What's Affecting Gas Prices the Week of September 17, 2019?

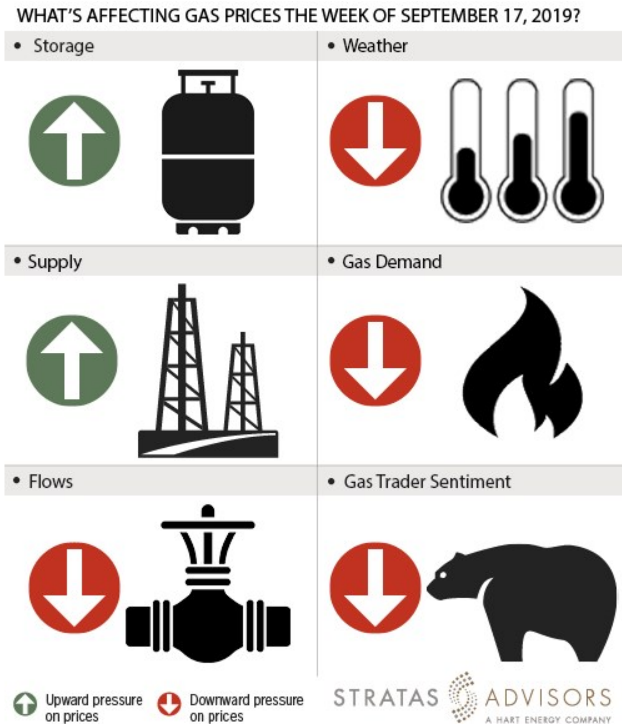
Key Points: Dry gas production fell by 0.53 Bcf/d this report week to average at 92.5 Bcf/d. Demand from the power generation sector rose 1.50 Bcf/d to 38.5 bcf/d in the report week versus the prior report week. However, demand data from other major sectors declined by a combined 0.25 Bcf/d or 1.75 Bcf compared to the prior week. Furthermore, dry gas imports from Canada rose by 0.44 Bcf/d.

While dry gas exports to Mexico declined from 5.51 Bcf/d to 5.43 Bcf/d for the report week, media outlets are reporting that the Sur de Texas-Tuxpan Natural Gas pipeline has been placed into service. The 2.6 Bcf/d pipeline will transport natural gas mainly from the Permian to Mexico to meet the country's natural gas demands. We expect once the line fill is complete for storage levels in the South Part of Texas to decline from current level and for regional prices to show gains due to the increase in demand.

Our storage analysis leads us to expect a 76 Bcf build for the report week of September 13th. Our expectation is above the current 75 Bcf consensus whisper and 6 Bcf lower than the five-year average of 82 Bcf.

Note on Saudi Arabia Attack: Across the market, hydrocarbon prices jumped as a result of the September 14 drone attacks on Saudi Arabia's Aramco facilities in Abqaiq and Khurais. The price run up in the U.S. benchmark NGL prices are overdone in our opinion. Same goes for Henry Hub natural gas. The drone attack at the 7 MMbbl/d Abqaiq field oil stabilization plant resulted in a reported 5 MMbbl/d reduction in processed and stabilized oil output there. Crude oil prices have understandably gapped upwards. But on the trading day after the attack report, US gas benchmark Henry Hub prices jumped 14 cents/MMBtu which is 5% and Mont Belvieu NGL purity prices also jumped between 18% (butane) and 38% (propane). The gas and NGL price jumps are overdone and not supported by fundamentals, according to our analysis (available to subscribers, here).

While our overall view for the week is to see a negative movement in Henry Hub prices, continued news flow from Saudi Arabia may still add lift to already elevated pricing. We anticipate Henry Hub prices will likely trade this week within +/- 5 cents of the Monday $2.76/MMBtu closing price



Storage – Positive

We estimate a storage build of 76 Bcf will be reported by EIA this week for the week ended Sep 13. Last week, EIA reported a 78 Bcf injection for the prior week. The build increased inventory levels to 3,019 Bcf, 393 Bcf higher than the year ago value but still 77 Bcf lower than the five-year average. This week we expect the build to be lower than five-year average. With less injection expected this week compared to the five-year average, we see storage changes as a positive driver for gas prices this week.

Weather – Negative

The latest weekly temperature forecast from NOAA shows high temperatures continuing in the 80 to 90s for the Southern parts with high chances of rain expected to lower temperatures and reduce power generation demand in the region. The Midwest and Northeast regions are projected to have highs in the 70s to 80s, while the Western region is expected to have temperatures ranging from the 50s to 70s. Week to date (Saturday thru Tuesday) Bloomberg data currently shows less gas demand in the power space this week versus the same period last week. Based on the weak power generation demand, we expect this to have a negative impact on gas prices this week.

Supply – Positive

Supply levels retracted this report week to average 92.54 Bcf to post a 0.53 Bcf/d or 3.71 Bcf decline from the previous report week. Accordingly, supply will offer little but positive pressure to this week's price activity.

Demand – Negative

From the residential and commercial sector, demand marginally dropped by 1.05 Bcf to around 8.19 Bcf/d. Industrial demand followed the same trend as residential and commercial demand while declining from 21.33 Bcf/d to 21.22 Bcf/d for the report week. The low demand from structural demand side drivers for the report week will likely have a negative effect on prices.

Flows – Negative

Flows to LNG terminals show a week on week decline of 0.64 Bcf/d. Flows can be considered as negative this week.

Trader Sentiment – Negative

The CFTC's 9/13/2019 commitment of traders report for NYMEX natural gas futures and options showed that reportable financial positions (managed money and other) on 9/10/2019 were 146,834 net short while reportable commercial operator positions came in with a 114,528 net long position. Total open interest was reported for this week at 1,273,661 and was down 60,521 lots from last week's reported 1,334,182 level. Sequentially, commercial operators this reporting week were cutting longs by 25,116 while adding to shorts by 37. Financial speculators cut shorts and cut longs for the week (-30,952 vs. -8,551, respectively). Overall, we think timing will be slow so trader sentiment will likely be negative this week.

