

Natural Gas Market Indicators



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Reported Prices – as this edition of *Market Indicators* is being written, West Texas Intermediate crude is priced at about \$45.07 per barrel, which is not that dissimilar to two weeks ago, and Brent crude is now trading above \$47. Natural gas prices had fallen below \$3 per MMBtu about one month ago, then Henry Hub prompt-month contracting pushed it above \$3.00 per MMBtu, only to fall into the \$2.90s again. Forward pricing indices are generally above \$3 per MMBtu for the August 2017 through March 2018 period, however.

Weather – ten weeks since the beginning of May have produced five weeks of cooler than normal temperatures for the lower-48 states and five weeks of warmer conditions. That said, cumulative cooling degree days are nearly 15 percent higher than normal (warmer than normal) over the same period. Additionally, every region of the lower-48 has been warmer than normal except the West North Central Region which has been normal. Four regions of the country have been more than 20 percent warmer since May, including New England, Middle Atlantic, Mountain and Pacific areas. New England, particularly, has been warmer recording temperatures 81 percent warmer than normal as measured by cooling degree days since early May. The Pacific region has been 58 percent warmer.

Working Gas in Underground Storage – a pattern of modest weekly storage injections has continued this year, however, underground storage inventories remain about 7 percent above the 2012-2016 five-year average. Even so, inventories are nine percent behind that of last year and if they continue at this pace may end the injection season closer to 3.8 Tcf of working gas and not in record territory north of 4 Tcf. Such an outcome is not a problem for domestic natural gas supply, it is simply an observation of the data at hand. For the first 14 weeks of positive underground storage injections this year, only one week has been more than 100 Bcf of net gas added and only one more has even been 80 Bcf of weekly net injections. A build of 72 Bcf for the week ending June 30 brought inventories to 2,888 Bcf. The following week 57 Bcf were added to national working gas levels pushing totals over 2.9 Tcf.

Natural Gas Production – dry natural gas production in the U.S. is now slightly greater to that of one year ago for early July – 72 Bcf per day compared to 71.9. Average year-to-date production, however, is trailing that of the first half of 2016 by about 1.1 Bcf per day but that difference is closing.

Shale Gas – permit activity in Ohio for Utica shale targets has tripled from one year ago with natural gas prices off the floor and drillers looking for opportunities, according to Ohio's Department of Natural Resources. Wellhead prices have increased and service costs remain relatively low, which may present an opportunity for producers.

Rig Count – the number of active rotary rigs in operation in the US gained 12 rigs for the first week of July, adding 7 oil-directed operations and 5 gas-directed. At 952 as of July 7, the U.S. has added 512 rigs since last year, a gain of 116 percent. The US breakout shows oil rigs dominating the picture, with 763 oil-directed rigs in the U.S. and natural gas totaling 189, which is more than double the count from one year ago.

Pipeline Imports and Exports – imports from Canada in July 2017 are down slightly (0.2 Bcf per day) compared with July 2016 and year-to-date declines are more modest at only 0.1 Bcf per day on average compared with the same period last year. Pipeline exports to Mexico, however, now exceed 4.0 Bcf per day on a regular basis and are about 11 percent higher than in early July 2016.

LNG Markets – it seems time to recognize that floating storage and regasification units (FSRU) are becoming an integral part of the liquefied natural gas options available to countries seeking to create access to growing worldwide LNG trade. Twenty-six units currently operate around the world with 23 acting as import terminals and three as floating LNG storage. Importing smaller volumes and typically costing half as much as a comparable onshore facility offers flexibility in planning even if uncertainty in future demand exists for the interested country. Back at home, feedgas for US LNG exports has averaged 2.1 Bcf per day during July 2017, which is 1.4 Bcf per day higher than one year ago.

Natural Gas Market Summary – July 2017 volumes of natural gas to power generation are slightly higher at 34.1 Bcf per day on average than that in July 2016, which flowed at 33.7 Bcf per day, according to Bentek Energy. However, year-to-date volumes of gas to power generation are down 2.8 Bcf per day on average. Along with a mild first quarter for much of the nation, which contributed to lower seasonal residential and commercial demand earlier in the year, total sector demand for natural gas is off about 3.8 Bcf per day compared to the first half of 2016. Sustained heat this summer in the east could begin to change that metric but of course that is a wait and see. At some point this summer observers of the market may have to cry uncle and understand that storage injections are likely to remain modest for the balance of the year and inventories entering the 2017-18 winter heating season may be below 4 Tcf, not above as has been the case the past two years in a row (2015 and 2016).

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