Natural Gas Market Indicators

American Gas Association

September 11, 2015

Reported Prices – natural gas prices at Henry Hub sit between $2.60 and $2.70 while crude oil markets have settled around $44 per barrel for WTI following a wild swing down into the high $30s, then back up again. While the short-term has proved interesting, the longer view continues to evolve as well. Bloomberg New Energy Finance released its North American gas outlook this month and shows substantial downward revisions to its projection for long-term natural gas prices. BNEF sees lower drilling and completion costs that don't fully rebound, higher peak Appalachian demand (40 Bcfd up from 30 Bcfd previously), and a more aggressive view on the Montney shale in Canada. One has to look out towards the year 2027 in BNEF's forecast before annual natural gas commodity prices at Henry Hub are sustained above $4. Their view appears to be based on a balance between resource breakeven prices and views of future demand, so of course there are other forces at work not covered in their model. Nevertheless, the BNEF vision is of a robust North American resource base that remains affordable even with a substantial ratchet in demand.

Weather – Tropical Storm Henry, the eighth storm of the Atlantic season, has formed off the east coast of the US but is not expected to make landfall. In the Pacific this year, a strong El Niño event is keeping the region quite active. Seventeen named storms since May has surpassed the number typical for an entire season. Looking at temperatures, the country posted nearly 47 percent higher-than-normal cooling degree days indicating well above normal temperatures for the first week of September. Every part of the country was warmer than normal except the Pacific. Cumulatively the US is 13.5 percent warmer than normal since May.

Working Gas in Underground Storage – volumes in underground storage total 3,261 Bcf, up 68 Bcf for the week ending September 4, 2015. Year-over-year volumes are 17 percent higher and more than 4.1 percent above the five-year average.

Natural Gas Production – the Utica shale continues to produce oil, natural gas liquids, and natural gas at growing volumes quarter over quarter. In fact, the Ohio Department of Natural Resources says second quarter 2015 production of oil and gas at 61,300 barrels per day and 2.438 Bcf per day was the highest in 100 years. It remains to be seen whether persistent low prices slow the hydrocarbon production down in the Ohio portion of the Utica. In aggregate, US production has averaged 72.5 Bcf per day in September and is 2.8 Bcf per day above September 2014.

Shale Gas – the Wall Street Journal reports that experimental wells in Louisiana are proving quite prolific after having underwent an upsized version of horizontal drilling and hydraulic fracturing techniques, results that could indicate a new future for gas production in the Haynesville. Comstock Resources, which owns one of the exploratory wells, told investors it sees the potential for 30 percent return on new wells at $2.50 per MMBtu gas. As with all things, only time will tell if this is sustained or becomes widespread. But the long-term trend of hydrocarbon exploration has been demonstrated once again with shale: initial estimates of potential are usually lower than what proves out; drillers become more efficient and find ways to squeeze costs down; and innovation rules the day.

Rig Counts – oil rigs counts were on the up, at least until week. After the count bottomed in late June, oil rigs steadily gained, up 7 percent total through August. Then during the week ending September 4, the oil count shed 13 rigs. Meanwhile, natural gas rigs have moved in the opposite direction during this period. Since June 26, the gas rig count has shed 26, an 11 percent drop. This latter phenomena is not surprising given the sub-$3 natural gas prices that have persisted.

Pipeline Imports and Exports – natural gas volumes from Canada ticked up a bit this week in response to US demand requirements. Averaging 5.3 Bcf per day this month, volumes are 0.3 Bcf higher than September 2014 and are running 8 percent higher year to date. Exports to Mexico remain strong. At 3.0 Bcf per day, volumes delivered south of the border are 0.5 Bcf compared with last September and 35 percent higher year to date.

LNG Markets – checking prices across the pond, UK natural gas at its National Balancing Point calls for $6.40 per MMBtu for an October 2015 contract. Prices are well below one year ago when UK gas called for nearly $9 per MMBtu. Looking to Asia, the Platts Japan-Korea Marker for spot LNG averaged $8.01 per MMBtu from July 15 to August 14. Year-on-year, the JKM for September was down 25 percent, according to Platts. Softer LNG prices in both Asia and Europe are, in part, weather driven and a result of forces that may be reining in demand. Japan, for example, has begun to restart its nuclear fleet after it was nearly completely halted following the Fukushima disaster. More broadly, macroeconomic slowdown in Europe and China may lead to more tepid global LNG demand. Back in the states, LNG sendout from import terminals has averaged 0.3 Bcf per day this September and year to date.

Natural Gas Market Summary – many years ago, September was the time when industry and the market began taking stock of supplies in preparation for price increases that were certain to occur. Companies would, reasonably, set expectations for the winter, where the rush of demand would push prices upwards. This preparation still exists today, as do price movements, but conditions have changed substantially. The expected supply concerns of even a decade ago have transitioned to a more modern recognition of supply diversity and abundance. This year a strong supply base has continued to outpace even record levels of demand, which has been driven by record levels of natural gas to power generation, itself up 16 percent. The result has been a near record push of volumes into storage, which might hit the 4 Tcf mark before the winter turnaround. The past few years the US has entered the winter season with a robust supply outlook. Right now 2015 appears poised to follow suit.