Natural Gas Market Indicators

March 13, 2015

Reported Prices – rather than struggling to meet a strong winter event, the natural gas market seems to have an eye ahead to spring. Henry Hub futures for next month delivery dropped below $2.75 per MMBtu at the start of March and currently trade at $2.83 per MMBtu. Looking to petroleum, crude oil prices have dropped again. West Texas Intermediate oil calls for $48 and Brent is trading at $58. Remarkably, the premium between WTI and Brent, which all but disappeared a month ago, is sustaining itself around $9 to $10.

Weather – the past three weeks have been much colder than normal across the US – if you were in the eastern half of the US, you may have noticed. The last two weeks of February posted temperatures more than 40 percent colder than normal; the first week of March was 31 percent colder than normal. Going back six months to September 2014, all months have been warmer than normal except November and February, which were colder. With the late season cold snap, this winter in aggregate has been 2.1 percent colder than normal. New England and the Middle and South Atlantic regions have been cumulatively the coldest. The warmest conditions have been found in the Mountain West and Pacific at 14 and 30 percent warmer, respectively.

Working Gas in Underground Storage – later this year the Energy Information Administration plans to expand the number of reported storage inventory regions, expanding from the original three started by AGA back in the 1990s. EIA will separate the Midwest from the East region, divide the West into Mountain and Pacific regions, and redefine the Producing area. EIA also released its annual storage report, noting that underground storage capacity remained relatively unchanged in aggregate between November 2013 and November 2014. Small gains in salt cavern capacity in the producing region offset declines in the East and West. Demonstrated maximum working gas volume now stands at 4,336 Bcf. In terms of withdrawals, storage inventories continue to serve customers during the late season cold. But winter is coming to an end and in about one month net withdrawals will have shifted to net injections. After a strong withdrawal of 198 Bcf for the week ending March 6, storage inventories stand at 1,512 Bcf or 47 percent above last year and 13 percent below the five-year average.

Natural Gas Production – dry gas production volumes have bounced around between 71 and 73 Bcf per day during the first quarter of 2015. At an average 71.8 Bcf per day year to date, production volumes are an astounding 6.3 Bcf ahead of the same period in 2014. Though volumes are strong in total, growth in production has slowed. Reasons include the short-term freeze-offs in western and eastern production regions and the longer-term influence of sustained low commodity prices. Unfettered production growth outracing consumption cannot be sustained forever. That reality has been manifested in lower prices, reduced rig counts, and the re-evaluation of some midstream projects to support the production dynamic. Had to happen, folks.

Shale Gas – the headline of a recent RBC Capital Markets report says that Utica natural gas is profitable at $3 per Mcf. This outlook is on the back of growing oil and gas production in the Utica shale, which essentially tripled to more than 2 Bcf per day equivalent in the fourth quarter of 2014 compared to the same period in 2013. Natural gas production alone grew 251% to 1.79 Bcf per day, according to the Ohio Department of Natural Resources. Chesapeake Energy with 439 wells is the state's leading Utica producer. Meanwhile, the Federal Energy Regulatory Commission recently approved Rockies Express Pipeline's (REX) request to build facilities creating an additional 1.2 Bcf per day of east to west capacity on the system between the Clarington Hub in Ohio and the Natural Gas Pipeline of America interconnect in Moultrie County, Illinois. When completed in late 2015, total east-west capacity to flow on REX Zone 3 will reach 1.8 Bcf per day. Of course, this has evolved as a result of strong production increases in the Marcellus and Utica shales in southwestern Pennsylvania and eastern Ohio, respectively, and those natural gas volumes consequently looking for markets.

Rig Counts – rig counts tumbled again, shedding 21 oil- and 9 gas-directed rigs for the week ending March 6 according to Baker Hughes. With 1,192 rigs currently in operation, the count is down exactly 600, or 33 percent, from one year ago. None of the major basins, with the exception of the Cana Woodford, shows a positive change in rig counts year over year.

Pipeline Imports and Exports – at 6.1 Bcf per day, natural gas imports from Canada are 0.2 Bcf per day higher on average for the year compared with 2014. On a regional basis, stronger imports into the West and Northeast have more than offset declines into the Midwest. Meanwhile, exports to Mexico at 2.3 Bcf per day are up about 0.5 Bcf per day with strong growth in volumes out of Texas.

LNG Markets – a proposed expansion to the Cameron LNG facility was filed with the Federal Energy and Regulatory Commission. The project would take the Hackberry facility in Louisiana from three liquefaction trains currently to five, according to Sempra Energy. If completed the expansion would raise daily export capacity to 3.53 Bcf per day. Looking to imports, LNG volumes as measured by sendout from the terminals grew 160 percent to 0.65 Bcf per day this winter. The reasons for the uptick in imports include higher delivered prices in the Northeast as well as weaker Asian and European LNG prices.

Natural Gas Market Summary – we are almost ready to hang our winter hats up and look ahead to spring. Headed into the shoulder months the fundamentals look strong. Dry gas production is maintaining flows at 70+ Bcf per day and storage is almost assured to end the winter in a year-over-year surplus. In terms of demand, the potential for natural gas power generation to ramp up and absorb excess supply will be shaped by the market and whether natural gas prices relative to coal induce re-dispatch to combined cycle power plants. On top of this dynamic, the EPA Mercury and Air Toxics Standards take effect beginning in April. The expectation is an increase in coal retirements and more structural natural gas demand. We will be watching closely to see exactly how this plays out.