

October 12, 2015

# Natural Gas Trends

## Highlights

### US rig count shows fewest rigs drilling since May 2002

US rig counts continued to fall off in large numbers this week, with new recent lows set in domestic drilling activity as oil prices continued an upwards rally towards the \$50/b mark, the Baker Hughes rig count showed on Friday. Nationwide, the number of total rigs fell by 14 to 795 over the week, the least since early May 2002 and the first time since that date with a total US rig count below 800. Last week's rig numbers were down 59% from 1,922 working in the same week a year ago.

Meanwhile, gas rigs fell by six to 189 and oil operators dropped by nine US oil rigs to 605, the lowest since July 2010. A year ago this week 1,609 oil rigs, the recent peak, were in operation.

In addition, a total of 10 rigs came off in the Permian Basin, the largest single-week loss since early April for that area sited in West Texas and New Mexico. Last week, 230 Permian rigs were working, the lowest number since June; that was down 59% from the same week in October 2014. That was on top of a drop of 27 US oil rigs last week and a 29-rig decrease in the total rig count for the week ending October 2.

WTI front-month crude closed up 20 cents at \$49.63/b, backing further away from oil prices that have teetered around the mid-\$40's for more than a month, while ICE November Brent settled down 40 cents at \$52.65/b, November gas futures rose 1.9 cents to \$2.517.

In other basins, the Eagle Ford Shale of South Texas lost two oil rigs last week to 67, down 67% from 202 rigs in the same week a year ago. Also, the Williston Basin in North Dakota and Montana, which encompasses the Bakken Shale, lost one rig to 65, down 66% from 194 rigs a year ago. Analysts believe the rig counts will continue to fall for the rest of this year and start picking up sometime early in 2016.

Rig additions next year are predicated on slightly but steadily rising oil prices above \$50/b in December. But any crude price increases could add to oil outputs which in turn might result in another drop in drilling activity, effectively kick-starting and extending the downcycle.

As a result, the rig count could settle below 1,200 total rigs for a while, Cowen & Company analyst Mark Bianchi said in a Wednesday investor note. "A significant improvement in ... US crude will be required before the market can break back above 1,200 rigs, a level we see required to restore pricing power for the land drillers," Bianchi said.

Source: Platts Gas Daily

## Data

- November 2015 Natural Gas Futures Contract (as of October 9), NYMEX at Henry Hub closed at \$2.502 per million British thermal units (MMBtu)
- October 2015 Light, Sweet Crude Oil Futures Contract WTI (as of October 9), closed at \$49.63 per U.S. oil barrel (Bbl.) or approximately \$8.65 per MMBtu

### Last week: Texas warmer than normal last week

For the week beginning 10/4/15 and ending 10/10/15, cooling degree days (CDD) were higher than normal (warmer) on average for the week and for the year to date for most Texas cities shown.

Source: [www.cpc.ncep.noaa.gov](http://www.cpc.ncep.noaa.gov)

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 10/10/15	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	5	-7	1464	9%
Austin	67	5	2662	-5%
DFW	66	26	2849	14%
El Paso	17	-11	2766	24%
Houston	77	20	3062	14%
SAT	90	26	3194	12%
Texas**	58	10	2702	8%
U.S.**	18	1	1364	17%

\* 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 3,633 Bcf

For the week ending 10/2/2015 working gas in storage increased from 3,538 Bcf to 3,633 Bcf. This represents an increase of 95 Bcf from the previous week. Stocks were 443 Bcf higher than last year at this time and 155 Bcf above the 5 year average of 3,478 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 10/2/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,861	1,804	57	-1.4%
West	510	502	8	2.9%
Producing	1,262	1,232	30	15.4%
Lower 48 Total	3,633	3,538	95	4.5%

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 six this week and was down 131 when compared to twelve months ago. The total rig count for the U.S. was down 14 from last week and down 1135 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

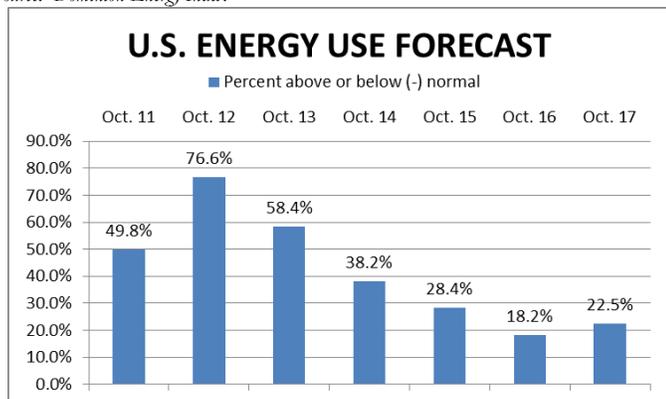
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 10/9/2015	+/- prior week	Year ago	+/- year ago
Texas	353	-4	896	-543
U.S. gas	189	-6	320	-131
U.S. oil	605	-9	1609	-1004
U.S. total	795	-14	1930	-1135
Canada	180	1	420	-240

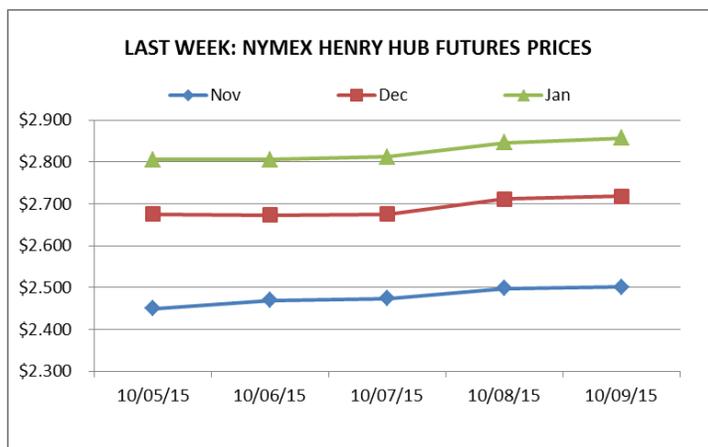
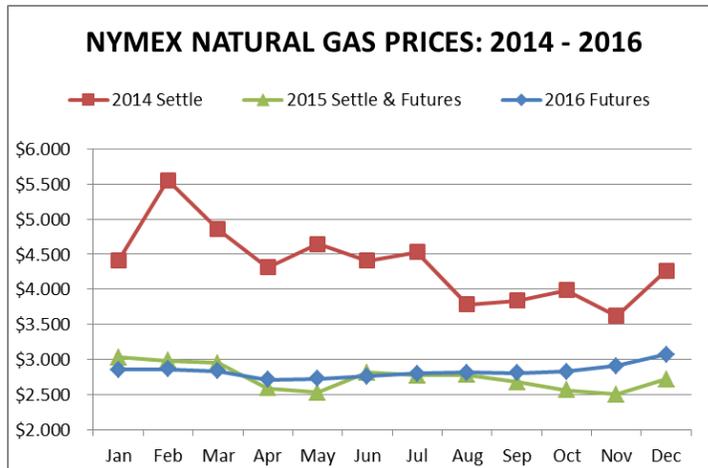
**This week: U.S. energy use above average**

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



2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan.-Oct. and futures prices for the remainder of the year.



**NATURAL GAS PRICE SUMMARY AS OF 10/9/2015**

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US November futures				
NYMEX	\$2.502	\$0.051	-\$1.764	\$2.743