

March 10, 2014

Natural Gas Trends

Highlights

Storage dips below 1.2 Tcf as February ends

US natural gas storage finished February where most analysts thought it would end March – as a larger than expected pull of 152 Bcf left 1.196 Tcf in inventory for the week ended February 28, the Energy Information Administration reported Thursday. The net withdrawal was well above consensus expectations of a pull between 135 Bcf and 139 Bcf and fueled a runup in NYMEX trading. The draw was above both the year-ago withdrawal of 149 Bcf and the five-year average pull of 105 Bcf. It is the largest draw for the week since a 176-Bcf pull reported in 2003. As a result, the 905-Bcf deficit to the year-ago level rose to 908 Bcf, while the 711-Bcf deficit to the five-year average of 1.954 Tcf climbed to 758 Bcf.

“Given that the draw follows a smaller than expected decline in the prior week, there may have been some timing issues involved, but the data also underscores that winter heating demand isn’t fading away so fast,” said Tim Evans at Citi Futures Perspective. The miss seemed to be concentrated in the producing region, said Jeff Moore, analyst at Platts unit Bentek, whose model had predicted a net injection in the region’s salt-dome facilities. “We didn’t see any strong demand trends that fully supported the above-expected withdrawal within the region (demand went up week-over-week, but not as much as was suggested by the announcement today),” Moore said. “We did see net-flows out of the region increase a little over 1.0 Bcf/d from the previous week, which likely helped bring withdrawals up.”

Another analyst noted March could end up being a repeat of last year’s, when colder than normal weather resulted in strong season-ending withdrawals. “Last March is still fresh in the market’s mind,” the analyst said. “The next withdrawal will be even larger, stressing cash markets and removing gas that will need to be replaced by November.” Analysts continue to ratchet down their predictions for season-ending storage. Last fall, most predicted the heating season would end March with about 1.2 Tcf in storage. Now that the country has already reached that level with a month to go, predictions are falling well below 1 Tcf.

Global Hunter Securities analyst Richard Hastings said Thursday that his model now shows storage reaching a “deeply depleted level” of 751 Bcf by the end of March. He bases that on forecasts calling for cold weather from mid-March to the end of the month in the major consuming regions. “Great Lakes ice cover appears to be suppressing maximum daily temperatures in the entire (population-rich) region. Further depletion could come if April has sufficient cold temps in major populations centers (likely the Northeast), setting up small, additional withdrawals which, on a net-net basis after any new injections in early April, could send storage levels nationally to yet deeper levels of depletion,” Hastings said.

Independent analyst Stephen Smith said his models will likely show season-ending storage at some 850 Bcf once he plugs in this week’s draw and colder forecasts ahead. Analyst Anthony Yuen at Citi Research said end-of-March storage is now expected to fall to about 875-Bcf, or 950-Bcf lower than the five-year average and 800-Bcf lower than last year’s level “Eliminating these deficits requires excess gas to be made available for injection from April to October: 4.5-Bcf/d vs. the five-year average storage level and 3.7-Bcf/d vs. 2013’s level,” Yuen said. And in the spring and summer, “higher gas demand for industrials (up 0.6-Bcf/d year-over-year) and a drop in gas imports from Canada (down 0.6-Bcf/d year-over-year) should boost this excess gas requirement by an additional 1.2 Bcf/d.” Strong production growth this year “will be critical,” Yuen said, as will rain out West to keep hydropower from falling.

Smith said his model, assuming 3% more cooling degree days this summer, a 1.4 Bcf/d buildup of production from March through November and a moderate shift in the power generation mix to coal from gas, will push storage to 3.3 Tcf at the end of the refill season. That’s compared with an average of 3.65 Tcf in recent years.

For last week, EIA reported an 82-Bcf withdrawal in the East to 525 Bcf, compared with 933 Bcf a year ago, a 27-Bcf draw in the West to 190 Bcf, compared with 346 Bcf a year ago, and a 43-Bcf draw in the producing region to 481 Bcf, compared with 825 Bcf a year ago. Total inventories now are 370 Bcf below the five-year average of 895 Bcf in the East, 114 Bcf below the five-year average of 304 Bcf in the West and 273 Bcf below the five-year average of 754 Bcf in the producing region. Source: Platts Gas Daily

Data

- April 2014 Natural Gas Futures Contract (as of March 7), NYMEX at Henry Hub closed at \$4.618 per million British thermal units (MMBtu)
- April 2014 Light, Sweet Crude Oil Futures Contract WTI (as of March 7), closed at \$102.58 per U.S. oil barrel (Bbl.) or approximately \$17.69 per MMBtu

Last week: Texas cooler than normal

For the week beginning 3/2/14 and ending 3/8/14, heating degree days (HDD) were higher than normal (cooler) for the week and, on average, 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 3/8/14	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	202	59	3577	1%
Austin	135	83	1950	30%
DFW	154	79	2325	10%
El Paso	54	-23	1823	-19%
Houston	119	71	1597	16%
SAT	103	56	1425	-1%
Texas**	131	67	2039	15%
U.S.**	201	47	3755	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 1,196 Bcf

For the week ending 2/28/2014 working gas in storage decreased from 1,348 Bcf to 1,196 Bcf. This represents a decrease of 152 Bcf from the previous week. Stocks were 908 Bcf lower than last year at this time and 758 Bcf below the 5 year average of 1,954 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 2/28/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	525	607	-82	-41.3%
West	190	217	-27	-37.5%
Producing	481	524	-43	-36.2%
Lower 48 Total	1,196	1,348	-152	-38.8%

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 ten compared to the prior week and down 62 when compared to twelve months ago. The total rig count for the U.S. was up 23 for the week and up forty when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

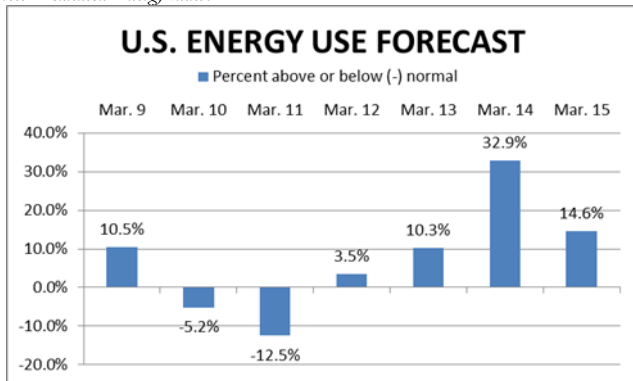
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 3/7/2014	+/- prior week	Year ago	+/- year ago
Texas	864	20	835	29
U.S. gas	345	10	407	-62
U.S. oil	1443	13	1341	102
U.S. total	1792	23	1752	40
Canada	587	-39	580	7

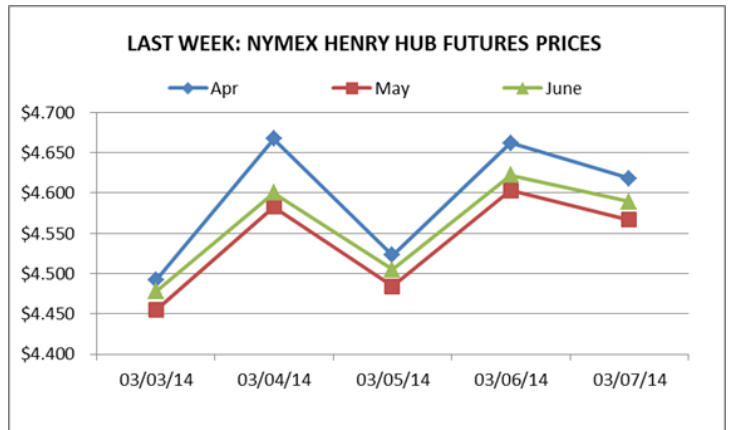
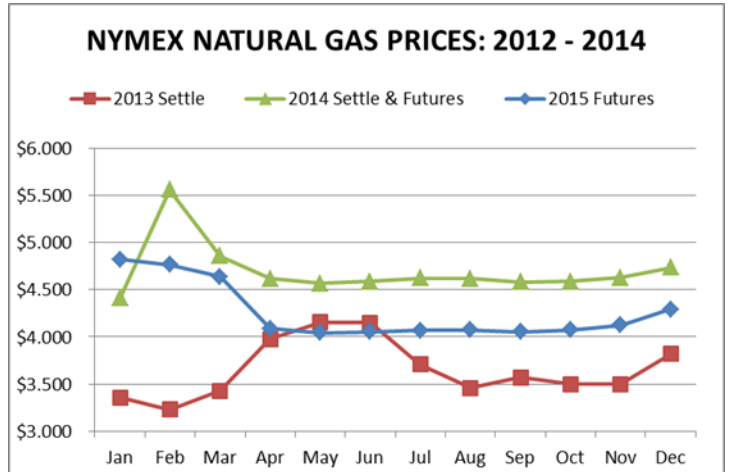
This week: U.S. energy use varies

U.S. energy use is predicted to vary throughout 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.-Feb. and futures prices for the remainder of the year.



NATURAL GAS PRICE SUMMARY AS OF 3/7/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US April futures				
NYMEX	\$4.618	\$0.009	\$0.642	\$4.647