

November 24, 2014

Natural Gas Trends

Highlights

First seasonal draw reduces storage by 17 Bcf

The Energy Information Administration on Thursday reported the first withdrawal of the heating season, reducing US natural gas storage inventories by 17 Bcf to 3.594 Tcf for the week ended November 14. While many analysts looked for injections to continue into late November, the arrival of the season's first polar air mass last week put those hopes to bed. That same wintry blast also resulted in early estimates of a triple-digit draw in next week's report.

The net draw reported Thursday was above consensus expectations between 9 and 13 Bcf. Market reaction was swift, with an immediate spike on the NYMEX December contract. The front month later dropped, but then rose again to settle near the day high at 4.489/MMBtu, an increase of 11.8 cents from the previous day. The withdrawal was less than the 36 Bcf pull reported a year ago, but it was higher than the 10 Bcf five-year average pull, according to EIA data. Inventories are now 201 Bcf, or 5.3%, less than the 3.795 Tcf in storage this time last year, and 244 Bcf, or 6.4%, less than the 3.838 Tcf five-year average.

"Even though this withdrawal was larger than estimates, our modeling shows that the market is still oversupplied," said Aaron Calder, senior market analyst at Gelber & Associates. "Last week was extremely cold for this time of year, but the resulting withdrawal was fairly pedestrian. Production continues to flood the market and has proven so far that it is more than enough to meet current heating demand." US production is about 3.7 Bcf/d higher than a year ago, according to Platts unit Bentek Energy. Regionally, EIA reported an 11-Bcf withdrawal in the East to 1.953 Tcf, compared with 1.957 Tcf a year ago, a 7-Bcf draw in the West to 495 Bcf, compared with 552 Bcf a year ago, and a 1-Bcf injection in the Producing region to 1.146 Tcf, compared with 1.286 Tcf a year ago.

"The West was the real head-scratcher here," said Jeff Moore, storage analyst at Bentek. "We didn't really see an increase in flows [of gas] from the Rockies to the Midwest as a result of the cold until very late last week. Our sample of storage activity within the West was nowhere near what the announced withdrawal was, which makes it even more interesting." The West continues to show some sneaky demand," said Kyle Cooper, principle at IAF Advisors. The market likely hasn't paid enough attention to the potential demand in the West, particularly given that last fall was very warm in that region, he added.

The cold air mass that moved south from Canada late last week was expected to affect mostly the Midwest and east, but also spread into the West and resulted in some big withdrawals in areas where you don't usually see them in mid-November, such as on the Questar Pipeline and Northwest Pipeline systems, said independent analyst Stephen Smith. "Usually those polar masses spill down and go east, but this one appeared to impact in both directions - west and east," Smith said. Oregon and Washington, and their accompanying population demand centers, were "thoroughly pulled into temperature anomalies last week" as a result of the wintry blast, added Richard Hastings, analyst at Global Hunter Securities. Especially when you get both daytime and nighttime cold, "that's when you get power demand cranking," he added.

Total US demand was 6.7 Bcf/d higher last week compared to the previous week, according to Bentek, and was 11.1 Bcf/d above the previous four-week average. Looking ahead, many analysts say their models are showing the likelihood of a triple-digit draw in the next week's EIA report as below-average temperatures linger in much of the eastern US. That would compare to EIA's data showing a 17 Bcf pull for the same week a year ago and the five-year average of a 6 Bcf pull.

"The withdrawal next week will definitely be above triple digits, and although I don't expect to break the record for the largest withdrawal in November ... I expect we'll be in the top three largest withdrawals on record for the month," Moore said. The largest November withdrawal on record is 162 Bcf, which was set last year, he added. Bentek's current supply/demand model predicts a draw of 147 Bcf in next week's report.

Smith said his early models show an injection in the 130 Bcf range. Some others are predicting a draw of around 150 Bcf. Those forecasts will change as updated degree day data and other factors are plugged in. Total inventories now are 104 Bcf below the five-year average of 2.057 Tcf in the East, 35 Bcf below the five-year average of 530 Bcf in the West and 105 Bcf below the five-year average of 1.251 Tcf in the Producing region.

Source: Platts Gas Daily

Data

- December 2014 Natural Gas Futures Contract (as of November 21), NYMEX at Henry Hub closed at \$4.266 per million British thermal units (MMBtu)
- January 2015 Light, Sweet Crude Oil Futures Contract WTI (as of November 21), closed at \$76.51 per U.S. oil barrel (Bbl.) or approximately \$13.19 per MMBtu

Last week: Texas cooler than normal

For the week beginning 11/16/14 and ending 11/22/14, heating degree days (HDD) were higher than normal (cooler) for the week and for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 11/22/14	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	198	49	652	-7%
Austin	103	50	275	68%
DFW	124	43	340	33%
El Paso	116	16	246	-30%
Houston	79	30	201	26%
SAT	80	28	201	26%
Texas**	106	40	303	31%
U.S.**	190	56	763	2%

* 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 3,594 Bcf

For the week ending 11/14/2014 working gas in storage decreased from 3,611 Bcf to 3,594 Bcf. This represents a decrease of 17 Bcf from the previous week. Stocks were 201 Bcf lower than last year at this time and 244 Bcf below the 5 year average of 3,838 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 11/14/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,953	1,964	-11	-5.1%
West	495	502	-7	-6.6%
Producing	1,146	1,145	1	-8.4%
Lower 48 Total	3,594	3,611	-17	-6.4%

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 and down fourteen when compared to twelve months ago. The total rig count for the U.S. was up one from last week and was up 168 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

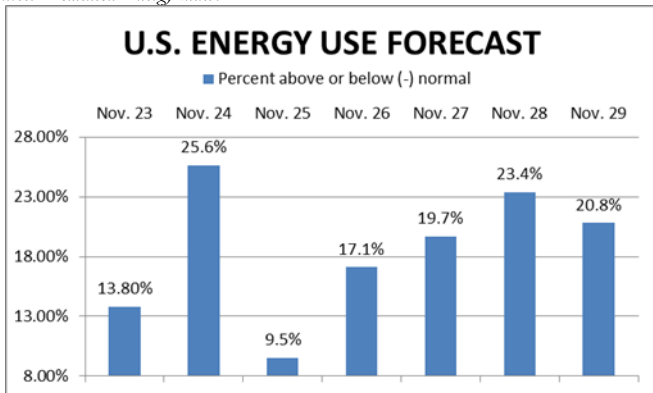
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 11/21/2014	+/- prior week	Year ago	+/- year ago
Texas	906	4	831	75
U.S. gas	355	5	369	-14
U.S. oil	1574	-4	1387	187
U.S. total	1929	1	1761	168
Canada	434	32	368	66

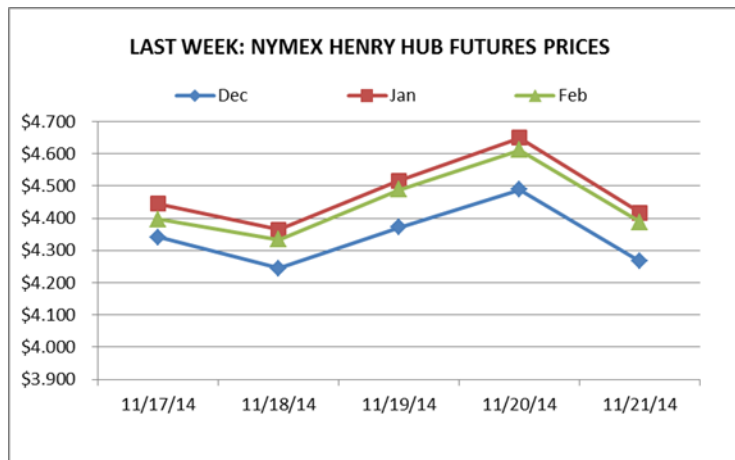
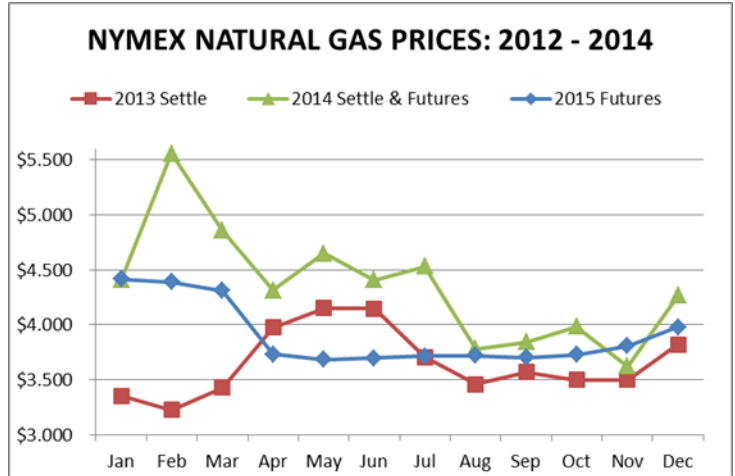
This week: U.S. energy use above average

U.S. energy use is predicted to be above average 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.-Nov. and futures prices for the remainder of the year.



NATURAL GAS PRICE SUMMARY AS OF 11/21/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US Dec. futures				
NYMEX	\$4.266	\$0.246	\$0.448	\$3.851