May 12, 2016

Reported Prices – prices for crude are in the $46-48 per barrel range for both Brent and West Texas Intermediate and natural gas futures for June have landed at about $2.18 per MMBtu during the first two weeks of May. There is nothing particularly remarkable about either metric as energy markets move slightly up or down on weekly news of storage inventories, the leveling off of domestic production and reports of petroleum stocks. Henry Hub futures for natural gas currently rise to about $2.65 per MMBtu by the beginning of the 2016-17 winter heating season and the winter strip approaches $3.00 per MMBtu. Still good news for consumers and perhaps improving prospects for natural gas producers.

Weather – early May means the beginning of cooling degree day accounting for the weather service and AGA. Not surprisingly, data showed the week ending May 7, 2016 to be 14.3 percent cooler than normal (meaning fewer cooling degree days than normal). So, what will the late spring and summer bring? Some weather analysts see the present El Nino shifting to La Nina in the Pacific by early fall, which normally means more rain for portions of the country and cooler temperatures. What will the hurricane season deliver for the market to digest June – November 2016 and, of course, will demand for natural gas into power generation be weak or robust for the coming summer? With all of the models available and the predictions that ensue you would think the future is well understood. Well, let's see what Mother Nature puts on the table.

Working Gas in Underground Storage – no triple digit weekly injections for underground storage yet but that is not unusual as strong injections don't normally materialize until May-June after the last vestiges of cooler temperatures have disappeared. With 56 Bcf added for the week ending May 6, 2016 inventories of working gas at 2,681 Bcf are 44 percent higher than one year ago and 44 percent beyond the five-year average.

Natural Gas Production – EIA's *Natural Gas Monthly* shows that dry gas production in February was the highest for the month for the third year in a row. However, domestic supply sources, particularly production, have begun to slow relative to demand as the market continues to take small inevitable steps toward rebalance. Dry gas production at 71.1 Bcf is about 1.6 Bcf per day lower in May 2016 than one year ago in May. In addition, the year-to-date comparison is now only 0.2 Bcf per day higher for 2016 than the first 4.5 months of 2015. Even though the Marcellus-Utica area of the eastern U.S. is producing more at this time than last year, in aggregate the rest of the country is down, which explains the recent flattening of the production curve.

Shale Gas – more specifically regarding key producing areas, according to Bentek Energy extrapolated gas production in the Northeast-Midwest region (dominated by Marcellus and Utica shale volumes) is up 14.6 percent or 3.0 Bcf per day in just the past year. At 23.6 Bcf per day for the region this month, modeled production is up more than 11 Bcf per day compared to three years ago at this time – a remarkable record of growth. By contrast, during the past three years, production in Texas, the Southeast and Mid-Continent has declined even with growth in shale production from sources such as the Eagle Ford shale. The next issue that may impact shale producers is the inevitability of a final Environmental Protection Agency new source oil and gas methane emissions rule clearly visible on the horizon. Industry will look closely at the regulation when it is published to determine whether they believe it is fair and properly reflects key data accurately.

Rig Counts – the rig count summary from Baker-Hughes in early May has continued to be populated with minus signs as total rigs operating for both oil and gas have fallen repeatedly week to week. For the report week ending May 6, rotary rigs operating fell to 415, which is 479 fewer than one year ago. Only 86 gas-directed rigs were reported to be operating in the United States and oil operations were down to 328. The current pricing environment for hydrocarbons has clearly taken its toll on exploration and development activities. No surprise – those are just the facts.

Pipeline Imports and Exports – current imports of pipeline natural gas from Canada are running about 0.5 Bcf per day higher this May than in May 2015. That said, year-to-date volumes are actually 0.2 Bcf per day lower (at 5.4 Bcf) than last year. And among the underappreciated natural gas stories this year has been the tremendous growth in natural gas exports to Mexico. The Energy Information Administration reports that February volumes south of the border hit an all-time record at 3.4 Bcf per day on average for the month. Bentek is reporting additional growth with 3.6 Bcf per day to begin May.

LNG Markets – feed gas to Sabine Pass for eventual LNG exports, which had been averaging 0.6 Bcf per day through April, slowed to zero as the month turned to May. No official announcements attribute a specific reason for the decline, though Cheniere has previously said that periodic starts and stops are part of testing and commissioning of the new liquefaction train. Bentek Energy data also shows that feed gas volumes picked up again starting May 3. Additionally, on May 4 Dominion reported that the Cove Point LNG export facility was 64 percent completed and expects an in-service date in late 2017. Cameron LNG has also reported that trains one through three are at 43 percent on the construction continuum. Expected in-service dates for each stretch from March to November in 2018.

Natural Gas Market Summary – despite the fact that EIA reported monthly production records for February, now only three months later, dry gas production volumes are beginning to taper downward. This should come as no surprise. Drilling activity has yielded to persistently low commodity prices. The Henry Hub spot has struggled to close above $2 but is beginning to show some life in that regard and the already-low count of gas rigs dropped another 22 percent since that time. More to come.