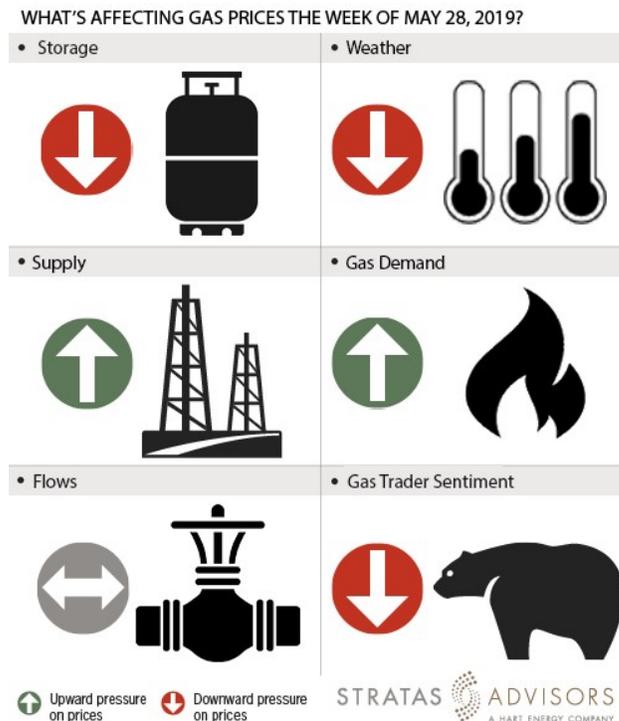


What's Affecting Gas Prices the Week of May 28, 2019?

Key Points: The daily average production rate remained around the 85 Bcf/d with very little variation week-on-week. Demand from power generation rose by 2.65 Bcf/d or 18.5 Bcf over the week and electric industry demand should increase further through in June. Dry gas exports to Canada rose by 0.18 Bcf/d or 1.29 Bcf while exports to Mexico also rose by 0.04 Bcf/d or 0.28 Bcf week-on-week. Overall, the supply-demand balance remained relatively unchanged. Our analysis leads us to expect 97 Bcf storage build would be reported by EIA for the report week. Our expectation compares to the 100 Bcf consensus whisper expectation and the five- year average which is nearly 2 Bcf lower at 95 Bcf.

Waha prices, which temporarily recovered above zero in mid-May, crashed below zero for the entire report week. Insufficient takeaway capacity combined with pipeline maintenance are the main causes for the plunge. Henry Hub prices also took a hit on Monday of current week despite being a federal holiday. Sempra Energy announced the start of Train 1 at their Cameron LNG facility and we anticipate that that would contribute to net flows in the coming weeks.



Storage - Negative

We estimate a storage withdrawal of 97 Bcf will be reported this week for the week ended May 24. Our 97 Bcf expectation is on par with the five-year average value of 95 Bcf. Last week we had predicted a storage build of 106 Bcf. This was 6

Bcf higher than the actual reported value of 100 Bcf. The inventory levels are at 1753 Bcf, 137 Bcf higher than year ago levels and 274 Bcf lower than five-year average values. All in, we see storage changes as a negative driver for this week's natural gas market.

Weather - Negative

The weather is expected to become more mild in the 8-14 day forecast. We expect this to impact the demand. Accordingly, natural gas prices have been dropping from the last week's highs. Spot intraday natural gas prices as of press time today are at \$2.57/MMBtu. Natural gas prices at the time of our report last week was at \$2.73/MMBtu. We see weather as a negative driver for the gas prices this week.

Supply – Positive

Average field supply decreased marginally by 0.3 Bcf/d or 2.3 Bcf for the report week. The temporary drop is due to scheduled maintenance events on natural gas pipelines and should not linger well beyond current week. Accordingly, supply should likely exert a mild positive pressure to this week's price activity.

Demand – Positive

We see a positive effect from structural demand side drivers this week, especially from power generation. From next week onwards, the demand surges from power generation combined with the start of the Cameron Train 1 LNG is expected to absorb a lot of production and lesser supply might be available for storage.

Flows - Neutral

NGPL maintenance is limiting northbound flows subsequently resulting in a crash of Waha Hub prices. However, flows can be considered as neutral for Henry Hub price activity.

Trader Sentiment – Negative

With weather models reporting moderate conditions through the first few weeks of June and high supply resulting in strong storage builds, natural gas futures are trading several cents lower on Tuesday. The CFTC's 5/24/2019 commitment of traders report for NYMEX natural gas futures and options showed that reportable financial positions (Managed Money and Other) on 5/21/2019 were 61,841 net short while reportable commercial operator positions came in with a 32,660 net long position. Total open interest was reported for this week at 1,323,538 and was down 9,301 lots from last week's reported 1,332,839 level.