Natural Gas Market Indicators

AGA American Gas Association

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Reported Prices – as we approach the Memorial Day holiday prices for crude have inched up to about $50 per barrel for both Brent and West Texas Intermediate while natural gas futures have softened once again to below $2.00 per MMBtu. Henry Hub futures for natural gas currently rise to about $2.60 per MMBtu by the beginning of the 2016-17 winter heating season and beyond that the winter strip is not much higher at $2.90 per MMBtu. Good news for consumers and improving prospects for natural gas producers.

Weather – two of the first three weeks of May were significantly cooler than normal and early cooling degree day data reflects that. For the week ending May 21 cumulative cooling degree days were 11.5 percent fewer than normal and temperatures have been cooler particularly in the eastern United States and Pacific regions. That said, the current 14-day temperature forecast for the country shows below normal temps only in southwest Texas and New Mexico with expectations for above normal conditions in the northern tier states, Midwest, Southeast, Middle Atlantic, New England and the Pacific coast regions.

Working Gas in Underground Storage – net storage injections for the week ending May 20 totaled 71 Bcf bringing total working gas to 2,825 Bcf. At 10 Bcf per day, injections are solid but not exactly dominating market news. Except there are about 170 days remaining in the net injection season and less than 1,200 Bcf of inventory headroom until storage stocks reach another record setting level prior to the 2016–17 winter heating season. It will take only about 7 Bcf per day over the remainder of the injection season to reach that high-water mark. At 10 Bcf per day at mid-month in May, the current injection pace takes on another look—very strong—and questions abound as to whether the market with power generation requirements and producer cut backs can balance the near-term supply-demand picture. Stay tuned.

Natural Gas Production – production has slowed somewhat and remains generally between 70 and 71 Bcf per day, having averaged 71 Bcf per day to date this month. Compared with one year ago, volumes are 1.7 Bcf per day lower, a decline of 2.3 percent. Year-to-date volumes are identical to 2016, though at this rate—with daily production flat or slightly declining—it's possible the year to date change might soon go negative.

Shale Gas – the Energy Information Administration (EIA) is reporting a sixth straight month of reductions in domestic shale production (January through June 2016) due to falling wellhead prices and reduced exploration and development budgets from shale gas producers. EIA's latest *Drilling Productivity Report* anticipates a one percent drop in shale production from seven key basins in June compared to May 2016. Even so, shale basins are expected to produce 46 Bcf per day in June. The context for these slightly lower production levels is that futures pricing for natural gas has dropped from $6.50 in February 2014 during the polar vortex to a low of $1.61 per MMBtu on March 4, 2016. Prices have since rebounded to about $2.00 per MMBtu.

Rig Counts – the count of gas rigs in operation has fallen to a new low of 85 for the week ending May 20, according to Baker Hughes. To put this level into perspective, since records began in the late 1980s, the lowest gas rig count (other than in recent months) was 242 set back in 1992. However, the distinction between rig counts and sustained production is markedly different from conventional resources most often targeted two decades ago and the "unconventional" shale formations today. For example, technology and production per rig efficiencies have improved since that time. In any event, the low gas rig count alongside the very low (though not historically so) oil rig activity of 318 currently in operation is ultimately a reflection of economics and the inability for producers to make a profit drilling and selling into a market with such low commodity prices.

Pipeline Imports and Exports – current imports of pipeline natural gas from Canada are running about 0.4 Bcf per day higher this May than in 2015. That said, year-to-date volumes are actually 0.2 Bcf per day lower (at 5.4 Bcf) than last year. With the fires in northern Alberta and disruptions to oil sands production, gas was plentiful and cheap in western Canada for several weeks in May. Additionally and as noted previously, exports to Mexico have been strong during the first half of 2016 with year-to-date pipeline volumes of 3.4 Bcf per day exceeding the same period in 2015 by 1.0 Bcf per day.

LNG Markets – the first liquefaction train at Sabine Pass has received authorization to begin commercial operation after working in a commissioning mode since February. Now Sabine Pass Train 2 is beginning its commissioning process and Cheniere has stated that the first shipment from Train 2 should materialize in August. Approximately 48 Bcf equivalent of LNG has been shipped from Sabine via nine cargoes that had ultimate destinations in southern Asia, South America, the Middle East, and Western Europe. Meanwhile, feedgas to Sabine Pass for export has maintained 0.6 Bcf per day consistently since mid-May and averaged 0.5 Bcf per day this month. On the flip side of the ledger, sendout from LNG import terminals has been 0.2 Bcf per day on average month to date.

Natural Gas Market Summary – energy policy and related environmental issues are very likely to be key elements of the upcoming presidential race, which follows the party conventions this summer. Defining a lower carbon energy future for the country within the context of macro-economic realities and consumer choices may be served back and forth like a tennis ball at Wimbledon as the candidates outline their positions. While that is happening, gas market events such as the trends in production, availability of underground storage to accept daily injections, the price relationship between coal and natural gas, demand for gas in power generation, and many other potential factors may influence the short-term market and preparations for the 2016–17 winter heating season. While you are watching the bouncing political ball, we will keep our eye on these other things.