

# Natural Gas Market Indicators



March 30, 2016



**Reported Prices** – current prompt-month natural gas futures have inched up to \$1.90 per MMBtu on the heels of the April close, while the seasonal natural gas strip for NYMEX averages about 30 cents more at \$2.20 per MMBtu for the summer of 2016. In addition, the winter 2016-17 strip is even higher averaging about \$2.80. Producers would probably like to see more, of course, and we will see how those current market rationalizations hold up this summer and fall. Regarding oil, Brent and West Texas Intermediate crude are hovering above and below \$39 per barrel, respectively.

**Weather** – this has been one warm winter. With 26 weeks having passed since the beginning of October, only two have resulted in weekly temperatures that pushed heating degree days above normal levels (colder than normal). The month of February was 28.2 percent warmer than last year and 13.1 percent warmer than normal. Cumulative heating degree days have been 17.3 fewer (warmer) than normal since the week ending October 3 for the nation as a whole. Regionally, every single census division has seen warmer-than-normal temperatures since October as well.

**Working Gas in Underground Storage** – the EIA weekly natural gas storage report for the week ending March 11 showed a net change of only 1 Bcf, followed by a net *injection* of 15 Bcf the week ending March 18. For the latter week, the average *withdrawal* had been 24 Bcf during the past five years. To have significant injections this early in March is not unprecedented but unusual. This year the early injection and the relatively high storage inventories reflect the warm winter temperatures (US on average) and continued strong production volumes in the lower-48 states. Does this mean we are officially in the summer injection season with total stocks near 2.5 Tcf? Given late March winter weather in parts of the country it's not assured, however, we are close.

**Natural Gas Production** – there is little sign of a domestic natural gas production slowdown just yet. According to Bentek Energy, lower-48 dry production volumes consistently flowed from 71 to 73 Bcf per day during March with the average volume at 72.2, which is about 200 million cubic feet more than in March 2015. Year-to-date volumes are even higher at 72.5 Bcf per day – up 1.3 percent from 2015. In all, US natural gas production has begun 2016 in record territory. With that said, many domestic natural gas producers are struggling to pay or restructure debt in this low wellhead price environment. Hardly a day goes by without references to bankruptcy or cuts in drilling budgets. Producers have reduced costs associated with drilling and completion of wells but many analysts point to a 'bloody' summer with significant business challenges ahead for the producing community.

**Shale Gas** – somewhat in contrast to rising or at least sustained production volumes indicated by Bentek Energy data, the EIA's monthly *Drilling Productivity Report* (DPR) suggests that February and March may ultimately see a downturn in shale gas production based on a number of data points from pipeline scrapes and modeled estimates. There are reasons to be cautious about this data: (1) it only examines oil and gas production in seven major production regions and is as such necessarily an incomplete picture; and, (2) the DPR uses recent estimates of drilling productivity and estimated

changes in production for recent months' production volumes – 'actual' volumes are released later. Preliminary monthly data released in December by EIA shows it was the highest December on record for US natural gas production.

**Rig Counts** – domestic rotary rig counts have found little support in recent weeks. Another weekly decline of 12 rigs brought the US total to 464, which is 584 below the count from one year ago. Gas directed rigs operating are below 100 and the total rig count is at its lowest level since July 1987, which is when recordkeeping began.

**Pipeline Imports and Exports** – imports from Canada have sagged this March, down 0.7 year over year for March at 4.6 Bcf per day. That said, colder weather in the east contributed to somewhat stronger volumes during the third week of March, with volumes rising to 5.4 Bcf on March 21 according to Bentek Energy. Looking south of the border, exports to Mexico have averaged 3.4 Bcf per day in March, a solid 42 percent rise above last year's levels and feedgas to support LNG exports at Sabine Pass also accounted for about 0.4 Bcf of export related activity.

**LNG Markets** – on March 11 the Federal Energy Regulatory Commission denied Veresen, Inc. a certificate to build and operate the Jordan Cove LNG export facility in Oregon, as well as the Pacific Connector Gas Pipeline, citing potential adverse impacts on landowners and communities. At Lake Charles in Louisiana, Energy Transfer Partners recognizes that current global LNG market opportunities need to evolve and improve to make their LNG export facility project viable, even though the company anticipates a final investment decision in 2016 and, if positive, exports by 2021. In other LNG news, Dominion Resources has noted that the Cove Point, MD export project is more than 50 percent completed while Cheniere's Corpus Christi facility has passed the 30 percent mark. March 2016 daily volumes injected into the pipeline grid from LNG import facilities fell to 0.2 Bcf per day in March but have averaged 0.4 Bcf per day YTD for 2016.

**Natural Gas Market Summary** – will the natural gas bulls return? Let's look at the fundamentals. Domestic production hums along in record territory for the first quarter of the year although it has leveled off for the month of March compared to March 2015. Underground storage inventories were 51 percent above the five-year average and 69 percent above last year in mid-March. Imports from Canada and LNG remain low but offer additional supply flexibility. On the flip side, U.S. demand is down 8 percent year over year, despite gas to power showing a strong 7 percent gain above last year and new demand for LNG and Mexico pipeline exports. Further coal-fired displacement could add new demand, and a hot summer would drive more gas to power to meet cooling load. So could the bulls return? They might, but the supply overhang must be overcome first.

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