

June 6, 2016

Natural Gas Trends

Highlights

Bullish storage builds to continue: analysts

The largest build of this year's injection season was announced Thursday morning by the US Energy Information Administration, but it still checked in well below the five-year historical average, and the below-average builds are forecast to continue throughout much of the season. Gas stocks increased by 82 Bcf to 2.907 Tcf in the week ended May 27, the EIA reported.

The net injection was slightly less than a Platts' survey of analysts expecting an 85-Bcf injection. Once again, the injection was much less than the 126-Bcf build the EIA reported in the corresponding week last year as well as the five-year average, which calls for a 98-Bc injection. As a result, stocks were 712 Bcf, or 32.4%, higher than the year-ago level of 2.195 Tcf, and 753 Bcf, or 35%, more than the five-year average of 2.154 Tcf.

"Today's reported injection of 82 Bcf marks the fourth consecutive week of injections below five-year average activity levels and the seventh consecutive week of injections below that year's adjusted levels," said Mitch DeRubis, a quantitative modeling analyst for Platts Bentek. The bullish builds have helped close the gap between current levels and both the five-year average and last year's stocks. "Over those time-frames, the inventory surpluses have been reduced by 60 Bcf compared to the five-year average and 169 Bcf compared to last year," De Rubis added. It is likely the below-average builds will continue throughout the injection season.

"We expect those surpluses to continue to decline over the summer as the market tightens amid further declines in production and increases in demand," De Rubis said. "In the short term, given current weather outlooks, we expect the surplus relative to last year to decline by about 60 Bcf over the next two reports, and to the five-year average inventory level by about 30 Bcf."

Power demand up, production down

"The lower than average injections are due to increased levels of power demand," said Gene McGillian, an analyst with Tradition Energy. "Production has also come down a little from this time last year." Power burn is expected to register 1.5 Bcf/d higher this month than last June, according to Platts Bentek. Last June power demand averaged 29.3 Bcf/d. This June it is expected to average 30.8 Bcf/d throughout the entire month, which would represent a record high for the month. The Midwest region leads the nation in the power demand charge as it posted a 97% year-on-year rise in May despite temperatures averaging 2 degrees cooler than normal.

At the same time, production is down by roughly 2 Bcf/d from this time last year and struck 70 Bcf/d. In 2016, year-to-date production has averaged 71.9 Bcf/d.

The NYMEX July natural gas futures contract responded positively to the announcement and rose 2 cents to \$2.40/MMBtu by late afternoon. That is the highest the front-month has traded for since January 13.

Source: Platts Gas Daily

Data

- July 2016 Natural Gas Futures Contract (as of June 3) NYMEX at Henry Hub closed at \$2.398 per million British thermal units (MMBtu)
- July 2016 Light, Sweet Crude Oil Futures Contract WTI (as of June 3), closed at \$48.63 per U.S. oil barrel (Bbl.) or approximately \$8.38 per MMBtu

Last week: Texas cooler than normal last week

For the week beginning 5/29/16 and ending 6/4/16, cooling degree days (CDDs) were lower than normal (cooler) on average for the week and for the year to date for most of the Texas cities shown.

Source: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 6/4/16	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	20	-23	103	-24%
Austin	85	-12	550	-10%
DFW	84	-4	469	15%
El Paso	89	-4	450	13%
Houston	74	-22	614	-3%
SAT	79	-22	669	2%
Texas**	76	-12	583	7%
U.S.**	53	17	209	14%

* A minus (-) value is cooler than normal; a plus (+) value is warmer 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 2,907 Bcf

For the week ending 5/27/2016 working gas in storage increased from 2,825 Bcf to 2,907 Bcf. This represents an increase of 82 Bcf from the previous week. Stocks were 712 Bcf higher than last year at this time and 753 Bcf above the 5 year average of 2,154 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 5/27/16	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	537	511	26	16.0%
Midwest	655	629	26	41.5%
Mountain	178	171	7	41.3%
Pacific	304	298	6	16.0%
South Central	1,233	1,216	17	46.6%
Lower 48 Total	2,907	2,825	82	35.0%

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 five for the week and down 140 when compared to twelve months ago. The total rig count for the U.S. was up four compared to last week and down 460 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

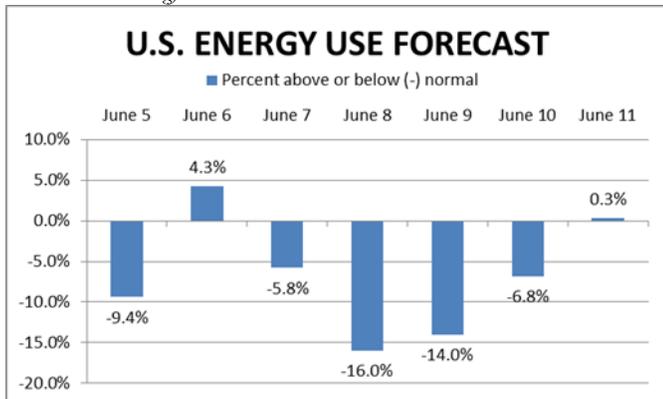
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 6/3/2016	+/- prior week	Year ago	+/- year ago
Texas	176	3	364	-188
U.S. gas	82	-5	222	-140
U.S. oil	325	9	642	-317
U.S. total	408	4	868	-460
Canada	41	-2	116	-75

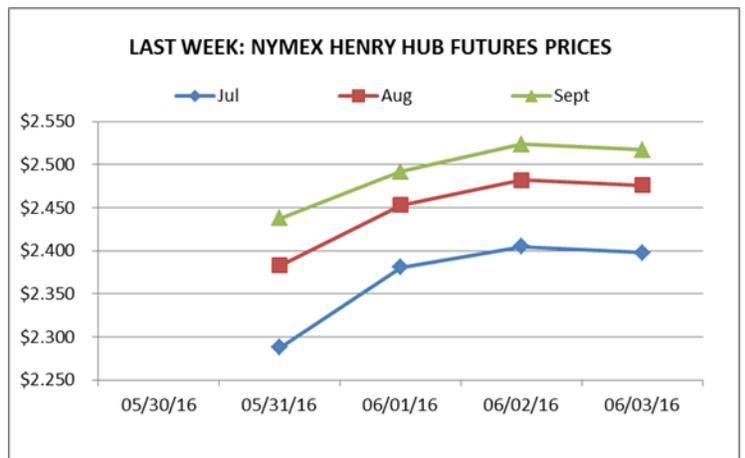
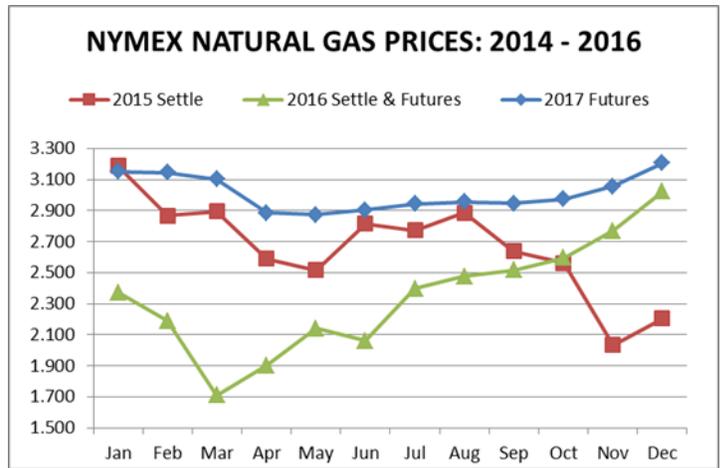
This week: U.S. energy use varies

U.S. energy use is predicted to vary 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



2016 prices. Natural gas prices for 2016, shown below in green, are the NYMEX settlement prices for Jan-June, and futures prices for the year.



*Data for May 30 is unavailable due to the Memorial Day holiday.

NATURAL GAS PRICE SUMMARY AS OF 6/06/2016

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US July futures				
NYMEX	\$2.398	\$0.229	-\$1.330	\$2.664