Natural Gas Market Indicators

American Gas Association

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Reported Prices – the latest OPEC Minister's group hug, which pointed to agreement on production limits to be announced in November has pushed crude prices into a $46–$49 per barrel range just since yesterday. Previously, natural gas prompt-month futures broke through $3 per MMBtu for the first time since May 2015 with a $3.047 settle on September 20, 2016. It is not AGA's practice to forecast hydrocarbon prices. However, knowing the fundamentals, can we outline the analytical bookends for gas acquisition pricing in 2017? On the low end of pricing expectations is potential soft demand. If winter proves relatively mild, prices could fall below where they are today, according to some analysts. We have seen it before. The flip side goes to gas supply where some analysts see continuing tightening of domestic production due to reductions in associated gas as fewer oil wells are drilled. In this view, pricing could temporarily increase by a significant percentage over current prices during 2017, especially if a strong winter heating season and other demand materializes. What we have now is a range of views of natural gas acquisition prices characterized by as much as a $2 spread in a current $3 per MMBtu market. How's that for precision?

Weather – milder temperatures may have arrived, but warmer-than-normal conditions remain persistent. The US has not posted a below-average number of cooling degree days (weekly) since mid-May, representing 18 straight weeks of above normal conditions. Based on National Oceanographic and Atmospheric Administration data, cumulative cooling degree days beginning the first week of May 2016 through September 24 have exceeded normal in every region of the country, including New England with an extraordinary 88.5 climb above normal conditions. The high temperatures help explain, in part, why natural gas to power burn has pushed above record levels this summer. And the Atlantic hurricane season is also in the final third of its typical duration. Twelve storms have been named with four hurricanes and one major hurricane. Tropical storms Ian, Julia, Karl, and Lisa all formed during mid-September but have since dissipated. Julia proved the only storm to affect the US, having delivered significant rain to the Atlantic southeast.

Working Gas in Underground Storage – working gas inventories reached 3.5 Tcf for week ending September 9, 2016. For the same week, all regions of the country reported positive net injections for the first time since mid-July given the fact that the South Central region had been withdrawing small net weekly amounts for power generation for weeks. As autumn develops and temperatures cool, volumes to electric plants will naturally slow and a new record for working inventories may be in sight. However, one week later, despite the shoulder temperatures, once again the South Central saw another net withdrawal of 2 Bcf, even though total net injections were 52 Bcf for the country. Working gas inventories are now 3,600 Bcf, which is still 6.5 percent above the five-year average.

Natural Gas Production – US gas production has remained above 71 Bcf per day on average during September, according to Bentek Energy, LLC. Domestic gas production in the lower-48 states has averaged 71.3 Bcf per day in September, which is 1.8 Bcf per day less than September 2015. Recent daily domestic production has been as low as 70.4 Bcf. As noted above, some analysts see declines in associated gas production as a tipping point during the coming winter heating season coupled with normal winter temperatures to sustain average wellhead acquisition prices above $3 per MMBtu. We will know soon whether that view will prove true.

Shale Gas – consolidations of shale assets continue as the current business environment permits. Rice Energy, for example, has agreed to purchase Vantage in a $2.7 billion deal that includes acreage in core southwestern Pennsylvania Marcellus (Greene County) and positions in the Utica and Barnett shale plays. The deal will increase production forecasts for Rice by 70 percent in 2017 and make them among the region's top producers.

Rig Count – at 511 total active rotary rigs for the week ending September 23, oil and gas rig counts are picking themselves up from their recent bottom and showing slight gains. Oil rigs gained two to 418 and gas-directed drilling up three to 92, with one rig designated as miscellaneous. Both rig counts are well below year-ago levels with oil operations 35 percent lower and natural gas down 53 percent.

Pipeline Imports and Exports – higher-than-normal imports of gas from Canada to the Iroquois system have been the recent norm due to maintenance on the Algonquin system and account for, in part, the relatively strong import picture, which averaged 5.6 Bcf per day this September, up from 4.8 Bcf per day in September 2015. Exports to Mexico have remained solid at 3.6 Bcf per day in September, which is 0.4 Bcf more than one year ago.

LNG Markets – cargoes of LNG leaving from Sabine Pass have slowed. Bloomberg data shows nine tankers sailed from Cheniere's facility in Louisiana in August. So far only three have sailed in September. Feedgas volumes for export have collapsed, dropping from 1.2 Bcf on September 13 to zero only five days later because of facility maintenance. Cheniere announced a four-week shutdown to repair gas flares that were not functioning properly. A report from Argus media notes that Sabine pass could continue to export during this time from the on-site storage volumes of 17 Bcf.

Natural Gas Market Summary – many variables are in play as we approach what is normally a one-month shoulder period in the natural gas market. Lower volumes of natural gas to power generation, cumulative production adjustments balanced by supplies from Canada, strong pipeline exports to Mexico, and maintenance at LNG facilities coincide with Henry Hub prices at about $3 per MMBtu. Heating degree day data will say much about where that market goes during the winter heating season. The cost of gas injected into storage likely has been a great value for companies given low summer commodity prices this summer. This value may ultimately transfer to customers as winter bills are tested compared to last year, during which time winter temperatures were largely a non-event with warmer-than-normal conditions for most of the country. Now we have one month to build expectations for November 2016 through March 2017.