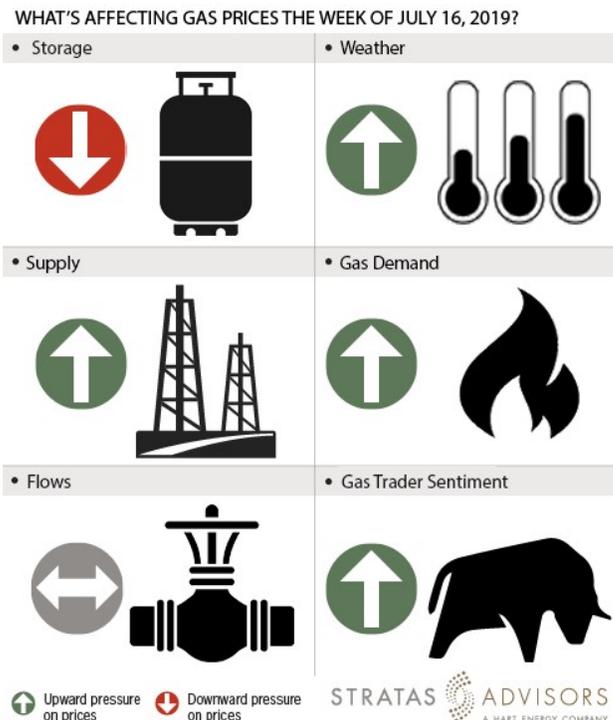


What's Affecting Gas Prices the Week of July 16, 2019?

Key Points: Due to the limited and fleeting effects of Barry, which was downgraded from Hurricane 1 to Tropical Storm as it came ashore Saturday, we think the markets will tend to price natural gas lower through the week until the storage report comes out. Offshore producers announced on Monday the resumption of restarts toward normal offshore operation, and onshore refiners announced plans to resume refining operations onshore on Monday. LNG loadings appear likely to ramp back to normal this week. Power outages appear relatively manageable and thankfully occurring amid cooler cloudy weather that will make the outage more bearable for affected customers. The wet weather this week is likely to dampen regional power demand, but that should not deal a huge blow to the overall market. A few days of lower Gulf Coast gas production is likely to show up this week.

Last week's data shows marginal w-o-w decreases in average dry gas production by 1 Bcf/d or 7 Bcf. Gas demand for power gen set another year-to date high of 43.56 Bcf/d one day during the report week while demand in other sectors remained in line with the prior week. Exports to Canada and Mexico rose by 0.05 Bcf/d or 0.34 Bcf and 0.12 Bcf/d or 0.86 Bcf, respectively. Our analysis leads us to expect a 68 Bcf injection level for the report week. Our expectation is 5 Bcf less than the current consensus of 73 Bcf and 3 Bcf more than the 65 Bcf five year average storage build.



Storage – Negative

EIA reported a storage build of 81 Bcf for the prior week ending July 5. Inventory levels are comfortably above year ago levels and are only 5.4% below five-year average levels. We expect a storage build of 68 Bcf would be announced by the EIA for the report week. According to our forecasts, we expect end of summer storage levels to reach 3.0 – 3.3 Tcf depending on capacity of LNG exports and industrial demand capacity coming online. We continue to monitor inventory and will update the numbers when there are any changes. All in, we see storage changes as a negative driver for this week.

Weather – Positive

Tropical storm Barry brought significant rain and ambient cooling to the Gulf Coast. The Southwest and regions on either side of the Mississippi River Valley are going to remain very hot with temperatures in the 100s to 110s. Accordingly, we see strong natural gas demand this week through the Lower 48. We were surprised to see Henry Hub prices trade in the first hour of Monday morning at \$2.53/MMBtu as this was the first time prices rose above \$2.50 mark in more than four weeks. Prices today are in the \$2.30/MMBtu range that is consistent with pre-Barry prices. So from here, with weather heating up, we see weather as a positive driver for gas price activity.

Supply – Positive

Dry gas production dropped by 1 Bcf/d, however stayed above 85 Bcf/d levels. The Interior Department's Bureau of Safety and Environmental Enforcement disclosed that the industry is shutting in 1,237 MMcf/d of offshore natural gas production or 1% of US total natural gas production because of tropical storm Barry. We believe supply will exert a positive pressure on prices.

Demand – Positive

Demand from power generation has risen by 2.10 Bcf/d or 14.67 Bcf over the report week and also set the daily 2019 record burn (see above). Power generation average for the report week was 40.32 Bcf/d, and we don't expect the numbers to increase much beyond this high weekly level. Demand for power generation appears to have peaked early this year in July, a month earlier than our prior forecast. Demand from industrial sector has stayed at approximately 20 Bcf/d. All in, we see a positive effect from demand side drivers which we think are not fully priced in to gas prices this week yet.

Flows – Neutral

There appears to be no significant lasting damage from the landfall of Barry. The platforms in the offshore Gulf of Mexico are still evaluating start up plans. Until we see actual news of any long term disruption, we see no new upset conditions or pipeline disruptions. We see flows as being neutral this week.

Trader Sentiment - Positive

We see trader sentiment as being positive driver for gas price activity this week. The CFTC's 7/12/2019 commitment of traders report for NYMEX natural gas futures and options showed that reportable financial positions (Managed Money and

Other) on 7/9/2019 were 158,878 net short while reportable commercial operator positions came in with a 130,012 net long position. Total open interest was reported for this week at 1,314,135 and was down 9,301 lots from last week's reported 1,323,436 level.