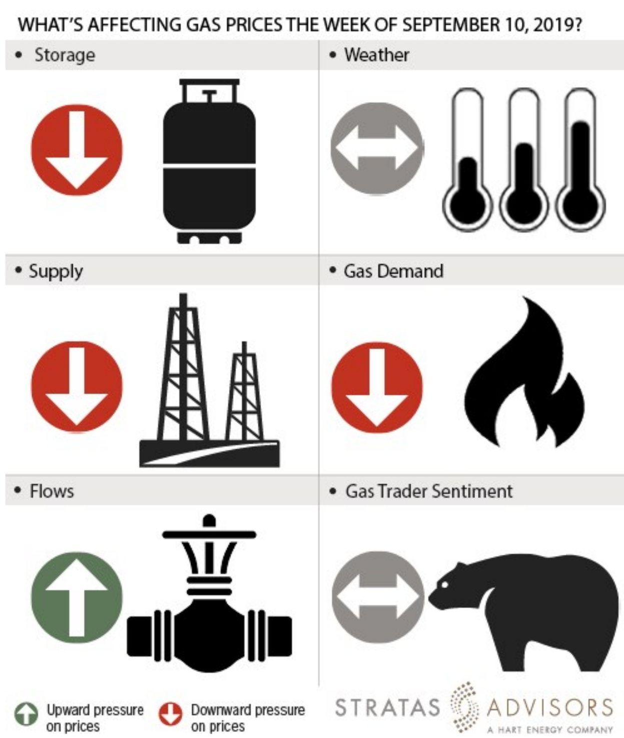
What's Affecting Gas Prices the Week of September 10, 2019?

Key Points: Dry gas production rebounded this week and averaged at 93.1 Bcf/d, a w-o-w increase of 0.20 Bcf/d or 1.4 Bcf. Demand from the power generation sector has increased by 1.73 Bcf/d to 38.6 bcf/d in the report week versus the prior report week. However demand from other major sectors appears to have declined by a combined 0.12 Bcf/d or 0.84 Bcf compared to the prior week. Furthermore, dry gas imports from Canada rose by 0.41 Bcf/d, while dry gas exports to Mexico declined from 5.48 Bcf/d to 5.45 Bcf/d for the report week. Our analysis leads us to expect an 83 Bcf storage build for the report week of September 6th. Our expectation is slightly above the current 81 Bcf consensus whisper expectation, and 10 Bcf higher than the five-year average of 73 Bcf.

After such a strong run up in prices, it seems that higher imports and production will swamp weaker power and industrial demand growth and thereby rein in the gas bulls from days prior to this report. Potential gain in exports from several LNG trains undergoing startup may offset decreased power demand and may sustain Henry Hub prices to within 10 cents of current $2.60/MMBtu range.



Storage – Negative

We estimate a storage build of 83 Bcf will be reported by EIA this week for the week ended Sep 06. Last week, EIA reported an 84 Bcf injection for the prior week. The build increased inventory levels to 2,941 Bcf, 383 Bcf higher than the year ago value but still 82 Bcf lower than the five-year average. This week we expect the build to be higher than five-year average. All in, we see storage changes as a negative driver for gas prices this week. We expect this weeks reported storage injection to be higher than the 5-year average injection, due to higher supply. All in, storage dynamics offer a negative driver for the gas prices this week.

Weather – Neutral

The latest weekly temperature forecast from NOAA shows high temperatures continuing in the 80 to 90s for the Southern parts and edging upwards for the Eastern parts of the country. The high temperatures in the Southern and Eastern regions should lead to high natural gas demand. Temperatures in the 50s to 70s for the Upper Midwest, Northeast, and Rockies should lead to light natural gas demand for the respectful regions. Week to date (Saturday thru Tuesday), the Bloomberg data scrapes show significantly less gas demand in the power space this week versus the same period last week. The positive power demand data for the report week is likely already included in the gas prices that have rallied substantially into the $2.60/MMBtu range. However, the negative data week to date suggests that weather at best will be a neutral driver for this week's future price activity.

Supply – Negative

Supply levels recovered this report week to average 93.07 Bcf to post a 0.20 Bcf/d increase from the previous report week. We believe the drop in supply in the previous report week was due to offshore gulf producer uncertainty in the run up to the landfall of Hurricane Dorian and additional tropical disturbance. All together, we see supply growth going forward as exerting negative pressure on prices this week.

Demand - Negative

From the residential and commercial sector, demand marginally dropped by 0.49 Bcf to around 8.23 Bcf/d. Industrial demand followed the same trend as residential and commercial demand while declining from 21.29 Bcf/d to 21.25 Bcf/d for the report week. We see a negative effect from structural demand side drivers for the report week.

Flows – Positive

Flows to LNG terminals show a week on week increase of 0.5 Bcf/d. We believe that the positive flows are as a result of the recent startup of Train 2 at Cheniere Energy, Ink's Corpus Christi liquefaction facility and possibly the shipment of Freeport LNG's first cargo from its recently commissioned Train 1 from its liquefaction facility located on Quintana Island in Freeport, Texas. Flows can be considered as positive this week.

Trader Sentiment – Neutral

The CFTC's 9/6/2019 commitment of traders report for NYMEX natural gas futures and options showed operators realized a net long decline this week which follows a net long decline last week meaning to us that they clearly seem to be even less optimistic this week. Financial speculators appeared to be even more bullish given their net long gain in the most recent week after a net long gain the prior week. Taken together, the longs represented the majority of the activity last report week. Looking ahead, we think the shorts may slowly but surely start coming back into the market after having gone long for a pretty strong bull ride. Overall, we think timing will be slow so trader sentiment will likely be neutral this week.

