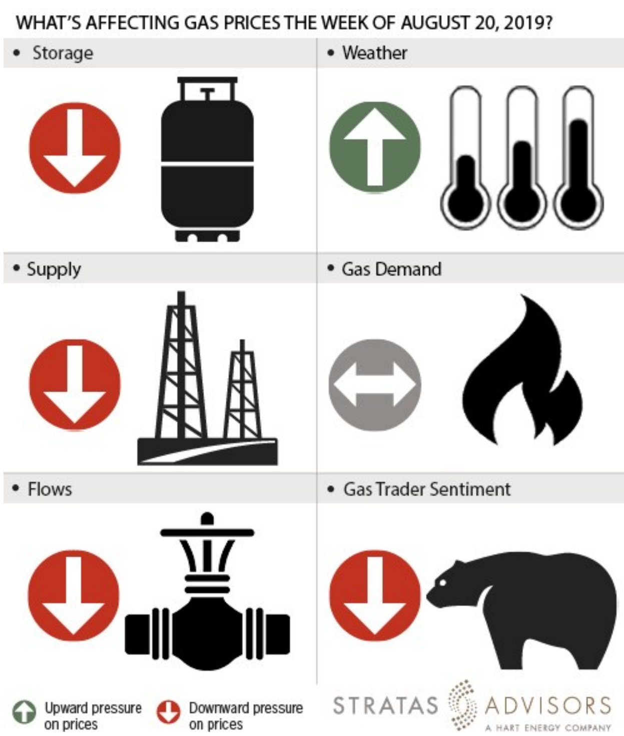
What's Affecting Gas Prices the Week of August 20, 2019?

Key Points: Average dry gas production increased w-o-w by 0.13 Bcf to reach an average value of 92.1 Bcf/d for the report week ending Aug. 16. Cooler temperatures compared to the previous week saw demand from power generation decline from 42.45 Bcf/d to 41.5 Bcf/d. LNG net exports from the US remained relatively flat at 4.14 Bcf during the report week. Imports from Canada dropped by nearly 4% to average at 5.43 Bcf/d, while exports to Mexico stalled at 5.4 Bcf/d for a consecutive week.

Our analysis leads us to expect a 53 Bcf injection level for the report week. Our expectation is below the current consensus of 57 Bcf, and 2 Bcf more than the 51 Bcf five-year average storage build.



Storage – Negative

We estimate a storage build of 53 Bcf will be reported by the EIA for the week ended Aug 16. Last week, the EIA reported a 49 Bcf injection for the prior week. The build increased inventory levels to 2,738 Bcf and increased deficits to 111 Bcf compared to the five-year average. This week we expect the build to exceed the five-year average. All in, we expect the storage injection to be a negative driver for gas prices this week.

Weather – Positive

The NOAA projects high to moderate temperatures ranging between the 80s and 90s for the Midwest and Northeast regions at the beginning of the week, before cooling off at the tail end of the forecast period. That, along with high temperatures ranging from the 90s to 100s for the Western and Southern regions, has the NOAA estimating a hot weather forecast for the next 8 to 10 days. We see weather as a positive driver this week.

Supply – Negative

Field supply increased to more than 92.1 Bcf/d during the report week. Average total dry gas production increased by about 0.13 Bcf compared to the prior week. All together, we see supply as exerting negative pressure to prices this week.

Demand – Neutral

Demand from the industrial sector showed gains of 0.02 Bcf/d to average about 20.93 Bcf/d. Looking forward, industrial gas demand may be in question due to perceived weakness in economic growth We see a neutral effect from demand-side drivers for this week’s gas prices.

Flows – Negative

News hit about the commencement of linefill on Kinder Morgan’s 2 Bcf/d Gulf Coast Express pipeline from Waha to Agua Dulce. The increased flow of discounted Permian gas is likely to contribute to an oversupply on the Gulf Coast region as we analyzed in our report last week, The Long and Short of Permian Gas Infrastructure. Accordingly, as Waha prices have gapped upward on the linefill start, we could see Henry Hub prices come under pressure as the discounted gas deliveries become fully operational.

Trader Sentiment – Negative

We project the Henry Hub prices to improve but average lower than $2.30 for the current week. The CFTC's 8/16/2019 commitment of traders’ report for NYMEX natural gas futures and options showed that reportable financial positions (managed mMoney and other) on 8/13/2019 were 216,003 net short while reportable commercial operator positions came in with a 174,621 net long position. Total open interest reported for this week was 1,399,057, down 1,322 lots from last week's reported 1,400,379 level.

