

Natural Gas Market Indicators



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Reported Prices – prices for crude oil strongly fell, then rebounded slightly during the last several weeks. West Texas Intermediate currently calls for about \$45.30 per barrel; Brent crude is trading under \$48; both cases represent about a \$7 per barrel drop from their respective year to date highs. Natural gas prices have fallen below \$3 per MMBtu at times but is currently trading at \$3.10 per MMBtu. Even so, Henry Hub has had difficulty sustaining any strong upward momentum. Forward pricing indices are generally above \$3 per MMBtu for the July 2017 through March 2018 period.

Weather – two cooler-than-normal weeks in the lower-48 states in early June were followed by much warmer temperatures; 50 percent and 32 percent warmer-than-normal conditions were posted for the two-week period June 10 through June 24. Every region of the country has been warmer than normal going back to early May 2017. New England, particularly, has been warmer recording temperatures 167 percent warmer than normal as measured by cooling degree days. The Middle Atlantic Region and Pacific have also been 47 percent and 50 percent warmer, respectively, since early May.

Working Gas in Underground Storage – for the first twelve weeks of the underground storage injection season, only five reached more than 70 Bcf (10 Bcf per day) and only one week has been more than 100 Bcf of net gas added. That is a rather modest start to storage injections. Of course, we have been reporting that an average of 10 Bcf per day from the beginning of injections in early April until November would put national inventories back in record territory. We will see whether that develops. A lower-than-expected build of 46 Bcf for the week ending June 23 brings inventories to 2,816 Bcf. The gains in storage represent slow but steady growth, driven in part by less gas to power generation in June year over year (down 8.8 percent) while production holds steady compared with 2016.

Natural Gas Production – the 30-day moving average for Marcellus natural gas production shows a 7 percent increase from 2016 levels; the Permian Basin is growing quickly as well with a 24 percent increase year to date from 2016. The ramp up in natural gas-directed drilling is beginning to bring its fruits in the market. Even though dry natural gas production is down about 1.3 Bcf per day year-to-date in 2017 compared to 2016, the June 2017 volume is 0.1 Bcf per day higher at 71.6 Bcf than in June 2016.

Shale Gas – shale gas production specifically is on the rise according to the projections reported in the EIA *Drilling Productivity Report*. Monthly gas produced is projected to grow in July 2017 in all major shale basins. The largest growth in volume will be in Eagle Ford, Haynesville, and the Permian; the Marcellus at 19.4 Bcf per day remains the most productive in terms of sheer volumes.

Rig Count – the number of active rotary rigs in operation in the US and Canada continue to gain. At 941 total, the US has added more than 520 rigs since last year, a gain of 123 percent. Canada has added 94 rigs during the past year; at 170 rigs total, that's a gain of 123 percent as well. The US breakout shows oil rigs dominating the picture, with 758 oil-directed rigs in operation. Natural gas rigs total 183, more than double the count from one year ago. The industry is back in the field and looking to produce once again.

Pipeline Imports and Exports – imports from Canada are down 9.0 percent this June compared with 2016, though year to date declines are more modest at about 2.4 percent compared with the same period last year. Most of the decline is due to declines in flows to the Midwest and the Northeast; gas flows into Western markets is up slightly by 1 percent. Exports to Mexico continue to rise, up 8.5 percent this June compared with last year; and a 15.2 percent increase year to date.

LNG Markets – more international uncertainty may be adding an opportunity for US LNG exporters as events beyond the rift between several Arab Gulf countries and Qatar continue. A gas storage facility in the UK has closed; a nuclear reactor in South Korea, likewise; and somewhat limited exports from Australia open the door for possibly more North American LNG exports. Turning to recent activity, prices for natural gas delivered to the UK have climbed in recent weeks, though are still down overall. Currently, prices at the UK BNP call for \$4.91 per MMBtu. Asian LNG prices at the Japan-Korea Marker are trading slightly higher around \$5.45 per MMBtu according to Platts on June 16. Back at home, feedgas for US LNG exports has averaged 1.9 Bcf per day, though flows have dropped to 1.4 Bcf per day during parts of June.

Natural Gas Market Summary – rather modest storage injections are part of the 2017 market story, but we have been reporting that an average of 10 the Bcf per day injected would put national inventories back in record territory. Domestic production is showing strength as the year progresses, now consistently at or just below the year-to-date record. Demand has been down due to a warm first quarter in 2017 reducing winter heating loads. Higher natural gas prices are inducing a gas-to-coal switch that has reduced consumption for power generation, and near-record hydro in the Bonneville Power Authority and California-ISO have reduced natural gas power generation in the West. The year-to-date demand of natural gas in the power sector is also down 3.1 Bcf per day compared with same period in 2016. Consistent and possibly growing production and moderate demand are bearish indicators and ingredients for a lower pricing environment. But lower prices have their effects too: higher natural gas to power generation and possibly lower production activity. Will we continue to see a bounce-around of prices in a relatively stable domain between \$2 and \$3.50 per MMBtu? Or is there another factor that will break the market out of this range?

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