Natural Gas Market Indicators

American Gas Association

July 15, 2016

Reported Prices – crude oil prices have dropped once again to the $45–$47 per barrel range for West Texas Intermediate and Brent, respectively, while natural gas futures at Henry Hub took a run at $3.00 per MMBtu during the last half of June but have settled at about $2.75 per MMBtu for the August contract. Regarding oil, the summer driving season in the U.S. is becoming clearer to the market and some international supply sources are beginning to regain a foothold – volumes previously lost in Canada and Nigeria for example – which may explain some of the recent retreat in oil prices. Meanwhile, winter strip pricing for gas reached $3.40 per MMBtu in late June but has also recently settled lower at about $3.21 per MMBtu.

Weather – since the beginning the fourth week of May, the country has seen seven straight weeks of warmer than normal temperatures and thus more cooling degree days than normal. In fact, as of the beginning of July cooling degree days were running 18.6 percent above average with the cumulative counts 38 percent higher or more in the New England and Middle Atlantic regions. Only the West South Central region at 8.4 percent warmer was cumulatively below 14 percent warmer than normal among all regions of the country. Clearly, as natural gas has fed power generation loads associated with the warmer temperatures, a more closely balanced supply and demand picture has emerged this summer coupled, of course, with small decreases in domestic production. The current 14-day temperature outlook from the National Oceanographic and Atmospheric Administration (NOAA) shows warmer than normal conditions continuing with the exception of the Pacific Northwest, which is expected to be cooler.

Working Gas in Underground Storage – working gas inventories are over 3.2 Tcf to begin July and still the system has not seen a triple digit injection for the 2016 summer season. Of course, gas requirements for power generation have been part of the moderate injection story this summer but production has dropped slightly, too. The week ending July 8 saw an injection of 64 Bcf bringing inventories to 3,243 Bcf, which is still 22.1% above the five year average and 18.5% above last year.

Natural Gas Production – dry natural gas production for the lower-48 states remains in the 70-71 Bcf per day range, which means it has lost about 3 Bcf per day from its peak back in the first quarter of 2016. Flooding and infrastructure maintenance (and other incidents in producing areas) have contributed to the decline. Compared to one year ago, July's average production volumes are 1.6 Bcf per day lower at 70.8 Bcf per day but seem to be resisting going significantly lower.

Shale Gas – just an observation – one of the interesting elements of the current Presidential race and the establishment of candidate positions may center on the fracking of domestic unconventional natural gas and oil reservoirs. The Democratic Party will ultimately need to reconcile the "fracking ban" position of Senator Sanders and the "stronger regulation" stance that Secretary Clinton has articulated. We will watch and see how that goes. Of course, Mr. Trump's stated policy preference has been for expanding domestic production of oil and natural gas resources rather than restricting the technologies that support hydrocarbon extraction.

Rig Count – the domestic rig count increased for the fifth week out of the last six for the week ending July 8, bringing totals to 440 rotary rigs operating and the highest level since mid-April. Even though current rigs operating are only 51 percent of the number last year at this time (863), operations have firmed for oil, as prices have risen to about $50 per barrel. While oil rigs are running at about 54 percent of the total one year ago, the natural gas rig count has been the weak link at only 41 percent (88 rigs compared to 217 one year ago). Both oil and gas operations declines can be primarily explained by falling commodity prices and all of the ripple impacts that develop when those lower prices at the wellhead are sustained.

Pipeline Imports and Exports – imports of pipeline natural gas from Canada are running about 0.2 Bcf per day higher this July than in 2015, although year-to-date volumes at 5.6 Bcf are now 0.1 Bcf per day *lower* than this time last year. On the flip side of the ledger, exports to Mexico are strong with daily volumes in July averaging 3.7 Bcf, which exceeds the same period last year by 0.5 Bcf per day. So putting the import/export numbers together, on any given day the United States is importing 4.5-6.0 Bcf per day of pipeline gas from Canada and a smidge of LNG. At the same time the U.S. is exporting 3.5 to 4.0 Bcf per day of pipeline gas to Mexico and making LNG from domestic pipeline supplies for export at a pace of about 0.5 to 1.0 Bcf per day. Generally, this still makes the U.S. a net importer of natural gas, isolating the import/export balance. But how long will that last? Many analysts believe that the country will actually flip to a net exporter in 2017 with increasing pipeline supplies to Mexico and growing LNG exports. We will watch the data as it unfolds.

LNG Markets – In terms of current U.S. LNG volumes, feedgas for exports from Sabine has averaged 0.7 Bcf per day in July and that is, of course, up from zero last year. Send out from LNG import terminals has averaged 0.4 Bcf per day this month due to demand primarily in the Northeast.

Natural Gas Market Summary – at 37.7 Bcf for a single day, July 13 recorded the highest volume of natural gas to power generation so far this year. Year-to-date volumes supplied to generators are 1.4 Bcf per day (5.7%) higher this year than last, which by the way was a record year for gas to power generation in and of itself. Natural gas prices tested the $3.00 per MMBtu mark for prompt-month futures at the end of June but have retreated back about 25 cents given strength in storage inventories and a stubborn daily production rate that seems resistant to sustaining itself below 70 Bcf per day. However, the storage supply overhang is beginning to shrink as, of course, it should while the net injection season progresses toward "operationally full" or perhaps even a new inventory record.