

What's Affecting Gas Prices the Week of January 7, 2020?

Key Points:

The New Year's natural gas markets started on a bleak note with Henry Hub prices tumbling to a low of \$2.06/MMBtu. Production levels have dipped slightly into the 93 Bcf/d range from December 2019 levels of 98 Bcf/d. This is still running consistently higher than demand. Demand dropped in several categories during the New Year's holiday week. LNG imports from Canada fell by 1.67 Bcf while Mexico exports also fell by 0.3 Bcf during the report week ending Jan 3. Deliveries of gas into US LNG facilities reached a new record of more than 8.7 Bcf/d.

Our analysis leads us to expect a 52 Bcf withdrawal level for later this report week. Our expectation is 3 Bcf lower than the current consensus of 55 Bcf and almost 30% of the 182 Bcf five-year average storage withdrawal.

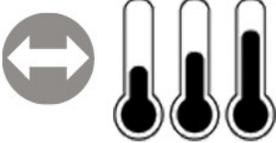
Key Hub Price Call:

Moderate decreases in production levels and higher LNG exports could help tighten natural gas fundamentals and therefore help Henry Hub prices recover from the present lows. If Henry Hub falls further below \$2 range, it would be the first time since April 19, 2016.

Gas Price Differentials:

We see regional prices in the West increasing this week because of emerging cold weather systems. Accordingly, the price premiums for Los Angeles City Gate and Opal Hub are expected to widen with respect to Henry Hub.

WHAT'S AFFECTING GAS PRICES THE WEEK OF JANUARY 7, 2019?

<ul style="list-style-type: none"> Storage 	<ul style="list-style-type: none"> Weather 
<ul style="list-style-type: none"> Supply 	<ul style="list-style-type: none"> Gas Demand 
<ul style="list-style-type: none"> Flows 	<ul style="list-style-type: none"> Gas Trader Sentiment 

 Upward pressure on prices
  Downward pressure on prices
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Storage - Negative

We estimate a storage withdrawal of 52 bcf will be reported by EIA for the week ended Jan. 3, 2020. That's far below the five-year average 182 Bcf draw. Inventory stockpiles are at 3192 Bcf, 38 Bcf below the five-year average of 3,230 Bcf. We see initial indications of returning to a stronger pull next week. The demand in residential, commercial, industrial and power generation together is 9 Bcf/d higher for the first three days of the current week compared to same period of the report week. Overall, storage changes are a negative driver for gas prices this week.

Weather – Neutral

The weather over the next 6-10 and 8-14 days is expected to be colder-than-normal in the West and Midwest. The Eastern US is expected to have warmer-than-normal temperatures. Since the forecasts are divided, the increase in demand in one region could conceivably cancel out decreases in demand elsewhere. All in, we see weather as having a neutral effect on gas price activity this week.

Supply – Positive

We see average field supply exerting a mild positive effect on gas prices this week. Production dipped slightly by 0.22 Bcf/d or 1.55 Bcf over the report week. If we account for flared gas as well, the production levels might as well be on par with highs that we saw in December 2019.

Demand – Positive

Indicated demand for major categories remained flat for the report week compared to prior week. However, we see rising

demand for the current week. In power generation, the demand for the first three days in the current week is almost 3 Bcf/d higher compared to same period in the report week. Similar increases were observed in the industrial sector as well. We see demand as a positive factor for gas prices.

Flows – Positive

LNG flows are emerging as a strong positive for gas prices. A new record was set for US LNG deliveries this week, and we expect this record to be bested within a short time. More LNG terminals are coming online than ever. Cameron Train 2 and the Elba Island Train 4 started operations over the holiday break.

Trader Sentiment – Negative

We see bearishness surrounding natural gas markets since the start of this year. Pricing for futures seems as though winter is already over. The CFTC's commitment of traders report for NYMEX natural gas futures and options is delayed due to the New Year's holiday.

