

Natural Gas Market Indicators



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Reported Prices – natural gas prices have had a stubborn way about them. Prompt-month futures prices at Henry Hub fluctuated between \$2.80 and \$3.00 throughout the entirety of August and traded in that range during most of the first two weeks of September, even as two major hurricanes made landfall in the US. The first, Hurricane Harvey, disrupted energy supplies in South Texas, Louisiana, and the Gulf of Mexico. Demand fell sharply in both the Gulf Coast and Florida. Nevertheless, natural gas pricing remained relatively stable during this period. Prompt-month futures currently call for \$3.07 per MMBtu at Henry Hub. Meanwhile, crude oil prices are \$49 per barrel at West Texas Intermediate and \$55 for European Brent.

Weather – the US has seen colder-than-normal temperatures in aggregate for the past two weeks, based on cooling degree data (CDD) from the US National Oceanic and Atmospheric Administration. Cumulative CDDs were 15.2 percent below (cooler) than normal for the week ending September 9, driven by milder temperatures in the middle portions of the country. Conversely: New England, Mountain, and Pacific divisions all posted above-average CDDs during the same week. Since May, the US averaged 7.3 more (warmer) than average cooling degree days. Notably, the Central region of the country has been cooler than normal since May.

Working Gas in Underground Storage – inventories of gas in storage remain above the five-year average with less volumes of gas injected on average this summer compared with prior years. That said, the past two storage reports have shown above-average injections. The Energy Information Administration notes 3,311 Bcf of gas in storage following a stronger-than-average build of 91 Bcf for the week ending September 8.

Natural Gas Production – the US lower-48 well may well have set a new daily natural gas production record. Based on preliminary data from Bentek, which we compared to our historical database, lower-48 dry gas production reached 73.84 Bcf on September 5, passing the prior daily record set in February 2016. States driving this increase are Pennsylvania and Ohio, which have pushed Northeast production above 25 Bcf on a daily basis, according to Bentek. Shale once again proves to be a productive monster. With a 130 percent increase in the US rig count since August and new takeaway infrastructure capacity coming online through the end of 2017 and into 2018, the possibility for new record levels of gas production in the coming months may be likely.

Shale Gas – new-well gas production per rig has been falling in the Appalachian basin (Marcellus and Utica shales) since August 2016, according to the Energy Information Administration's *Drilling Productivity Report*. The metric—new-well gas production per rig—offers a useful yardstick for how productive a drilling rig will prove in terms of incremental gas volumes added to the market. The reasons for the falling production per rig are not illuminated in the report, but we note that August

2016 was the high-water mark for that measure; August 2016 is also the month when drilling rigs in the Marcellus began to rise again.

Rig Count – the Permian and Eagle Ford basins have driven the majority of the recent additions to the still-rising rig count. Nearly all of the new rigs in these basins have been oil-directed. For gas-directed rigs, the Haynesville is the leader, having added 34 rigs, a 309 percent increase since the recent low in the gas rig count. The Haynesville is now tied with the Marcellus in total rigs in operation at 46 rigs each. The US total rig count stands at 944 with an 81–19 oil-to-gas split.

Pipeline Imports and Exports – after averaging more than 5 Bcf per day in August, daily imports from Canada have regularly fallen below the 5.0 Bcf mark. Month-to-date Canadian imports total only 4.8 Bcf per day, an 8 percent decline from 2016. Meanwhile, exports to Mexico at 3.9 Bcf per day for the month remain strong despite a slight drop of 5 percent month-to-date from 2016 levels.

LNG Markets – in a supply-glutted global LNG market, buyers usually have the leverage, a dynamic that played out recently between ExxonMobil and India. News from Reuters and other outlets report that ExxonMobil cut its LNG price to India after a rare contract renegotiation. As LNG spot prices trade below the oil-linked contract prices, the Reuters article suggested it may be possible we could see additional price renegotiations from large LNG consuming countries such as China, Japan, and South Korea. As the US enters a well-supplied and competitive global market, US-sourced LNG will likely face bearish pressure. Meanwhile, US lower-48 LNG feedgas volumes for export have averaged 1.3 Bcf per day in September after Hurricane Harvey’s impacts and the maxed-out on-site storage at Sabine slowed feedgas pull. But feedgas volumes recovered and are posting 2.7 to 2.8 Bcf per day as of September 13.

Natural Gas Market Summary – reporting from SNL suggests that natural gas utilities in the southeastern US came through Hurricane Irma largely unscathed. The Category-4 storm caused significant damage over large areas of the region, but there appears to have been minimal infrastructure damage to gas utility systems. Utilities’ recent efforts to upgrade infrastructure and replace cast-iron and bare-steel pipelines helped minimize the impacts, according to the SNL report. Looking again at gas market dynamics, the shoulder season is upon us. As summer turns to autumn, demand drops and natural gas storage injections increase as operators prepare for the coming winter. As is stands, the US supply portfolio is robust. One dynamic to watch is how rising dry gas production during the next few months shape late-season injections. The 30-cent spread between October and January gas futures—which is about 15 cents narrower than the same time last year—may hint at a gas market that traders perceive to be well supplied.

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