

October 7, 2013

Natural Gas Trends

Highlights

Mexico exports to double by 2016: Barclays

US exports to Mexico will more than double in three years – from an average of 2 Bcf/d in 2013 to 4.5 Bcf/d in 2016, Barclays Capital said in a report released on Tuesday. The expected increase comes as natural gas demand in Mexico has been strong and is poised to accelerate further, driven by new power generation and industrial use, and enabled by “a massive expansion of the country’s pipeline network,” the report said. Eight major pipelines with a total capacity of 5.6 Bcf/d are scheduled to start operations in Mexico between 2013 and 2017, the report said. Several will deliver gas to areas currently lacking sufficient distribution infrastructure, and will spur new demand. Three of these pipelines will connect directly to the US pipeline grid, and are mirrored by US expansions.

Meanwhile, Mexico’s domestic production of natural gas is in decline and any future growth is likely to be tepid at best, as state-owned oil company Pemex focuses capital spending on oil targets and shale gas reserves are slow to commercialize, Barclays said. The report said US exports to Mexico will increase from an average of 2 Bcf/d in 2013, to 2.2 Bcf/d in 2014, to 3.5 Bcf/d in 2015 and 4.5 Bcf/d in 2016. Several analysts and consultant groups have said projections of demand growth in Mexico of about 3 Bcf/d in the next five years are expected to come to fruition, although there are areas of uncertainty including how fast the Mexican economy will grow and how quickly new infrastructure would be built.

Mexican demand for gas is expected to increase by 2.7 Bcf/d by 2018, of which 1.4 Bcf/d will be for gas-fired generation, according to Platts unit Bentek Energy. Mexican demand last year stood at 8.1 Bcf/d, up from 5.9 Bcf/d in 2005. To meet this demand, US pipeline export capacity to Mexico is expected to increase by 4.3 Bcf/d over the next five years, Bentek said. A report by Goldman Sachs earlier this year put the jump in export capacity at 4.8 Bcf/d by 2015. The Barclays report pointed to Mexico’s state-owned Comision Federal de Electricidad (CFE), which has announced plans to grow gas-fired generation capacity by 24.5 GW from 2010 to 2025, which could bring an additional 3.9 Bcf/d of gas demand. Currently, Mexico relies entirely on conventional gas production, but the country is home to large shale gas reserves. In its latest update to an assessment of 137 global shale formations, the US Energy Information Administration puts Mexico’s technically recoverable shale gas resources at 545 Tcf.

While Pemex is advancing its understanding of Mexico’s shale gas potential, it is devoting “only a small portion of its budget to these resources,” Barclays said. Pemex has a monopoly on gas exploration, and while private sector participation is permitted in non-associated gas production, improved access and better fiscal terms would be needed for any significant involvement of private investors in the development of shale gas, the report said. “As a result, a rapid commercialization is unlikely, in our view,” Barclays said. Source: Platts Gas Daily

Data

- November 2013 Natural Gas Futures Contract (as of October 4), NYMEX at Henry Hub closed at \$3.506 per million British thermal units (MMBtu)
- November 2013 Light, Sweet Crude Oil Futures Contract WTI (as of October 4), closed at \$103.84 per U.S. oil barrel (Bbl.) or approximately \$17.90 per MMBtu

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

For the week beginning 9/29/13 and ending 10/5/13, cooling degree days (CDD) were higher than normal (warmer) for the week as well as higher than normal 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 10/5/13	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	20	2	1793	35%
Austin	90	18	2889	5%
DFW	85	34	2825	14%
El Paso	45	7	2678	21%
Houston	105	37	2997	13%
SAT	111	38	3245	16%
Texas**	86	29	2702	9%
U.S.**	29	8	1284	11%

* 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 3,487 Bcf

For the week ending 9/27/2013 working gas in storage increased from 3,386 Bcf to 3,487 Bcf. This represents an increase of 101 Bcf from the previous week. Stocks were 155 Bcf lower than last year at this time and 49 Bcf above the 5 year average of 3,438 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 9/27/13	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,800	1,742	58	-6.2%
West	529	519	10	10.7%
Producing	1,158	1,125	33	9.2%
Lower 48 Total	3,487	3,386	101	0.9%

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

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

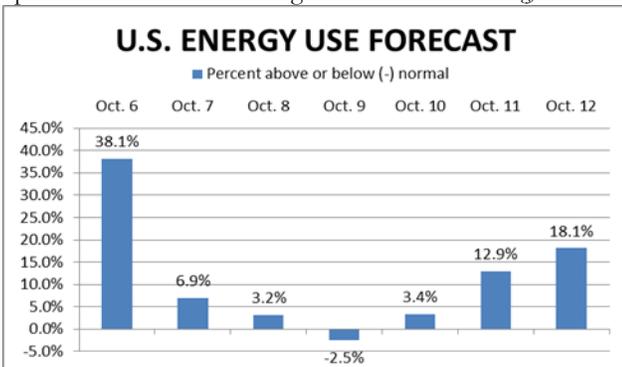
The gas rig count for the U.S. was up two when compared to the prior week and down 59 when compared to twelve months ago. The total rig count for the U.S. was up twelve for the week and down 81 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

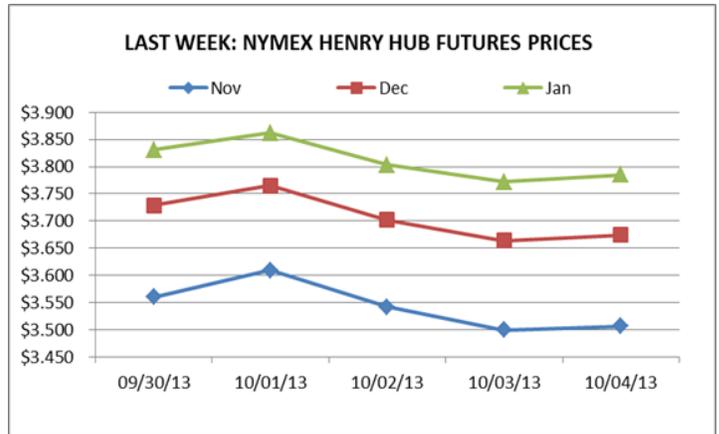
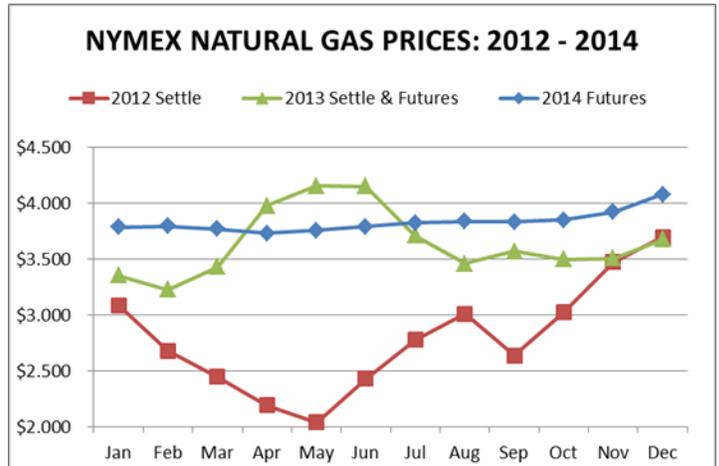
BAKER HUGHES ROTARY RIG COUNT				
	As of 10/4/2013	+/- prior week	Year ago	+/- year ago
Texas	830	5	868	-38
U.S. gas	378	2	437	-59
U.S. oil	1372	10	1398	-26
U.S. total	1756	12	1837	-81
Canada	361	-29	372	-11

This week: U.S. energy use above normal

U.S. energy use is predicted to be above normal for most of 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



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



NATURAL GAS PRICE SUMMARY AS OF 10/4/2013

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US November futures				
NYMEX	\$3.506	-\$0.083	\$0.035	\$3.761