Natural Gas Market Indicators

American Gas Association

September 30, 2015

Reported Prices – the current Henry Hub prompt-month price rationalization has seen a slight downward pressure with the natural gas market balanced between $2.55 and $2.70 for most of September, while crude oil markets have firmed somewhat at about $45 and $48 per barrel for West Texas Intermediate and Brent crude, respectively. On the gas side, the story still seems to reflect a supply-demand balance over run by incremental supply additions in the northeast. Even with demand to power generation remaining solid, enhanced by warmer than normal conditions for much of the country during September; and even with a slowing of new gas well completions, an inventory of wells drilled but not yet flowing has continued to bolster gas volumes from Ohio, West Virginia and Pennsylvania, when they are eventually turned on well by well, area by area.

Weather – there have been no hurricanes in the Atlantic basin this season through September 22, which has not happened for 101 years. Wind shear and dry air have been prevalent and worked to subdue storm activity. By contrast, activity in the Pacific basin has seen nine hurricanes this season. Back in the lower-48, there clearly has been a familiar theme to spring, summer, and early fall temperatures this year—that, of course, is the theme of *warmer than normal*. For the 22 weeks from early May until September 26, 2015 only five were cooler than normal with 17 warmer. In addition, it should be no surprise that April, May, June, July, August and September were all warmer than normal months this year based on National Oceanographic and Atmospheric Administration (NOAA) data. Cumulatively, cooling degree days have exceeded the norm by 16 percent since the beginning of May for the nation as a whole and every region of the country has been warmer – some like the East North Central only 2.6 percent warmer but others like New England and the Pacific regions more than 43 percent warmer.

Working Gas in Underground Storage – if double-digit daily injections of natural gas into underground storage persist for the balance of the remaining net injection season then inventories entering the 2015-16 winter will certainly have reached the 3.8 to 3.9 Tcf level. The question next is whether injections will exceed moderate rates and whether the injection season will extend into November, both factors of which could result in a build approaching or exceeding 4.0 Tcf. As of September 18, national working gas inventories had reached 3,440 Tcf having injected a little more than 15 Bcf per day during the preceding week – a strong volume for this time of year. Working gas inventories are 16 percent higher than 2014 and 4.5 percent above the five-year average.

Natural Gas Production – dry natural gas production was the highest ever for the month of June, since EIA began reporting data. Preliminary totals indicate 74.5 Bcf per day, which is a 6.7 percent increase above last year. However, in aggregate, US production has flattened during the second half of 2015 (finally and not unexpectedly) and has averaged 71.9 Bcf per day year to date, which is still about 3.7 Bcf higher than the same nine month period in 2014, according to Bentek Energy. Daily dry gas volumes reached 73 Bcf in April, were strong in June and have since bounced around slightly above or below 72 Bcf per day—a rational occurrence in a market said to still be oversupplied and that notion supported by gradual reductions in gas acquisition prices throughout the year.

Shale Gas – after reading numerous reports on unconventional gas production expectations for the balance of 2015 and into 2016-17 some analysts believe that overall domestic dry production may remain flat or decline slightly from about 72 Bcf per day to about 70 Bcf in the near term as the market struggles to balance natural gas supply and demand. However, producing regions dominated by Marcellus and Utica production may actually grow slightly and even the Haynesville Shale may rebound.

Rig Counts – after two months of some steady increases in the oil rig count, it appears drilling operators have begun to pull back on operations in the light of current market pricing and expectations. Rigs for the week ending September 25 totaled 838 with a 76 percent share going to oil-directed activities. Both oil and gas rigs are down for the year: oil has lost 57 percent since January 2; natural gas rigs are down 40 percent.

Pipeline Imports and Exports – natural gas volumes from Canada have slid to below 5 Bcf per day averaging 4.8 Bcf per day in September although the year to date value is higher at 5.5 Bcf per day. Exports to Mexico remain strong at 3.0 Bcf per day for the month and 35 percent higher year to date.

LNG Markets – European prices continue in the doldrums compared with LNG spot contacts priced only one year ago. At $6.20 per MMBtu, prompt-month futures at the UK National Balancing Point are 30 percent lower than October contracts during 2014. Asian LNG prices are doing about the same with Platts showing the Japan-Korean LNG spot marker at $7.30 per MMBtu as of September 11.

Natural Gas Market Summary – analysts often point to demand pressures as the next ticket to average price increases for natural gas at points such as Henry Hub or that even LNG imports will spur price advances. OK, that may be so, but here we are in a year, once again, where actual consumption has jumped and is headed to another record, primarily on the back of natural gas to power generation. Yet, prices have not increased. In fact, they have declined as we enter the last quarter of the year. Gas into storage has been a bargain for consumers this summer as net injections have remained solid even with power generation requirements. The fundamental mathematics of the supply demand balance still points to a strong supply position relative to foreseeable consumption of natural gas and early forecasts of the coming winter heating season by NOAA point to milder than normal expectations of temperatures in the northern tier of the country during the first quarter of 2016. Again, not necessarily a recipe for strong increases in gas acquisition pricing. That said, like the baseball playoffs coming up there are always favorites but you still have to play the games. We'll see.