Natural Gas Market Indicators

AGA American Gas Association

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Reported Prices – crude oil prices hovered at $48–$50 per barrel for most of June, at least until Brexit. The US oil spot shed a few dollars during the market turmoil following the United Kingdom referendum in which voters selected to leave the European Union. But the drop proved short lived. Days later now, West Texas Intermediate trades at $49 per MMBtu. Natural gas markets, which are largely insulated from many global influences given the local supply and demand factors, appeared nonplussed by the UK decision. Henry Hub climbed to more than $2.90 per MMBtu on the back of warmer weather, strong flows to power generation, and some supply disruptions in the Northeast and South. Meanwhile, winter strip pricing for gas reaches $3.40 per MMBtu and appears to signal a tightening market as buyers look forward to the summer and coming winter heating season.

Weather – Tropical storm Danielle formed on June 20 in the warm waters of the Bay of Campeche in the Gulf of Mexico. This marks the earliest in the season that a fourth named storm has been designated in the Atlantic, beating Tropical Storm Debby in 2012 by three days. No production disruptions were reported. Temperature wise, June has proven much warmer than normal. Heating degree days for week-end of June 25 was 31.6 percent higher (warmer) than normal, though no change from last year. Cumulatively the US has been 21.1 percent warmer than normal since May.

Working Gas in Underground Storage – working gas inventories are well into 3.1 Tcf territory as July begins. Storage levels may be near record levels for this time in the injection season, but the rate of storage injections have been well below average. The week ending June 24 saw an injection of 37 Bcf bringing inventories to 3,140 Bcf, which is 25% above the five year average and 23% above last year.

Natural Gas Production – production through June generally fluctuated between 70 and 71 Bcf per day, though production and processing disruptions during the final week of the month brought dry gas production to 69 Bcf per day and its year-to-date low. Massive and deadly flooding in West Virginia led to several infrastructure impairments including offline compressors, according to Bentek Energy. Then an explosion at BP’s Enterprise processing plant in Pascagoula, Mississippi disrupted offshore flows, further adding to the production slowdown. Compared to one year ago, June’s average production volumes are 1.4 Bcf per day lower at 70.5 Bcf per day.

Shale Gas – on June 21, a US federal judge struck down a US government rule on fracking. The Bureau of Land Management does not have the authority to regulate fracking, according to the decision, which upends new federal standards for unconventional oil and gas development on federal and American Indian lands. The US District Court judge said the ability to regulated fracking rests with Congress and that BLM overstepped its agency’s authority.

Rig Count – the count giveth and the count taketh away. After three straight weeks of gains in the number of operating oil rigs, which climbed by 21 rigs from late May until June 17, we see a reversal when the number of oil rigs fell by seven for the week ending June 24. The decline marks a turnaround from what many market observers thought may have been a longer-term upward trend in the rig count given the recent rise in commodity prices. The natural gas rig count added four for the week ending June 24, though the trend since late May has been largely flat.

Pipeline Imports and Exports – imports of pipeline natural gas from Canada ran 0.5 Bcf per day higher this June than in 2015, although year-to-date volumes at 5.5 Bcf are now 0.1 Bcf per day *lower* than this time last year. On the flip side of the ledger, exports to Mexico were strong during June 2016 averaging 3.6 Bcf per day, which exceeds the same period last year by 0.6 Bcf per day.

LNG Markets – to some fanfare, the Panama Canal expansion opened on June 26. After nine years and $5.4 billion invested, the newly expanded waterway will enable larger container ships to pass from the Atlantic to the Pacific. This is especially important for shippers carrying larger quantities of LNG cargo, the expansion will shorten the trip from the Gulf Coast to Pacific markets and thus lower costs. According to a recent presentation from shipbroker Simpson Spence Young at LNG Americas, estimated costs of US Gulf LNG to East Asia could be reduced by $0.60 to $1.00 per MMBtu, depending on overall shipping costs, making US-sourced LNG that much more competitive. In terms of current US LNG volumes: feedgas for exports from Sabine has averaged 0.5 Bcf per day in June; and sendout from LNG import terminals has averaged 0.3 Bcf per day this month due to demand in the Northeast.

Natural Gas Market Summary – June brought a change of pace for US gas markets. For the five months prior this year, the Henry Hub spot had averaged $1.96 per MMBtu. By June 29, daily prices had climbed to $2.90. The market seems to recognize a tightening in the supply demand balance as infrastructure disruptions and slowing pace of production have brought dry gas flows to year-to-date lows just as summer demand begins to pick up pace. An interesting dynamic, however, is that winter strip pricing didn't move in conjunction or much past $3.30 to $3.40, even as spot markets reacted to new conditions. Perhaps traders recognize that adequate winter supplies will be sufficiently available at these price levels, despite short-term market movements? Another question remains: how will futures markets react if the warm summer persists with near-record flows of gas to power generation? For now, supplies are robust even with falling production and strong demand.