

# Natural Gas Market Indicators



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**Reported Prices** – natural gas futures prices firmed to above \$3.20 per MMBtu for the 2017-18 winter strip on August 1 just as prompt-month futures slid to about \$2.80. Natural gas prices at Henry Hub have since nudged up to nearly \$3.00 per MMBtu. At the same time, crude oil prices firmed to a range of \$49.90-\$53.40 per barrel with West Texas Intermediate (WTI) on the low end and Brent on the high end but have now fallen to a range of about \$48.50 to \$51.75 in recent days.

**Weather** – recent forecasts from the National Oceanographic and Atmospheric Administration (NOAA) expect warmer than normal temperatures for the country except the desert southwest for August through November. As cooling degree data stands now, all regions of the country have been warmer than normal since May 2017 with the exception of the East and West North Central, which has been slightly cooler. In aggregate, New England and Pacific regions have deviated the furthest from normal with 21.9 percent and 56.2 percent more cooling degree days, respectively, recorded since early May 2017. With that said, much of the country was cooler than normal last week and the week before, so is that a trend? Only time will tell.

**Working Gas in Underground Storage** – inventories in storage struggled to get over the 3.0 Tcf working gas hump during the last three weeks of July with the weakest injection (+17 Bcf) since April 7, 2017 recorded July 21, 2017. For that week all regions of the country experienced modest net injections except the South Central, which saw 16 Bcf in withdrawals attributable to demands from power generators. That third week of July also corresponded with a week that was 22.7 percent warmer than normal according to NOAA measures of temperature for the the nation as a whole. The following week saw 28 Bcf injected bringing national working gas to 3,038, which is only two percent higher than the five-year average. Regionally, however, salt cavern storage in the south central region is nearly 15 percent higher than the five-year average and the Mountain region is 13.5 percent higher. Balancing the totals compared to recent history is a four percent deficit in the East and a 13 percent lower inventory in the Pacific region compared to the past five years.

**Natural Gas Production** – the effects of increased drilling activity are beginning to take hold. Production, which began the year below 2016 levels, has now jumped ahead of last year's daily numbers. Bentek Energy's daily production numbers show the lower-48 set a year-to-date record on August 4, 2017 with 73.2 Bcf dry production. However, the year-to-date *average* has only totaled 71.5 Bcf per day but has been growing.

**Shale Gas** – analytics from Platts show that natural gas production from the Eagle Ford shale in south Texas has increased each month in 2017 with projections averaging 5.2 Bcf per day in July 2017.

**Rig Count** – the speed at which the producing community has reacted to market signals and deployed rigs has helped keep the natural gas market stable. For example, during 2016 prompt-month futures prices hit their lowest point in early March but stayed low for another couple of months. Prices did not see a marked rise from the \$2 per MMBtu mark until late May. The count of gas drilling rigs bottomed in August 2016, a mere three months later, but have since gained nearly 140 percent. Depending on one’s starting point, after a steady pullback in activity, the producer community appears to have collectively redeployed rigs within three to five months after prices began to show buoyancy. Importantly, it appears that prices needed only to reach \$3.00 to \$3.50 before the rig count responded; producers did *not* wait for \$5 or \$6 natural gas. Even though last week rig counts fell slightly, 181 gas rigs are in operation today in the United States, which is only a portion of the 949 total, demonstrating that even modest commodity prices relative to history have been enough for drillers to hit the field again.

**Pipeline Imports and Exports** – imports from Canada continue to act as a swing source of supply for the lower-48. Just as dry gas production shows a 0.8 Bcf per day increase from last August, pipeline gas from Canada has fallen 1.1 Bcf per day, thus keeping total supplies close to parity with July 2016. Meanwhile, exports to Mexico have climbed 0.3 Bcf per day compared to August one year prior to 4.3 Bcf per day.

**LNG Markets** – exports of LNG for the United States are currently running just below 2 Bcf per day about 0.9 Bcf higher than in August 2016. Year-to-date measures at 2.0 Bcf per day are more robust than was the case in August 2016 when the metric was 0.5 Bcf per day. Additional LNG liquefaction is coming on line, however, which is clearly positioning the US as an LNG powerhouse in the international market. For example, the Cove Point LNG export terminal describes 90 percent of the facility’s systems as in the commissioning phase and the US Department of Energy has authorized 250 Bcf of cargoes during the next two years. Freeport LNG in Texas may be the next facility exporting after Cove Point with startup expected during the fourth quarter of 2018.

**Natural Gas Market Summary** – significant volumes of natural gas to power generation have been displaced this summer, the result of increased solar, wind, hydroelectric generation, as well as the effects of gas-to-coal switching. From April to July, natural gas volumes to power generation fell 1.7 Bcf per day on average compared with the same period in 2016. During June, the displacement reached 2.8 Bcf per day; August has begun with levels 5.0 Bcf per day on average below 2016. Suffice to say, the record highs for gas consumption in the power sector may not be matched this summer. Interestingly, it is the industrial sector that is up about 0.4 Bcf per day this August compared to last and up 0.2 Bcf per day year-to-date to 21.2 Bcf daily. Year-to-date demand in the residential sector is down 0.9 Bcf per day making sector demand without including pipeline and LNG exports about 3.7 lower year-to-date in 2017 compared to 2016.

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