

November 11, 2013

Natural Gas Trends

Highlights

Mexico exports to climb rapidly through 2017

Gas exports from the US to Mexico are expected to climb by 15%-25% annually over the next five years as new pipeline capacity comes online and Mexican demand continues to grow, according to a report released Monday by Raymond James. By 2017, US producers will be supplying some 30% of Mexican demand growth as a “potentially huge amount” of US gas moves across the border, said analysts Marshall Adkins and Edward Rowe.

Exports to Mexico more than doubled from 800,000 Mcf/d in 2010 to roughly 1.8 Bcf/d so far this year, the analysts noted. The trend is propelled by Mexico’s languishing gas production as the government has focused on reversing oil production declines instead; by the rising Mexican GDP, which has in turn boosted residential and commercial electricity demand; and by increased industrial demand as manufacturers relocate from Asia to Mexico, the report said. Mexico’s power plants have been increasingly making the switch from fuel oil or coal to natural gas, and the country plans to add another 29 GW of new gas-fired generation between 2012 and 2027.

The only impediments to greater gas use are pipeline bottlenecks – and they are mostly on the Mexico side, the analysts noted. As a result, the Mexico government plans to spend \$8 billion on its domestic pipeline system to support greater imports, the study said.

And on the US side, midstream operators plan to add more than 3.5 Bcf/d of capacity to Mexico by 2016, in addition to the 1.9 Bcf/d of current underused capacity in place. That means an incremental 5.4 Bcf/d of potential US gas export capacity, a “potentially huge amount of natural gas leaving the US market,” the analysts said.

The recently announced NET Mexico pipeline will add 2.1 Bcf/d of capacity alone in December 2014, supported by a long-term agreement with a Pemex subsidiary, the report added. The only potential spoiler to this scenario is a constitutional amendment proposed by Mexico’s new president, Enrique Pena Nieto, which if approved, would allow private investment in the country’s oil and gas sector. That in turn could boost shale gas development in Mexico with the potential for reducing Mexico’s import needs.

While the Mexico market has not received as much attention as coal-to-gas switching or liquefied natural gas exports, “export of US gas to Mexico has a much more immediate, tangible impact – not in 2016, but now. Today’s reality is that Mexico has been ‘sucking’ 0.25 Bcf/d to 0.50 Bcf/d more gas out of the US every year over the past three years,” the analysts said.

“With a robust Mexican economy, strong Mexican gas demand growth, cheap US natural gas and limited investment in natural gas drilling by Pemex, these US gas exports to Mexico should continue for years to come,” the analysts concluded.

Source: Platts Gas Daily

Data

- December 2013 Natural Gas Futures Contract (as of November 8), NYMEX at Henry Hub closed at \$3.559 per million British thermal units (MMBtu)
- December 2013 Light, Sweet Crude Oil Futures Contract WTI (as of November 8), closed at \$94.60 per U.S. oil barrel (Bbl.) or approximately \$16.31 per MMBtu

Last week: Texas and U.S. cooler than normal

For the week beginning 11/3/13 and ending 11/9/13, cooling degree days (CDD) were higher than normal (warmer) for the week and the year to date for both Texas and for the US.

Source: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 11/9/13	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	0	0	1808	35%
Austin	8	-10	3015	3%
DFW	1	-6	2911	14%
El Paso	0	0	2722	21%
Houston	10	-11	3145	11%
SAT	14	-6	3455	15%
Texas**	9	-6	2843	9%
U.S.**	4	-1	1325	10%

* A minus (-) value is cooler than normal; a plus (+) value is warmer than normal.

* 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

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 3,814 Bcf

For the week ending 11/1/2013 working gas in storage increased from 3,779 Bcf to 3,814 Bcf. This represents an increase of 35 Bcf from the previous week. Stocks were 112 Bcf lower than last year at this time and 57 Bcf above the 5 year average of 3,757 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 11/1/13	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,974	1,964	10	-4.4%
West	555	552	3	9.5%
Producing	1,285	1,263	22	8.8%
Lower 48 Total	3,814	3,779	35	1.6%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

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Last week: U.S. gas rig count down for the week

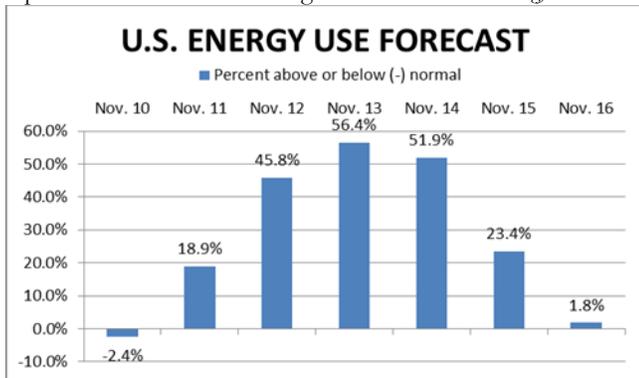
The gas rig count for the U.S. was up 5 compared to the prior week and down 48 when compared to twelve months ago. The total rig count for the U.S. was up 12 for the week and down 52 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

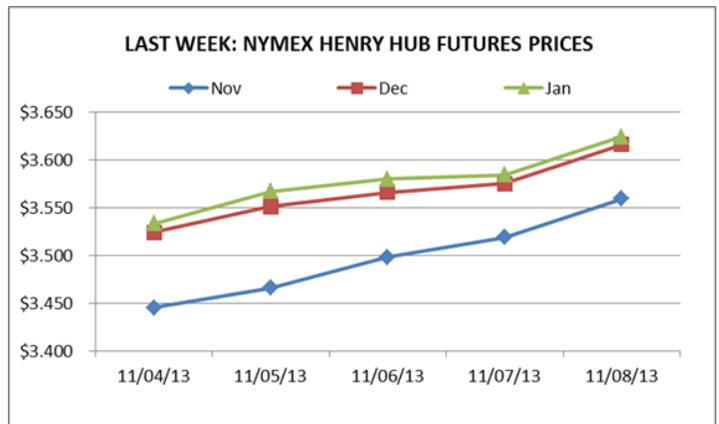
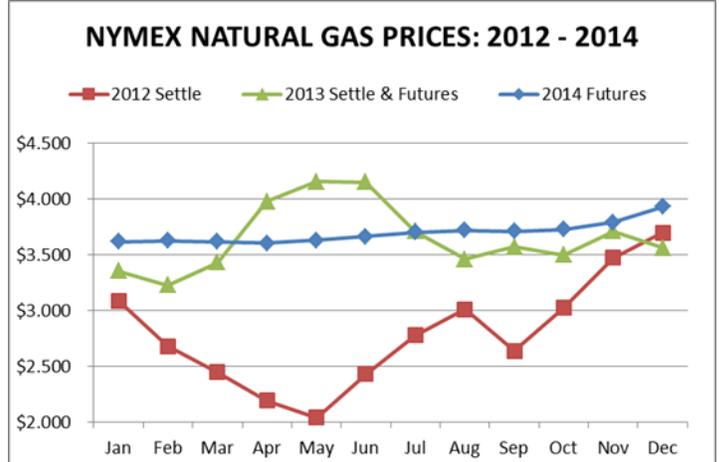
BAKER HUGHES ROTARY RIG COUNT				
	As of 11/01/2013	+/- prior week	Year ago	+/- year ago
Texas	834	13	821	13
U.S. gas	365	5	413	-48
U.S. oil	1383	7	1389	-6
U.S. total	1754	12	1806	-52
Canada	378	-16	370	8

This week: U.S. energy use above normal

U.S. energy use is predicted to be above 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



2013 prices. Natural gas prices for 2013, shown below in green, are the NYMEX settlement prices for January-November and the futures prices for the remaining months of 2013.



NATURAL GAS PRICE SUMMARY AS OF 11/8/2013

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US December futures				
NYMEX	\$3.559	\$0.046	-\$0.137	\$3.662