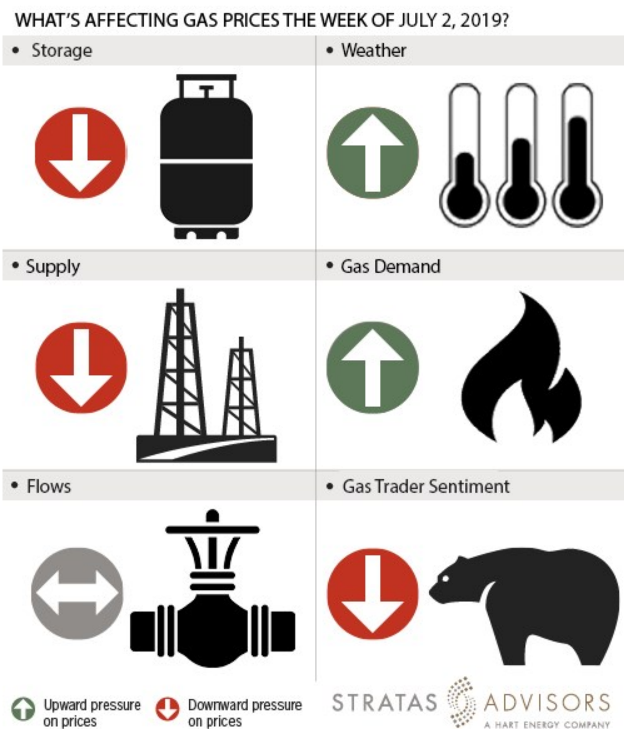
What's Affecting Gas Prices the Week of July 2, 2019?

Key Points: Strong production levels of 86.22 Bcf/d were released by EIA for report week ending Jun 28. Numbers were robust on the demand side as well. Total US gas demand from power generation sector reached a year-to-date high of 37.93 Bcf/d. LNG feedgas demand also posted a record high of 6.3 Bcf/d. Dry gas imports from Canada are back to prior week values after the pipeline maintenance caused a drop in the volumes. Mexico exports fell by 0.32 Bcf/d or 2.26 Bcf for the report week.

Our analysis leads us to expect an 89 Bcf storage build for the report week of Jun 28. Our expectation is 3 Bcf higher than the current consensus whisper expectation of 86 Bcf, and 20 Bcf higher than five-year average of 69 Bcf.



Storage – Negative

EIA reported a weekly storage build of 98 Bcf, yet another strong build higher than five-year average values. We had predicted a 99 Bcf build for the week of Jun 21 and came close to the actual value. The injection increased levels to 2,301 Bcf, 236 Bcf higher than year ago levels and 171 Bcf lower than five-year average levels. Our storage build expectation this week of 89 Bcf is 20 Bcf higher than the five-year average value of 69 Bcf. All in, storage dynamics offer a negative driver for the gas prices this week.

Weather – Positive

According to NOAA forecasts, the demand related to weather is set to increase with a temperatures ranging in mid to late 90s across the Northwest and N. Plains by second week of July. New forecasts indicate temperatures that are more seasonal over near term. As a result of lower than expected temperatures over the weekend, markets slashed natural gas prices by five cents on Monday. We are tracking weather data and will report on higher temperatures that are expected around mid-July. For short term, we expect weather to be a positive driver on gas price activity.

Supply – Negative

Average dry gas production increased by 0.24 Bcf/d or 1.26 Bcf over the report week. EIA's short-term energy outlook predicts a 7.0 Bcf increase in dry gas production from 2018 numbers. The current production levels are at 86.2 Bcf/d while the EIA forecast numbers for 2019 are 90.6 Bcf/d. Therefore, there is still opportunity for growth in production before year-end. Accordingly, supply should offer a negative pressure for gas prices.

Demand – Positive

We see a positive effect from demand side drivers for the week ended Jun 28. Both power generation as well as LNG demand set year-to-date record levels over the report week. The summer power demand posted a 2 Bcf/d gain week-on-week or 14 Bcf. Demand from industrial sector has remained fairly flat at 20 Bcf/d.

Flows – Neutral

There were no reported disruptions or no new upset conditions. Flows will offer a neutral pressure to this week's price activity.

Trader Sentiment – Negative

Market sentiment is bearish as participants are waiting for the heat to pick up to raise futures. We believe trader sentiment negative for the report week. The CFTC's 6/28/2019 commitment of traders report for NYMEX natural gas futures and options showed that reportable financial positions (Managed Money and Other) on 6/25/2019 were 165,702 net short while reportable commercial operator positions came in with a 135,107 net long position. Total open interest was reported for this week at 1,307,919 and was down 57,625 lots from last week's reported 1,365,544 level.

