

May 19, 2014

Natural Gas Trends

Highlights

Storage build of 105 Bcf ‘not nearly enough’

US working gas inventories climbed by triple digits for the first time this refill season on a 105-Bcf build that lifted stocks to 1.16 Tcf for the week ending May 9. However, the report included a reclassification from base to working gas in the East of 8 Bcf, which left the implied build for the week at only 97 Bcf, the Energy Information Administration reported Thursday. The reported injection was above consensus expectations of a build between 97 Bcf and 101 Bcf. EIA a year ago reported a 98-Bcf injection, while the five-year average is an 82-Bcf build.

Noting that May is typically a shoulder season month that can accommodate larger refills, some analysts expressed disappointment in the data. Stocks are sitting 45% lower than the five-year average, or at a 959-Bcf deficit, and are 40.5% lower than last year at a 790-Bcf deficit build of this magnitude “is not nearly enough. We need to lose some demand or find more supply, unless you’re more comfortable with a much lower number in November,” said IAF Advisors analyst Kyle Cooper.

Most forecasters predict that storage will refill from current 11-year lows to 3.4 Tcf ahead of the winter. But to reach that level by November 1, the industry still needs to refill 2.24 Tcf of gas, or about 90 Bcf per week average. We’re going to get a few [builds] over 100 Bcf in the next few weeks, but we’re not likely to be getting the 110-115-Bcfs we need,” Cooper said. “We got an extra 8 Bcf this week, but we can’t expect that every week. If we end up with less than expected this fall, then if we get a warm winter that’s OK, but if not, then things could get really tight.” he market may be hoping for an El Niño weather pattern to develop ahead of the winter, as many forecasters predict. “We’ve never had a cold winter with an El Niño,” he added.

With the strong power burn demand we’ve been seeing over the past few weeks, I think [the injection] sends a fairly ominous signal to the proposition of us filling to 3.4 Tcf by October,” said Jeff Moore, analyst at Platts unit Bentek Energy. “Next week’s number is going to be the real signal,” Moore said. “We probably won’t get a reclassification every week and we’re seeing a continuation of some fairly strong injections from fields, while our fundamentals are pointing toward some strong demand.”

“Unless you’ve got a signed certificate by someone that it’s going to be a mild summer,” there is significant risk that storage might not refill to predicted levels, said independent analyst Stephen Smith. Smith’s own estimate has storage reaching 3.36 Tcf on 3% greater cooling degree days than normal over the summer. If weather was to trend 10% hotter than normal, “you might knock 100 [Bcf] off that total,” he added. As for the reclassification itself, EIA built in the implied flow figure to its weekly report in the past year to reflect what the market is really interested in – “things that happen to storage as a result of supply and demand differences” and not changes to base and working gas by operators, Smith said. But it is up to each operator as to when they will make those reclassifications and then report them to the EIA, he noted.

Total inventories now are 463 Bcf below the five-year average of 920 Bcf in the East, 114 Bcf below the five-year average of 333 Bcf in the West and 382 Bcf below the five-year average of 866 in the producing region.

Source: Platts Gas Daily

Data

- June 2014 Natural Gas Futures Contract (as of May 16), NYMEX at Henry Hub closed at \$4.413 per million British thermal units (MMBtu)
- June 2014 Light, Sweet Crude Oil Futures Contract WTI (as of May 16), closed at \$102.02 per U.S. oil barrel (Bbl.) or approximately \$17.59 per MMBtu

Last week: Texas cooler than normal

For the week beginning 5/11/14 and ending 5/17/14, cooling degree days (CDD) were lower than normal (cooler) for the week and for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

| COOLING DEGREE DAYS (CDD) | | | | |
|---------------------------|-----------------------------------|-----------------------------|------------------------|-------------------------|
| City or Region | Total CDD for week ending 5/17/14 | *Week CDD + / - from normal | Year-to-date total CDD | * YTD % +/- from normal |
| Amarillo | 9 | -7 | 101 | -999% |
| Austin | 40 | -30 | 302 | -21% |
| DFW | 41 | -15 | 297 | 43% |
| El Paso | 38 | -15 | 226 | 18% |
| Houston | 50 | -22 | 379 | -6% |
| SAT | 46 | -28 | 516 | 23% |
| Texas** | 44 | -17 | 308 | -9% |
| U.S.** | 26 | 7 | 112 | 8% |

* A minus (-) value is cooler than normal; a plus (+) value is warmer than normal. NOAA uses 65° Fahrenheit as the ‘normal’ basis from which CDDs 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 1,160 Bcf

For the week ending 5/9/2014 working gas in storage increased from 1,055 Bcf to 1,160 Bcf. This represents an increase of 105 Bcf from the previous week. Stocks were 790 Bcf lower than last year at this time and 959 Bcf below the 5 year average of 2,119 Bcf.

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

| U.S. WORKING GAS IN STORAGE | | | | |
|-----------------------------|--------------------|------------|-----------------|---------------------------------|
| Region | Week ending 5/9/14 | Prior week | One-week change | Current Δ from 5-YR Average (%) |
| East | 457 | 397 | 60 | 50.3% |
| West | 219 | 203 | 16 | -34.2% |
| Producing | 484 | 455 | 29 | -44.1% |
| Lower 48 Total | 1,160 | 1,055 | 105 | -45.3% |

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 two for the week and was down 28 when compared to twelve months ago. The total rig count for the U.S. was up six from last week and up 92 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

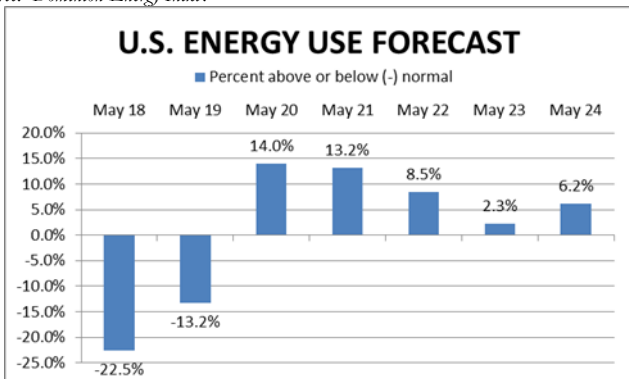
Source: Baker Hughes

| BAKER HUGHES ROTARY RIG COUNT | | | | |
|-------------------------------|-----------------|----------------|----------|--------------|
| | As of 5/16/2014 | +/- prior week | Year ago | +/- year ago |
| Texas | 891 | -4 | 837 | 54 |
| U.S. gas | 326 | 3 | 354 | -28 |
| U.S. oil | 1531 | 3 | 1408 | 123 |
| U.S. total | 1861 | 6 | 1769 | 92 |
| Canada | 153 | 8 | 123 | 30 |

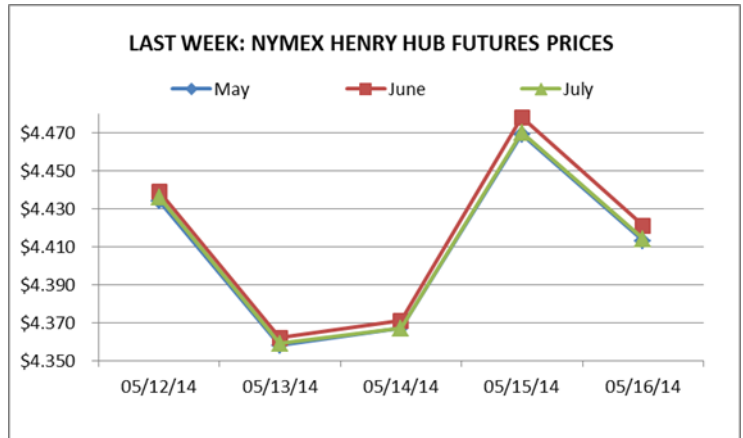
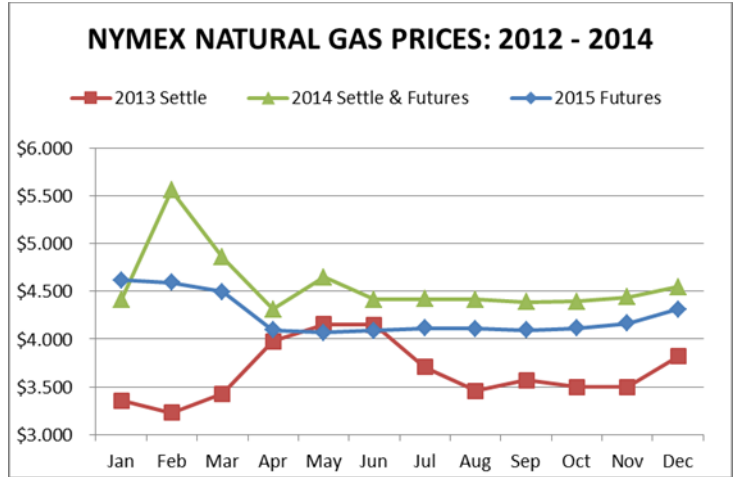
This week: U.S. energy varies

U.S. energy use is predicted to be below normal early in the week and above normal Tuesday through the end of the 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.-May and futures prices for the remainder of the year.



NATURAL GAS PRICE SUMMARY AS OF 5/16/2014

| | This Week | +/- Last Week | +/- Last Year | 12-Month Strip Avg. |
|-----------------|-----------|---------------|---------------|---------------------|
| US June futures | | | | |
| NYMEX | \$4.413 | -\$0.118 | \$0.437 | \$4.455 |