# Natural Gas Trends

## Highlights

### Big July injection lifts storage to 2.129 Tcf

A 107-Bcf injection to storage came in above expectations on Thursday, lifting inventories to 2.0129 Tcf and continuing a string of 13 weeks of above-average builds, according to the Energy Information Administration. It was the highest July injection in 10 years.

Most analysts expected a build in the 95- to 99-Bcf range. A year ago, EIA reported a 62 Bcf injection, while the five-year average is 65 Bcf. As a result, the 653 Bcf deficit to the year-ago level fell to 608 Bcf or 22.2%, while the deficit to the five-year average declined to 727 Bcf or 25.5%. Milder-than-normal summer weather and higher than expected gas production has aided efforts this year to restock storage after a frigid winter that sent inventories plunging to 11-year lows by the end of March.

"The net injection of 107 Bcf was more than expected, implying a further weakening of the background supply/demand balance, presumably on a further increase in supply," said Tim Evans, analyst at Citi Futures Perspective. "This has bearish implications" for storage injections going forward, he added. Jay Levine, broker at Enerjay LLC, said the injection was "higher than anyone expected" and that market reaction was "exactly as expected."

"What can you say besides, where's the heat?" Levine said.

"Every region reported a stronger injection that what I had forecasted, so the surprise was fairly spread out," said Jeff Moore, analyst at Platts unit Bentek Energy. "The East and West continue to fill very rapidly, and the producing is picking up the pace with a 29-Bcf injection announced today," Moore explained. "This mild weather is really putting the lid on most refill concerns. We still have a long way to go with a lot of unknowns, but at this pace topping 3.5 Tcf [by the end of October] shouldn't be a huge problem." The market has refilled 1.307 Tcf since the end of March, or an average of 87 Bcf/week. In order to reach the 3.4 Tcf most analysts predicted storage would reach by the end of October, the industry still needs to inject another 1.271 Tcf, or 79.4 Bcf/week.

"The only time the market has seen injections this [strong] is during the 2004 and 2003 summers," said Aaron Calder, senior market analyst at Gelber & Associates. "All three summers have similar circumstances of storage deficits and mild summers." Calder predicted that $3 gas prices "will bring about increased natural gas usage and this is the largest injection we'll see until late September. However, the massive July injection shows the extent of the recent production boom. The large injections will offer more winter cushion than originally thought, but these low prices will bring about power generation demand and cut into the excess supply."

However, predictions in the 3.4 to 3.5 Tcf range for fall inventories are still below the five-year average of about 3.8 for that period. "Storage injections will need to average roughly 104 Bcf/week over the balance of the injection season to refill US storage levels to the five-year average of 3.8 Tcf," said analyst Randy Ollenberger at BMO Nesbitt Burns. "Given infrastructure constraints in the US Northeast and a lack of drilling activity in the producing region, we believe that this may prove to be a challenge once the cooling season begins in earnest; however, weather remains the main wild card," Ollenberger said.

Several analysts have said recently they now expect inventories to reach around 3.5 Tcf this fall. Richard Hastings, analyst at Global Hunter Securities, has upped his end-October storage forecast to 3.534 Tcf. At that level, storage would be only 7.9% below the five-year trailing average, or only 303 Bcf below the five-year average of 3.837 Tcf. Hastings also said the industry should stop putting so much emphasis on historical storage levels as a major determinant of total supply conditions. The market should give "more room for the influence of increasing dry gas production, especially since it now becomes likely that dry gas production should grow towards 72 Bcf/d in early 2015."

Independent analyst Stephen Smith said his models, even before this week's storage report, were showing that inventories would reach 3.6 Tcf at its peak this fall. Smith is expecting below-average temperatures to continue and is factoring in a 3% milder than normal fall. That will be enough to flip the current storage deficit into a surplus in his model by December, he said.

Source: Platts Gas Daily

## Data

- August 2014 Natural Gas Futures Contract (as of July 18), NYMEX at Henry Hub closed at $3.951 per million British thermal units (MMBtu)
- August 2014 Light, Sweet Crude Oil Futures Contract WTI (as of July 18), closed at $103.13 per U.S. oil barrel (Bbl.) or approximately $17.78 per MMBtu

### Last week: Texas cooler than normal

For the week beginning 7/13/14 and ending 7/19/14, cooling degree days (CDD) were lower than normal (cooler) for the week but higher (warmer) 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 7/19/14 | *Week CDD + / - from normal | Year-to-date total CDD | * YTD % +/- from normal |
|---|---|---|---|---|
| Amarillo | 56 | -37 | 713 | 11% |
| Austin | 118 | -19 | 1280 | -9% |
| DFW | 107 | -33 | 1353 | 12% |
| El Paso | 139 | 13 | 1491 | 26% |
| Houston | 125 | -4 | 1418 | 1% |
| SAT | 138 | -1 | 1620 | 10% |
| Texas** | 111 | -17 | 1260 | -2% |
| U.S.** | 63 | -11 | 603 | 6% |

* 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 2,129 Bcf

For the week ending 7/11/2014 working gas in storage increased from 2,022 Bcf to 2,129 Bcf. This represents an increase of 107 Bcf from the previous week. Stocks were 608 Bcf lower than last year at this time and 727 Bcf below the 5 year average of 2,856 Bcf.

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

**U.S. WORKING GAS IN STORAGE**

| Region | Week ending 7/11/14 | Prior week | One-week change | Current Δ from 5-YR Average (%) |
|---|---|---|---|---|
| East | 1,044 | 979 | 65 | -24.5% |
| West | 358 | 345 | 13 | -19.4% |
| Producing | 727 | 698 | 29 | -29.4% |
| Lower 48 Total | 2,129 | 2,022 | 107 | -25.5% |

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 four for the week but was down 54 when compared to twelve months ago. The total rig count for the U.S. was down four from last week and up 101 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

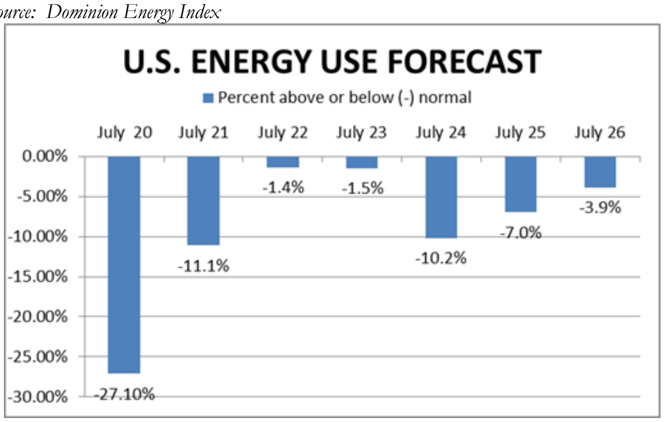
Source: Baker Hughes

| BAKER HUGHES ROTARY RIG COUNT | | | | |
|---|---|---|---|---|
| | As of 7/18/2014 | +/- prior week | Year ago | +/- year ago |
| Texas | 888 | -10 | 845 | 43 |
| U.S. gas | 315 | 4 | 369 | -54 |
| U.S. oil | 1554 | -9 | 1395 | 159 |
| U.S. total | 1871 | -4 | 1770 | 101 |
| Canada | 381 | 66 | 324 | 57 |

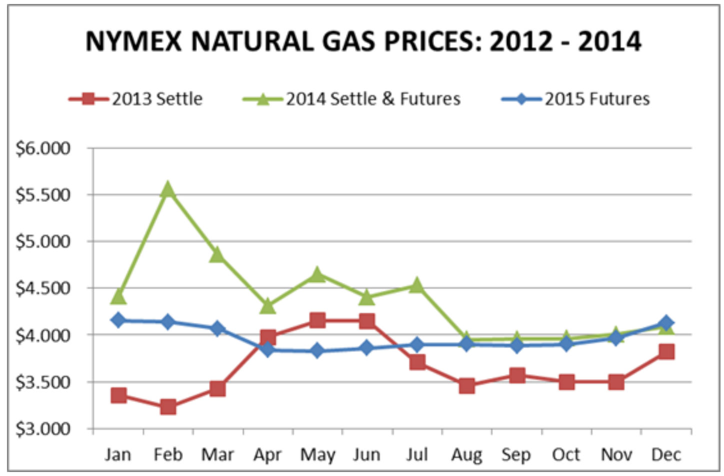
## This week: U.S. energy below normal

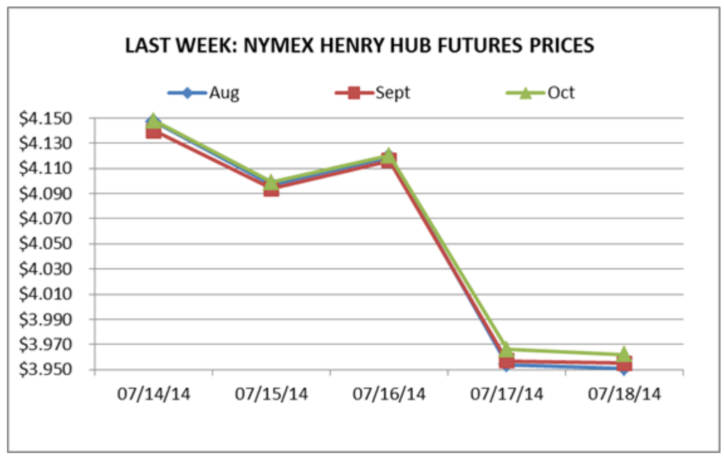
U.S. energy use is predicted to e below normal this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

*Source: Dominion Energy Index*




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




**NATURAL GAS PRICE SUMMARY AS OF 7/18/2014**

| | This Week | +/- Last Week | +/- Last Year | 12-Month Strip Avg. |
|---|---|---|---|---|
| US Aug. futures | | | | |
| NYMEX | $3.951 | -$0.195 | $0.492 | $3.836 |