

Natural Gas Market Indicators



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Reported Prices – with Russia and Saudi Arabia agreeing to continue production cuts, Brent crude surged to more than \$52 per barrel in mid-May while West Texas Intermediate moved up to over \$49 per barrel. Since then, oil acquisition prices have inched up about \$2 per barrel during the past two weeks but seem to be facing downward pressure once again. Many analysts, including those representing OPEC interests, believe that the US is now the swing global oil producer—or at least that shale resources are faster acting and responsive to market movements than conventional supplies—and that price stability will depend on US domestic output. At the same time, natural gas has settled at about \$3.22 per MMBtu, and this pricing point is clearly signaling for growing rig activity in the United States. The seasonal pricing strip is currently above \$3 per MMBtu until summer of 2018.

Weather – the US cooling season, which AGA begins to track at the start of each May, has been 33 percent warmer than normal, particularly in the Middle Atlantic and Northeast. Only the Mountain region has been cooler than normal this spring, although the Pacific region has only been slightly warmer. The current 14-day outlook from the National Oceanographic and Atmospheric Administration points to warmer than normal temperatures for the East and Gulf coasts, as well as the Pacific Northwest and mountain states, and cooler conditions in the mid-continent and Midwest.

Working Gas in Underground Storage – by mid-May, net injections into underground storage had been positive for eight straight weeks. Injections were modest compared to the five-year average even though storage inventories now exceed 2.4 trillion cubic feet. If gas injections continue through the summer at an average of 10 Bcf per day, then inventories will once again exceed 4 Tcf entering the 2017-18 winter heating season—near-record territory. We will see how that progresses. During May, so far, only about 20 percent of the daily injection rates have reached 10 Bcf or more.

Natural Gas Production – with oil and gas producer capital spending decreasing 35 percent in 2015 and then another 43 percent in 2016, per S&P Global Ratings, domestic natural gas production predictably leveled then fell slightly during that two-year period. Now US gas and oil producers have upped exploration and development spending by 20 percent in 2017 and a production response is expected to be realized in 2018. Dry natural gas production has been 71 Bcf per day since mid-May but is still 1.0 Bcf per day below that of May 2016.

Shale Gas – for the first time in history, production of natural gas in Pennsylvania broke through the 5 trillion cubic feet mark in 2016 and placed itself second behind Texas as a producer of natural gas, per the Pennsylvania Department of Environmental Protection. The bulk of this production is coming from the Marcellus shale, of course. And, in the continuing data collection and debate around hydraulic fracturing, a recent study from Duke University that examined sites in northern West Virginia found more risk of surface water contamination than ground water due to fracturing

operations. Samples from 112 drinking water wells found no evidence of fracking fluids in ground water but recognized that when surface spills occur the results can be immediate and impactful.

Rig Count – the US rotary rig count has continued to increase and for the week ending May 19 passed 900 rigs operating. At 901 rigs, activity is up by one-third since the beginning of the year and more than double that of this time one year ago. More specifically, gas-directed drilling has increased from 95 rigs operating at this time last year to 180 operating now.

Pipeline Imports and Exports – imports from Canada are up slightly compared with May last year. Volumes are flowing at 5.7 Bcf per day, up from 5.5 Bcf per day in May 2016. The year-to-date average is 5.4 Bcf per day—the same as in 2016. Pipeline exports to Mexico have strengthened to as much as 4.5 Bcf per day during May 2017 and exceeded volumes from May 2016 by about 0.6 Bcf per day. Part of the recent boost in gas exported to Mexico is natural gas exported from California then wheeled back to the state using the Mexico-California regional pipeline transportation network as efficiently as possible—flexibility in action. Combined LNG and pipeline exports are now in the 6-7 Bcf per day range, and year-to-date are about 2 Bcf per day higher on average than last year.

LNG Markets – a lift in the profile of Sabine Pass Liquefaction LLC to investment grade by Moody’s appears to be the result of good performance by Bechtel in completing liquefaction trains ahead of schedule, successful long-term contracting for LNG sales, and a stable debt structure. Of course, Cheniere is also constructing a facility at Corpus Christi. Also, the Sabine Pass facility exported LNG to Pakistan and Thailand for the first time in March 2017 and has now lifted cumulative export volumes to more than 330 Bcf beginning in February 2016. Feedgas for LNG exports has held at 2.2 Bcf per day during the past month; year-to-date volumes have averaged 1.9 Bcf per day.

Natural Gas Market Summary – year-to-date natural gas demand for the power, industrial and small volume residential and commercial sectors is down by more than 4 Bcf per day compared with 2016. A warm first quarter in most parts of the country reduced home heating loads and the winter-related peaks to gas-fired power generation. These domestic demand declines have been largely offset by exports though. The consumption deficit compared to last year would be even larger if LNG exports and pipeline gas to Mexico were not running more than 2 Bcf per day ahead of the 2016 pace.

Finally, as noted at the top of page one, this is the 300th edition of the *Natural Gas Market Indicators*. This marks more than twelve years of information and observations regarding natural gas markets by the AGA Energy Analysis team. However, this edition also represents twelve years of your interest and readership. Thanks for your readership and including this publication as a resource as you develop your understanding of energy markets in the United States.

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