

April 21, 2014

Natural Gas Trends

Highlights

Deficit tops 1 Tcf after another weak injection

Another smaller-than-expected storage injection reported Thursday widened the historical deficit to more than 1 Tcf, compounding fears about the ability to replenish stocks that linger at 11-year lows.

The Energy Information Administration, which reported a 24-Bcf build for the week ending April 11, said inventories sit at 850 Bcf – 1.01 Tcf lower than the five-year average and 850 Bcf less than a year ago. Most analysts had predicted an injection of between 34 Bcf and 38 Bcf. Last week, analysts overestimated the injection for the week ending April 4, with EIA reporting a 4-Bcf build compared with expectations of 13 to 17 Bcf. Thursday’s report sparked an immediate rally on the NYMEX, with the May contract ending the day 21.1 cents higher at \$4.741/MMBtu.

“This was a tough week and definitely a surprise,” said Jeff Moore, an analyst at Platts unit Bentek Energy. “The East and producing injections continued to lag, and both came in below our sample, implying the fields outside our sample continued to withdraw. It’s hard to say if this is a trend or an anomaly, because... it’s still the shoulder season and it’s still fairly cold out, especially at night.” While analysts noted that off-base storage estimates are not uncommon during the shoulder season due to unpredictable weather, the bad guesses this year are particularly relevant as the market needs to refill from such low inventories. To reach at least 3.4 Tcf by November 1 – the bottom end of what the market considers a comfortable pre-winter level – the market will need to inject more than 2.5 Tcf going forward, or roughly 88 Bcf/week on average.

Last year, storage refills averaged 68.6 Bcf/week from April through October. The record for refills was set in 2003, when injections averaged about 80 Bcf/week, according to EIA data. “What’s most surprising is that we’re not filling faster than we did last year or the five-year average during a time when we really need to be,” Moore said. “It’s probably still too early to have too many concerns about refilling, but this certainly isn’t going to help and this pace definitely won’t cut it.”

Before the storage report Thursday, “the market was fairly confident that there’d be enough production coming online and summer would be mild enough to do these injections over the next seven months and that would not be a huge issue at \$4.50,” said analyst Aaron Calder at Gelber & Associates. “But these last two injections have shown that might not be the case.” The front that produced cold weather conditions this week “makes a mild May more likely,” Calder said. “That’s actually bearish weather news, but you can’t really hang your hat on whether we’ll have a very mild summer, and end-users are starting to realize that.”

On the supply side, strong production trends “prompted some in the market to think that gas supply should remain in excess, helping to refill storage and keeping prices low. However, reduced gas imports from Canada and resilience in gas demand could limit the pace of the gas storage refill,” warned analyst Anthony Yuen at Citi Research. Gas demand for power generation fell week-on-week, Yuen noted, but remains higher on a weather-adjusted basis than the recent trend.

“Moreover, gas demand could stay relatively robust in 2014 as gas plants help substitute 19-GW of coal-fired generation retired in the last two years,” Yuen said. While renewable generation is expected to rise from about 28 GW in 2011 to 36 GW this year for a gain of 8 GW in utilized capacity, “the market still needs to substitute about 5 GW, or 1 Bcf/d in equivalent gas demand. Coal plants that have not retired could raise their utilization rates to partially fill this gap, but gas remains the primarily for of substitution.”

Another factor suppressing gas-to-coal switching could be that coal stockpiles held by power generation facilities are 26% lower than a year ago, noted independent analyst Stephen Smith. “If you have people getting nervous on coal inventories, they may hold onto their coal and let that get replenished, Smith said. “If it turns out to be a tight summer, it makes more sense to keep using gas now when it’s \$4.50 rather than when it’s \$5.”

“We keep dragging winter out, and the cold shot this week was stronger than what many expected. Any week that goes by when you’re losing ground” on gas storage refills, “it makes it that much harder you’ll have to run in the time you have left,” Smith said.

Source: Platts Gas Daily

Data

- May 2014 Natural Gas Futures Contract (as of April 17), NYMEX at Henry Hub closed at \$4.741 per million British thermal units (MMBtu)
- May 2014 Light, Sweet Crude Oil Futures Contract WTI (as of April 17), closed at \$104.30 per U.S. oil barrel (Bbl.) or approximately \$17.98 per MMBtu

Last week: Texas cooler than normal

For the week beginning 4/13/14 and ending 4/19/14, heating degree days (HDD) were higher than normal (cooler) for the week and for the year to date for most Texas cities shown and for the US. Source: www.cpc.ncep.noaa.gov

| HEATING DEGREE DAYS (HDD) | | | | |
|---------------------------|-----------------------------------|---------------------------|------------------------|-------------------------|
| City or Region | Total HDD for week ending 4/19/14 | *Week HDD +/- from normal | Year-to-date total HDD | * YTD % +/- from normal |
| Amarillo | 97 | 31 | 4108 | -1% |
| Austin | 42 | 34 | 2163 | 32% |
| DFW | 44 | 28 | 2582 | 10% |
| El Paso | 16 | -6 | 1986 | -21% |
| Houston | 28 | 18 | 1733 | 15% |
| SAT | 25 | 18 | 1550 | -1% |
| Texas** | 44 | 28 | 2280 | 16% |
| U.S.** | 86 | 6 | 4440 | 5% |

* A minus (-) value is warmer than normal; a plus (+) value is cooler than normal. NOAA uses 65° Fahrenheit as the ‘normal’ basis from which HDDs are calculated. ** State and U.S. degree days are population-weighted by NOAA.

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 850 Bcf

For the week ending 4/11/2014 working gas in storage increased from 826 Bcf to 850 Bcf. This represents an increase of 24 Bcf from the previous week. Stocks were 850 Bcf lower than last year at this time and 1,010 Bcf below the 5 year average of 1,860 Bcf.

Source: <http://ir.eia.gov/ngs/ngs.html>

| U.S. WORKING GAS IN STORAGE | | | | |
|-----------------------------|---------------------|------------|-----------------|---------------------------------|
| Region | Week ending 4/11/14 | Prior week | One-week change | Current Δ from 5-YR Average (%) |
| East | 311 | 305 | 6 | -59.7% |
| West | 168 | 160 | 8 | -44.0% |
| Producing | 371 | 361 | 10 | -53.0% |
| Lower 48 Total | 850 | 826 | 24 | -54.3% |

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

Last week: U.S. gas rig count up for the week

The gas rig count for the U.S. was up six compared to the prior week and down 63 when compared to twelve months ago. The total rig count for the U.S. showed no change from last week but increased 73 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

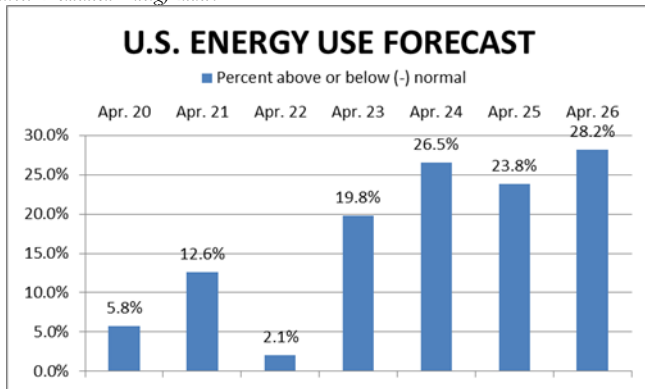
Source: Baker Hughes

| BAKER HUGHES ROTARY RIG COUNT | | | | |
|-------------------------------|-----------------|----------------|----------|--------------|
| | As of 4/17/2014 | +/- prior week | Year ago | +/- year ago |
| Texas | 884 | 0 | 837 | 47 |
| U.S. gas | 316 | 6 | 379 | -63 |
| U.S. oil | 1510 | -7 | 1371 | 139 |
| U.S. total | 1831 | 0 | 1758 | 73 |
| Canada | 199 | -13 | 126 | 73 |

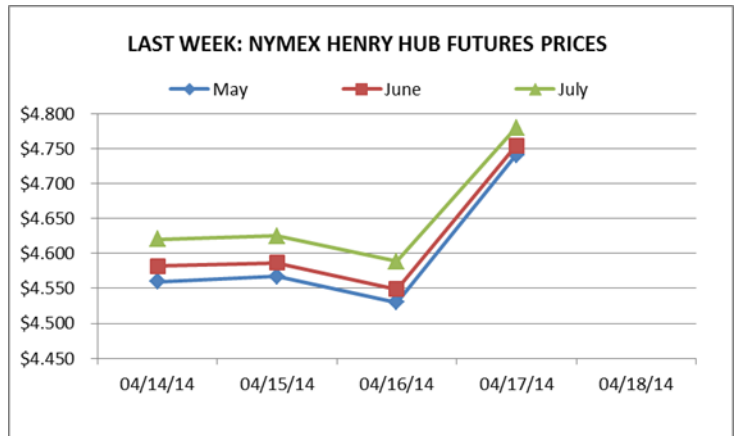
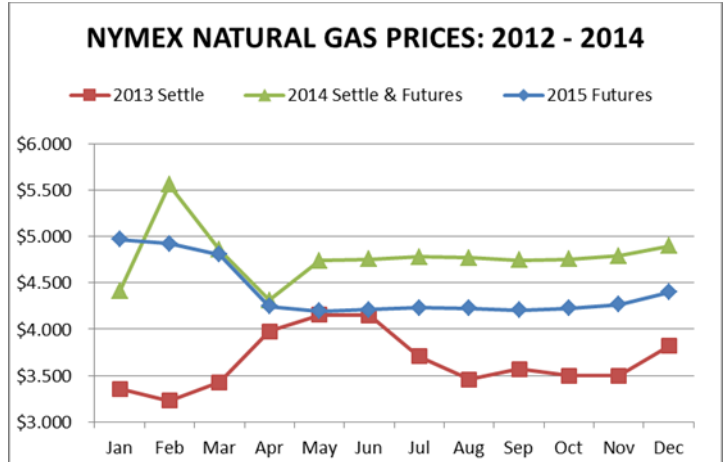
This week: U.S. energy use above normal

U.S. energy use is predicted to be above normal this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2014 prices. Natural gas prices for 2014, shown below in green, are the NYMEX settlement prices for Jan.-Apr. and futures prices for the remainder of the year.



*Prices for April 18, 2014 were unavailable due to Good Friday.

NATURAL GAS PRICE SUMMARY AS OF 4/17/2014

| This Week | +/- Last Week | +/- Last Year | 12-Month Strip Avg. |
|-----------|---------------|---------------|---------------------|
|-----------|---------------|---------------|---------------------|

US May futures

| | | | | |
|-------|---------|---------|---------|---------|
| NYMEX | \$4.741 | \$0.265 | \$0.765 | \$4.771 |
|-------|---------|---------|---------|---------|