

Natural Gas Market Indicators



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Reported Prices – both oil and natural gas prices have slipped during the first two weeks of June with West Texas Intermediate and Brent crude well below \$50 per barrel and natural gas just below \$3 per MMBtu at Henry Hub. The extended seasonal outlook for natural gas has also changed. Prices for contracts for July through September are trading just below \$3 then ratchet up above \$3 for the coming winter months; contracts then dip again below \$3 for the summer of 2018. This indicates the market is robustly supplied, a strong storage position, and a wait and see regarding natural gas demand.

Weather – tracking the US cooling season for the past six weeks, temperatures for the nation are observed to be 5.8 percent warmer than normal since the beginning of May. However, four of those six weeks have been cooler than normal; a mixed bag. For the six-week period, New England has been 86 percent warmer than normal while the Middle Atlantic and upper Midwest have been decidedly cooler. Additionally, the Gulf Coast and West have been warmer than normal. Of course, it's early—summer has yet to begin officially. We will see where this goes. The current 14-day outlook from the National Oceanographic and Atmospheric Administration points to warmer-than-normal temperatures primarily west of the Mississippi River and in the South Atlantic and Florida; and cooler-than-average temperatures in the Great Lakes region.

Working Gas in Underground Storage – the Energy Information Administration (EIA) recorded the first triple-digit net injection of the summer season of 106 Bcf for the week ending June 2. Interestingly, there were no 100+ injection weeks in 2016. One must go back to October 2015 for the last one. As has been noted several times before in this report, a modest run of 10 Bcf per day on average (70 Bcf per week) will place underground storage inventories back in record territory by early November. We will see how that progresses.

Natural Gas Production – domestic dry natural gas production has inched up to 71.5 Bcf per day on average this month, which is the same volume as one year ago. June also saw the highest daily production volume year to date at 72 Bcf. The Northeast has led the charge, itself setting new record-high daily production volumes, most recently at 24.53 Bcf on June 10.

Shale Gas – natural gas liquids prices have risen in 2017, so some producers in the Appalachian Basin are stripping more of the heavier hydrocarbons from their production streams to take advantage of the economic opportunity given current prices for products like ethane, butane, and propane. Sometimes product prices and the cost of processing the gas stream simply do not make it economical to strip liquids and producers leave the richer gas intact thus “rejecting” the liquids. Apparently now is not one of those times with liquids prices up and infrastructure for processing on the ground. At the same time, Utica shale production is rising in Ohio with a 12.9 percent increase the first quarter of 2017 over the first quarter of 2016. Interestingly, much of the growth in production is shifting to the

south and west away from the liquids fairway and more toward dry gas production, particularly in Belmont County, per the Ohio Department of Natural Resources.

Rig Count – rig counts in the US gained 11 for the week ending June 9 as activity increased in the Permian, Marcellus, Haynesville, and Utica shale plays. The Eagle Ford and DJ Niobrara both saw a decline while the Bakken rig count held steady. There are 185 gas rigs in operation, a gain of 100 from a year prior. The 741 oil-directed rigs currently running is a gain of 413 from this week in 2016.

Pipeline Imports and Exports – pipeline imports from Canada are down about 6.9 percent (to 5.4 Bcf per day) compared with June last year. Year-to-date volumes also trail 2016 by 0.1 Bcf per day. Pipeline exports to Mexico in June at 3.9 Bcf per day are running at the same rate as the current year-to-date average. Combined LNG and pipeline exports are now in the 5.5-6.5 Bcf per day range, and year-to-date are about 2 Bcf per day higher on average than last year.

LNG Markets – energy markets have not been upset after several Arab Gulf countries cut diplomatic ties with Qatar. Some Qatari tankers destined for Europe through the Suez Canal were rerouted, perhaps as a precaution. Shell diverted one US LNG cargo to Dubai to make up for a shortfall in Qatari supplies. All of this suggests supply diversity in action, helping to ameliorate the market impacts of a major diplomatic row. Meanwhile, a request to the Federal Energy Regulatory Commission has Cheniere positioning itself at Sabine Pass to bring feedgas to the fourth liquefaction train at the facility to keep commissioning on schedule. Train #3 at Sabine Pass officially entered service this past March, so production capability is ramping up. In fact, feedgas to the facility rose four percent in May to 64.6 million dekatherms compared to April, setting a new monthly record. In Canada, approvals have been granted for a 40-year license to export LNG from the proposed Woodfibre LNG facility located near Squamish, British Columbia. The plant is to be located on the site of an old pulp mill in BC and is being designed to export about 2.1 million tonnes per year. Back in the US feedgas for LNG exports has held at 2.2 Bcf per day during June, which is about 0.5 bcf per day higher than in June 2016.

Natural Gas Market Summary – AGA's *Market Indicators* is very much dedicated to exploring the short-term fluctuations in the natural gas energy market, but it's important to keep perspective on the long-term energy transition underway. The BP Statistical Review of Energy released in mid-June offers just such a perspective with a longer time horizon. Global energy supplies and consumption are changing. In 2016, oil consumption grew the most in absolute terms, but renewables like solar and wind had the largest gains in percentage terms. Coal continues a secular decline while natural gas supplies continue to grow. However, oil, natural gas, and coal continue to serve most of global energy consumption; renewables constitute 14 percent of global energy use. The global energy transition is massive, slow-moving, and continues to be dominated by oil and natural gas.

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