

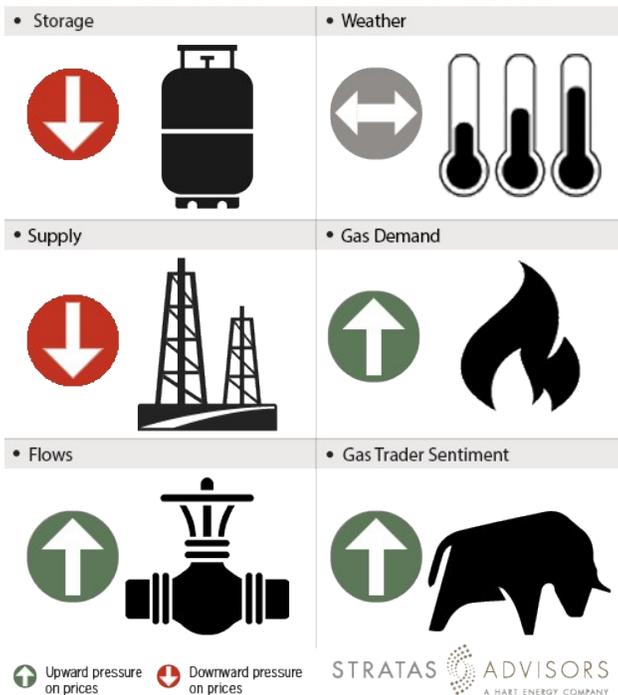
What's Affecting Gas Prices the Week of August 27, 2019?

Key Points:

Average dry gas production increased w-o-w by 0.53 Bcf/d to 92.7 Bcf/d for the report week ending Aug 23. Power generation stalled for a consecutive week at 42.52 Bcf/d while LNG net flows to existing and new LNG facilities jumped by more than 31% to average 5.43 Bcf/d during the report week. The week saw increases in both imports from Canada (up from 5.43 Bcf/d to 5.86 Bcf/d) and exports to Mexico (up by 0.16 Bcf/d to 5.52 Bcf/d).

Our analysis leads us to expect a 59 Bcf injection level for the report week. Our expectation is above the current consensus of 55 Bcf and 2 Bcf above the 57 Bcf five-year average storage build. We recognize this week's Mexico pipeline dispute resolution as a very positive development. The agreement between the pipeline firms and Mexico extended contracts 10 years in exchange for a \$4.5 B of waived fees. The startups of these pipelines sourcing their natural gas from the Permian and Gulf Coast should increase Henry Hub prices due to an increase in demand. Based on this week's reported data we think, however, that overall low demand should help keep Henry Hub prices below \$2.30 this week.

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Storage – Negative

We estimate an above-normal storage build of 59 Bcf will be reported by EIA for the week ended Aug 23. If our projection

stands, it will equal last week's reported injection and 2 Bcf above normal. Last week's build report showed inventory levels at 2,797 Bcf, which remained 103 Bcf below the five-year average. This week we expect the deficit to reach 101 Bcf. All in, we expect the storage injections to be a negative driver for gas prices this week.

Weather – Neutral

The 6-10 day forecast from the NOAA predicts cooling temperatures in most of the regions, which leads us to expect moderate gas demand for overall power generation. Showers in the Mid-Atlantic, Midwest, and Northeast should keep power generation demand low, while high pressure in the West and Texas should support temperatures in the 90s to 100s. All in, we expect the demand from different parts of the US to largely cancel each other out, resulting in a neutral impact this week for gas prices.

Supply – Negative

Dry gas production has been consistently trending higher since the start of 2019. The data this week shows a 0.53 Bcf/d increase to 92.66 Bcf/d for the report week. We expect to see the same gradual upward production trend for the rest of 2019 as well. Until Mexico pipeline disputes are settled to enable greater cross-border southbound flows, and until LNG expansions go into service and ramp up, we think total supply will grow faster than domestic demand. This should result in a supply-demand balance that is more conducive to increased storage. All in, we see supply as exerting a negative pressure to prices this week.

Demand – Positive

Demand from major categories such as industrial, residential and commercial saw a combined increase of 0.13 Bcf/d in the past week. Industrial demand increased modestly from 20.93 Bcf/d to 20.99 Bcf/d, while residential and commercial followed suit and increased from 8.58 Bcf/d to 8.64 Bcf/d. We see demand as exerting a weak positive negative pressure on this week's gas prices.

Flows – Positive

As the period of line fill rotates to full operation on Kinder Morgan's 2 Bcf/d Gulf Coast Express pipeline from Waha to Agua Dulce, we think Gulf Coast regional gas prices may be under pressure which will in turn put a lid on Henry Hub prices. We also read today that the Mexican pipeline disputes have been resolved, which we think should partly alleviate the Gulf Coast oversupply concern.

Trader Sentiment – Positive

The CFTC's 8/23/2019 commitment of traders' report for NYMEX natural gas futures and options showed that reportable financial positions (managed money and other) on 8/20/2019 were 198,110 net short while reportable commercial operator positions came in with a 170,388 net long position. Total open interest was reported for this week at 1,375,759 and was down 23,298 lots from last week's reported 1,399,057 level. The data show a split but overall positive view with financial speculators' strongly cut shorts more than longs while commercial operators added shorts and cut longs.

