like expiring leases due to non-activity or simply cash flow requirements. Some companies have pursued a strategy of only drilling in the most productive core areas of resource plays and have given up on more exploratory activities. However, part of this story too is simply that techniques and technologies are getting better. This in turn increases learning, incrementally improves productivity, and helps lower costs.

Pipeline Imports and Exports – imports from Canada at 6.0 Bcf per day on average in January are running behind last year's average for the same period by 0.5 Bcf. Northeastern imports are up while volumes into the Midwest are down. Exports to Mexico are up 52 percent this January from last year driven by gains in both the Southwest and Texas.

LNG Markets – European markets are pricing spot natural gas at the UK National Balancing Point at $4.31 per MMBtu. Prices relative to the US have dropped due to both a decline in the commodity price and a downward shift in the dollar price for a British pound. And on January 15, Platts reported that the JKM marker for spot LNG in Asia has fallen below $6 per MMBtu. Two years ago it was $20. No doubt these new pricing dynamics will play into the future potential for LNG exports. Meanwhile, LNG sendout from US import terminals to the pipeline grid is running at 0.5 Bcf per day on average this month, 0.1 Bcf per day behind last January.

Natural Gas Market Summary – the year has started with low hydrocarbon commodity prices; news of struggles of production companies to remain in business; a modest start to US oil exports following congressional action in late 2015; and, expectations that the first LNG exports from Sabine Pass will materialize within the next 45 days or so. In addition, natural gas accounted for more power generation than coal in six of the first eleven months of 2015, according to the Energy Information Administration. Energy resources are plentiful, cheap, and a great consumer value in the United States. What's not to like? Time will tell and many factors not the least of which may be overall US economic conditions will be in play. Stay tuned.