

August 18, 2014

Natural Gas Trends

Highlights

Small storage injection surprises analysts

A storage build of 78 Bcf reported by the Energy Information Administration came in below analysts' consensus Thursday, marking the fourth straight week the market has overestimated the pace of weekly injections.

The net injection for the August 8 reporting week has below consensus expectations of a build between 81 Bcf and 85 Bcf. The injection was bullish compared to analyst estimates, but was bearish by historical comparisons considering it was greater than the 70-Bcf injection seen last year and 45-Bcf five-year average injection.

As a result, the 538-Bcf deficit to the year-ago level shrank to 530 Bcf, while the 608-Bcf deficit to the five-year average of 3.042 Tcf fell to 575 Bcf or 18.9%. Working gas in storage was 2.467 Tcf, according to EIA estimates.

Tim Evans, analyst at Citi Futures Perspective said the figure "does suggest that the background supply/demand balance may have firmed slightly."

Evans added that it may indicate smaller builds going forward, but injections will likely continue to exceed five-year average rates.

Aaron Calder, senior analyst at Gelber & Associates said the injection "is the fourth in a row that failed to meet expectations and shows that current market conditions are not nearly as oversupplied as they were in July."

He added that on a weather and seasonally adjusted basis, the market is producing roughly 2 Bcf/d more than it is consuming during the month, compared to the more robust 4 Bcf/d in July. Calder said it was in part because of increased demand from power generators which have taken advantage of declining prices since mid-June.

"As long as natural gas prices are near the \$3.90 level, power generators will continue to use it in concert with coal for baseload power generation... For now the injections are showing us that there is enough natural gas demand, even with mild weather, to concern those worried about winter price spikes," Calder added.

EIA reported a 58-Bcf injection in the East to 1.277 Tcf, compared with 1.452 Tcf a year ago, an 11-Bcf injection in the West to 398 Bcf, compared with 493 Bcf a year ago, and a 9 Bcf injection in the producing region to 792 Bcf, compared with 1.052 Tcf a year ago.

Total inventories now are 270 Bcf below the five-year average of 1.547 Tcf in the East, 66 Bcf below the five-year average of 464 Bcf in the West and 239 Bcf below the five-year average of 1.031 Tcf in the producing region.

Jeff Moore, analyst at Bentek Energy, said the report "seemed like a legitimate low-side surprise, driven by lower-than-expected injections within the Producing Region."

"There was a slight uptick in power burn demand week-over-week within the East, with flat burn in the Producing, but we actually saw stronger sample builds within the region so for them to report a smaller injection from the previous week was surprising," he added.

Data

- September 2014 Natural Gas Futures Contract (as of August 15), NYMEX at Henry Hub closed at \$3.776 per million British thermal units (MMBtu)
- September 2014 Light, Sweet Crude Oil Futures Contract WTI (as of August 18), closed at \$96.41 per U.S. oil barrel (Bbl.) or approximately \$16.62 per MMBtu

Last week: Texas warmer than normal

For the week beginning 8/10/14 and ending 8/16/14, cooling degree days (CDD) were higher than normal (warmer) 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 8/16/14	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	96	14	1096	10%
Austin	147	7	1840	-7%
DFW	154	14	1936	9%
El Paso	115	3	1983	20%
Houston	146	17	1972	2%
SAT	163	23	2237	10%
Texas**	134	7	1776	-2%
U.S.**	58	-11	864	1%

* 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 2,555 Bcf

For the week ending 8/15/2014 working gas in storage increased from 2,467 Bcf to 2,555 Bcf. This represents an increase of 88 Bcf from the previous week. Stocks were 500 Bcf lower than last year at this time and 535 Bcf below the 5 year average of 3,090 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 8/8/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,277	1,219	58	-17.5%
West	398	387	11	-14.2%
Producing	792	783	9	-23.2%
Lower 48 Total	2,467	2,389	78	-18.9%

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 five for the week but was down 67 when compared to twelve months ago. The total rig count for the U.S. was up five from last week and up 122 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

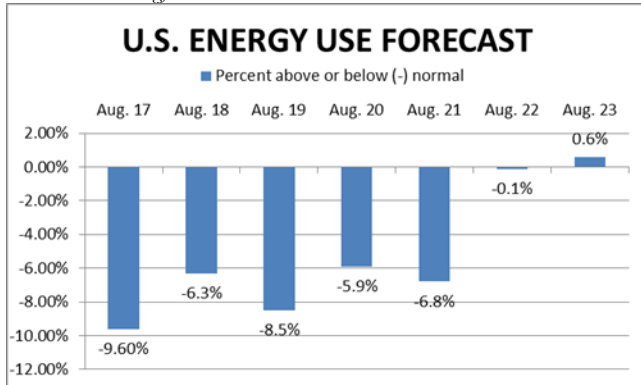
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 8/15/2014	+/- prior week	Year ago	+/- year ago
Texas	901	-7	846	55
U.S. gas	321	5	388	-67
U.S. oil	1589	1	1397	192
U.S. total	1913	5	1791	122
Canada	401	14	358	43

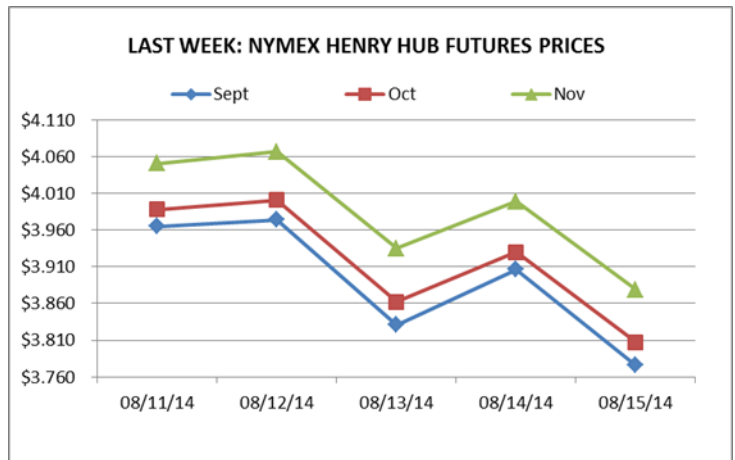
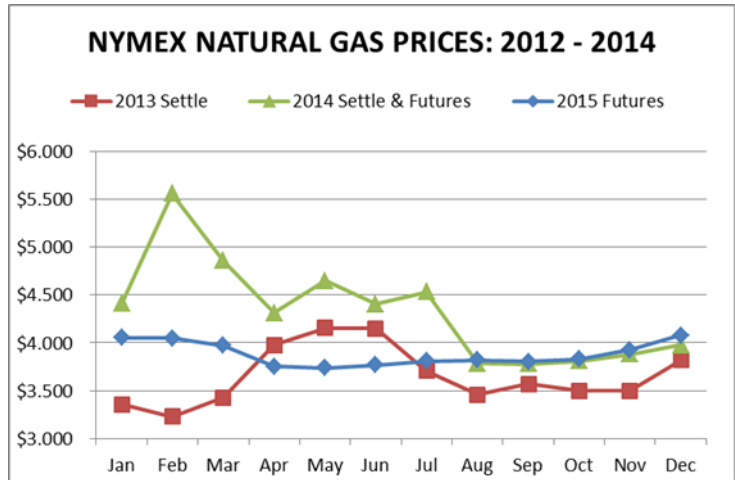
This week: U.S. energy below normal

U.S. energy use is predicted to be below normal most of 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.-Aug. and futures prices for the remainder of the year.



NATURAL GAS PRICE SUMMARY AS OF 8/15/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US Sept. futures				
NYMEX	\$3.776	-\$0.186	\$0.209	\$3.863
Basis				
August spot price				
Henry Hub	\$3.765	-\$0.150	\$0.347	n/a
Katy	\$3.865	-\$0.095	\$0.465	\$0.100
Carthage	\$3.755	-\$0.080	\$0.411	-\$0.010
Waha	\$3.760	-\$0.205	\$0.422	-\$0.005