

**March 24, 2014**

# Natural Gas Trends

## Highlights

### Storage below 1 Tcf for first time since 2003

On the first official day of spring after a long, cold winter, the Energy Information Administration reported Thursday that US gas storage inventories dipped below 1 Tcf for the first time in 11 years, with a 48-Bcf withdrawal leaving stocks at 953 Bcf. That is the lowest inventory since the week ending March 14, 2003, when EIA reported 654 Bcf of working gas in storage. And while analysts don't believe stocks will go that low this spring, most expect inventories to drop well below 900 Bcf before injections begin in earnest. The withdrawal for the week ending last Friday was below consensus expectations between 57 Bcf and 61 Bcf. Still, the deficit to the five-year average widened to 876 Bcf, or 48%, though the deficit to the year-ago level narrowed to 932 Bcf, or 49%.

Calling the draw a "bearish surprise," Citi analyst Tim Evans said it also suggested "a weakening of the background supply/demand balance that could translate into somewhat smaller withdrawals going forward as well." More specifically, the withdrawal "indicates that gas-to-coal switching is beginning to affect the market," said an analyst at Gelber & Associates. "As the southern parts of the country warm up with spring temperatures, power generation becomes a larger part of the overall demand mix. Many utilities switched to coal as their fuel of choice during the winter and natural gas pricing is still too high to convince generators to switch back. As the winter fades, power generation will mater more and more and heating demand will start to matter less."

Phil Flynn, senior analyst at Price Futures Group, said that despite the smaller-than-expected withdrawal, little has changed with the larger supply picture. "If the market goes down a lot, you will have trouble refilling storage. Below 1 Tcf is a number nobody thought we would see and here we are," Flynn said. "It will get worse before it gets better and there will be a challenge to get back to full storage. The big question is how far this can go without discouraging production."

Analysts' recent off-the-mark projections indicate that the market has shaken off the worst of winter and that supply is growing faster than thought, said another analyst. "In fact, the weekly polls have over-estimated the last five out of six releases by an average 7.5 Bcf each week – advancing the argument that domestic production is beginning to recover," said BNP Paribas' Teri Viswanath. "With heating demand deteriorating and production showing early signs of growth, prices will likely remain soft as the industry transitions into the injection season." The withdrawal reported in next week's EIA report may be a little stronger, said Jeff Moore, an analyst with Platts unit Bentek Energy. "This means we'll definitely head below 900 Bcf by the end of the month, and there's a pretty good chance we'll be within earshot of the 850-Bcf range when it's all said and done."

The need to refill storage this summer will create about 4 Bcf/d of additional demand, UBS analyst William Featherston said Thursday, "enabling prices to appreciate to levels to shift gas-fired demand to coal in order to enable an adequate storage refill." He predicts that storage will end March at around 880 Bcf.

Analyst Anthony Yuen at Citi Research said storage needs will definitely have to compete with power generation over the summer, even with fuel-switching. "The market may have overlooked the outside impact of cold winter weather on demand and inventories, which could more than offset the effect of stronger hydro or stronger gas-to-coal switching," Yuen said. "This week's projected end-of-March storage fell to 805 Bcf, down about 100 Bcf, vs. last week's projection of some 900 Bcf."

For last week, EIA reported a 35-Bcf withdrawal in the East to 395 Bcf, compared with 790 Bcf a year ago, a 2-Bcf draw in the West to 167 Bcf, compared with 339 Bcf a year ago, and an 11-Bcf draw in the producing region to 391-Bcf, compared with 756 Bcf a year ago. Total inventories now are 399 Bcf below the five-year average of 794 Bcf in the East, 126 Bcf below the five-year average of 293 Bcf in the West and 351 Bcf below the five-year average of 742 Bcf in the producing region.

Source: Platts Gas Daily

## Data

- April 2014 Natural Gas Futures Contract (as of March 21), NYMEX at Henry Hub closed at \$4.313 per million British thermal units (MMBtu)
- May 2014 Light, Sweet Crude Oil Futures Contract WTI (as of March 21), closed at \$99.46 per U.S. oil barrel (Bbl.) or approximately \$17.15 per MMBtu

### Last week: Texas cooler than normal

For the week beginning 3/16/14 and ending 3/22/14, 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](http://www.cpc.ncep.noaa.gov)

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 3/22/14	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	118	2	3796	0%
Austin	39	7	2044	30%
DFW	57	7	2434	9%
El Paso	30	-27	1913	-19%
Houston	25	-6	1661	15%
SAT	16	-13	1484	-1%
Texas**	44	-2	2144	15%
U.S.**	140	12	4023	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 953 Bcf

For the week ending 3/14/2014 working gas in storage decreased from 1,001 Bcf to 953 Bcf. This represents a decrease of 48 Bcf from the previous week. Stocks were 932 Bcf lower than last year at this time and 876 Bcf below the 5 year average of 1,829 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 3/14/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	395	430	-35	-50.3%
West	167	169	-2	-43.0%
Producing	391	402	-11	-47.3%
Lower 48 Total	953	1,001	-48	-47.9%

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

**Last week: U.S. gas rig count down for the week**

The gas rig count for the U.S. was down 18 compared to the prior week and down 92 when compared to twelve months ago. The total rig count for the U.S. was down six for the week and up 57 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

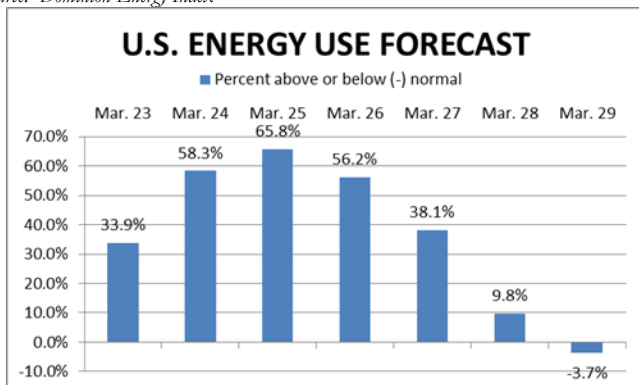
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 3/21/2014	+/- prior week	Year ago	+/- year ago
Texas	858	-10	827	31
U.S. gas	326	-18	418	-92
U.S. oil	1473	12	1324	149
U.S. total	1803	-6	1746	57
Canada	389	-133	337	52

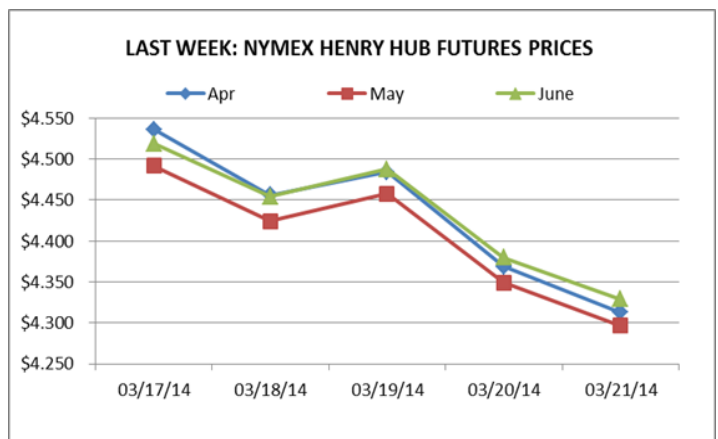
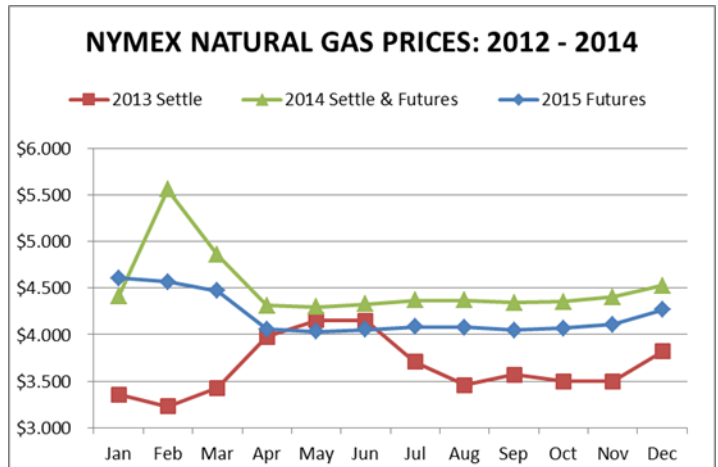
**This week: U.S. energy use above normal**

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 3/21/2014**

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US April futures				
NYMEX	\$4.313	-\$0.112	\$0.337	\$4.412