

March 17, 2014

Natural Gas Trends

Highlights

Storage falls to 1 Tcf; attention shifts to refills

US working gas storage inventories fell to 1.001 Tcf as of Friday, shifting industry focus to how it will go about refilling depleted caverns to a comfortable level ahead of next winter. The 195-Bcf withdrawal reported by the Energy Information Administration on Thursday was in line with consensus expectations between 193 Bcf and 197 Bcf, but it was still the highest March withdrawal on record, in excess of the next biggest withdrawal at 149-Bcf for the week ending March 13, 1998. The deficit to last year now stands at nearly 49% or 958 Bcf, while the deficit to the five-year average is at 46% of 858 Bcf.

"The month of March often has a net withdrawal of less than 200 Bcf or closer to zero in recent years, so this week's number alone is equivalent to a month's worth of gas draws," said analysts at Citi Research. The market reacted instead to the fact that this was likely the last big withdrawal of the season, noted analysts at Gelber & Associates. Most analysts now expect March-end storage to be around 900 Bcf, given forecasts for a return to normal temperatures for the rest of the month. Estimates range from EIA's 965-Bcf prediction to the 731 Bcf foreseen by Richard Hastings at Global Hunter Securities in a model predicting more colder-than-normal weather this month. But, "colder-than-normal weather in March isn't like the rest of the winter. We might be talking 35 degrees versus 7 degrees in January," said Jeff Moore, an analyst at Platts unit Bentek Energy, which predicts inventories will fall to 900 Bcf or slightly lower by the end of March. Next week's draw will be larger compared to five-year averages, "but likely won't be higher than last year's withdrawal of 74 Bcf," Moore said. In addition, production levels are rising, with US output hovering at 66 Bcf/d for most of the last seven days, Moore pointed out.

While most models show growing shale gas production playing a key role in refilling caverns, analysts expressed concerns this week about potential stumbling blocks. A hot summer, declining gas imports from Canada, fuel-switching in the power sector, low hydro supplies in the West and falling nuclear generation output due to maintenance are just some of the factors that boost gas demand and slow storage injections, analysts said. Higher year-on-year gas prices may entice dual-fuel power generators to burn coal instead, freeing up gas for storage. But the coal industry is experiencing infrastructure issues that could impede its use for power generation, said Energy Ventures Analysis in its latest Fuelcast report this week.

"Assuming production rebounds quickly on stable weather, then gas production of nearly 70 Bcf/d could quickly build surpluses in the early phase of the cooling season, before any major heat wave begins to trigger electric power-sector consumption." Growth in the shales is expected to continue apace, with most estimates ranging anywhere from a 1 Bcf/d to 3 Bcf/d increase in 2014. Much of that will simply be a product of new takeaway capacity in the Marcellus Shale, with wells already drilled and capped finally able to flow.

However, any additional drilling is problematic. The gas-directed rig count "remains near its all-time low for recent times and does not yet show any signs of increasing despite the higher winter gas prices," EVA said. If there is a need for new drilling activity, there could be "a significant lag in such an increase, despite adequate price signals, as the gas segment industry must compete with very economic oil/liquid drilling activity for limited capital expenditures." And with producers saying recent prices are not an enticement to drill, "This could lead to more competition for gas supply, driving up regional prices, with ripple effects on Henry Hub. Northeast production growth may disappoint due to infrastructure bottlenecks," Citi added.

The April-through-October storage build will be about 2.5 Tcf, surpassing the previous record injection season in 2001 by more than 90 Bcf, and ending the injection season at about 3.45 Tcf, EIA said in a brief released Thursday.

"While the projected storage build for the upcoming injection season would be a record, total Lower 48 end-October inventories in 2014 would still be at their lowest level since 2008. High injections would not fully erase the deficit in storage volumes caused by this winter's heavy withdrawals," EIA added.

That 3.5-Tcf benchmark for storage is a recent phenomenon, noted Chris McGill at the American Gas Association. Underground storage never exceeded 3.5 Tcf until October 2007, and it's only been in the last five years that a fall working inventory north of that figure has developed, he said on a conference call with reporters and analysts Thursday. "I agree it's unlikely we'll get to 3.8 or 3.9 Tcf by mid-November, and we might not see that" for two more cycles, added McGill, AGA's vice president of policy analysis.

With 214 days in the refill season, it looks like the industry will need about 13 Bcf/d in refills to reach a comfortable level ahead of next winter, McGill said. The industry stored an average of 12 Bcf/d in the summer of 2003 when production averaged 52 Bcf/d. Now production is averaging about 55 Bcf/d, he added. "In the physical market, every indication is that is doable," McGill said. Source: Platts Gas Daily

Data

- April 2014 Natural Gas Futures Contract (as of March 14), NYMEX at Henry Hub closed at \$4.425 per million British thermal units (MMBtu)
- April 2014 Light, Sweet Crude Oil Futures Contract WTI (as of March 14), closed at \$98.89 per U.S. oil barrel (Bbl.) or approximately \$17.05 per MMBtu

Last week: Texas cooler than normal

For the week beginning 3/9/14 and ending 3/15/14, 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 3/15/14	*Week HDD +/- from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	101	-29	3678	0%
Austin	55	15	2005	30%
DFW	52	-10	2377	9%
El Paso	60	-7	1883	-19%
Houston	39	0	1597	16%
SAT	103	56	1636	16%
Texas**	61	6	2100	15%
U.S.**	129	-13	3884	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 1,001 Bcf

For the week ending 3/7/2014 working gas in storage decreased from 1,196 Bcf to 1,001 Bcf. This represents a decrease of 195 Bcf from the previous week. Stocks were 958 Bcf lower than last year at this time and 858 Bcf below the 5 year average of 1,859 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 3/7/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	430	525	-95	-47.9%
West	169	190	-21	-42.9%
Producing	402	481	-79	-45.5%
Lower 48 Total	1,001	1,196	-195	-46.2%

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 down one compared to the prior week and down 87 when compared to twelve months ago. The total rig count for the U.S. was up 17 for the week and up 33 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

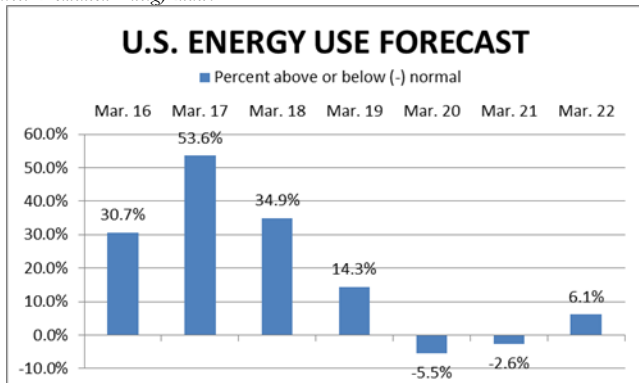
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 3/14/2014	+/- prior week	Year ago	+/- year ago
Texas	868	4	838	30
U.S. gas	344	-1	431	-87
U.S. oil	1461	18	1341	120
U.S. total	1809	17	1776	33
Canada	522	-65	503	19

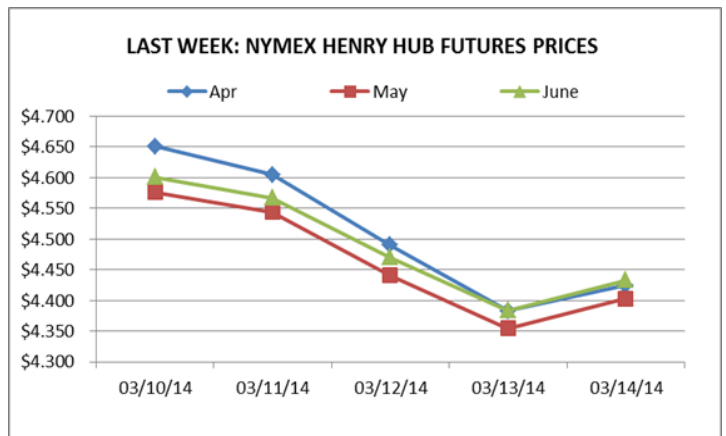
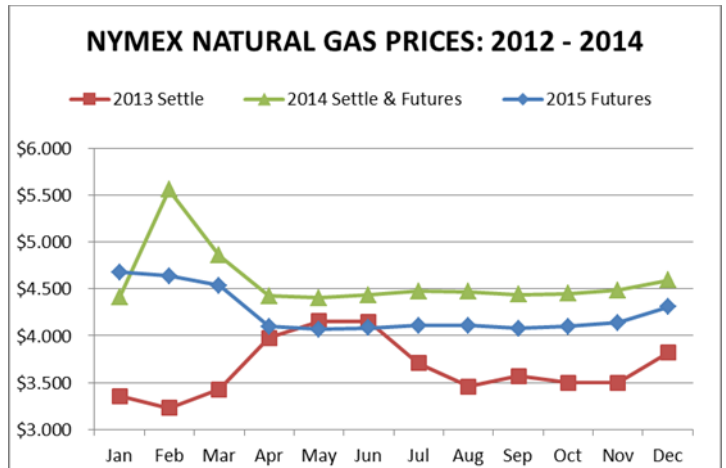
This week: U.S. energy use varies

U.S. energy use is predicted to be above normal for the majority 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.-Mar. and futures prices for the remainder of the year.



NATURAL GAS PRICE SUMMARY AS OF 3/14/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US April futures				
NYMEX	\$4.425	-\$0.193	\$0.449	\$4.502