

## What's Affecting Gas Prices the Week of October 29, 2019?

**Key Points:** Field production held above 95 Bcf/d for the report week ended Oct 25. Imports of natural gas from Canada fell by 0.20 Bcf/d or 1.4 Bcf. Exports of natural gas from Mexico also fell by 0.14 Bcf/d or 1.0 Bcf. Demand from major categories saw a gain of 0.70 Bcf/d week-on-week. Majority of this demand gain was from power generation and residential and commercial sectors.

Our analysis leads us to expect another strong injection of 87 Bcf would be reported by EIA for the report week. This is in comparison to the current 88 Bcf consensus whisper expectation and almost 45% higher than the five- year average storage build of 60 Bcf.





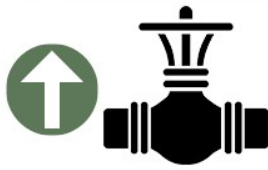

### **Key Hub Price Call:**




Natural gas prices for the Henry Hub North American benchmark have rebounded slightly to stay around \$2.49/MMBtu as of early this week. We expect see upside to prices in short term contingent on arrival of cold weather conditions.

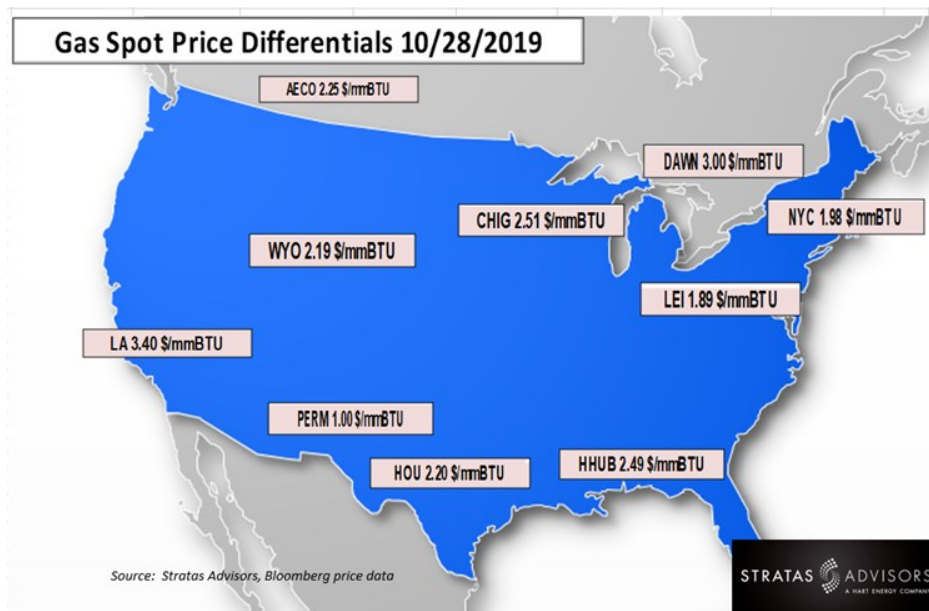
### **Gas Price Differentials:**

Cold weather conditions should boost Henry Hub prices higher compared to week ago prices. This week, we expect the wide differentials from Henry Hub to the Permian price to be volatile. The implied differential shown below of approximately \$1.49/MMBtu should change one way or the other depending upon which of two dynamics wins out: Cold weather in West Texas may drive tighter differentials while wider differentials may remain due to tightness in takeaway and reported difficulty in directing local gas supply to regional power gensets. Cold weather entering the northern portion of the continent through the Rocky Mountains should also likely boost local gas prices and narrow those regional differentials to the Henry Hub benchmark.

WHAT'S AFFECTING GAS PRICES THE WEEK OF OCTOBER 29, 2019?

<ul style="list-style-type: none"> <li>Storage</li> </ul> 	<ul style="list-style-type: none"> <li>Weather</li> </ul> 
<ul style="list-style-type: none"> <li>Supply</li> </ul> 	<ul style="list-style-type: none"> <li>Gas Demand</li> </ul> 
<ul style="list-style-type: none"> <li>Flows</li> </ul> 	<ul style="list-style-type: none"> <li>Gas Trader Sentiment</li> </ul> 

 Upward pressure on prices   
  Downward pressure on prices   
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**Storage - Negative**

We estimate a storage injection of 87 Bcf will be reported for the week ended Oct 25. EIA reported an 87 Bcf injection last week with an increase in stocks in all regions. The total natural gas stocks after this injection is 3,606 Bcf, a 2.5% week-on-week increase. The actual build came very close to our prediction of 85 Bcf. Natural gas inventories have reached 3.6 Tcf with two weeks left for the injection season to end. All in, yet another strong injection this week would have a negative effect on gas prices.

### **Weather – Positive**

The NOAA outlook for the next 6-10 days shows lower than normal temperatures for large parts of United States. A cold front is expected to push the temperatures prevailing in the western and central US to single digits. This cold front is expected to gradually spread into Texas and South later in the week, lowering temperatures as it moves from west coast to east coast. The NOAA 8-14 forecasts shows that cooler temperatures are prevailing in short term. We see weather having a positive effect on gas prices.

### **Supply – Negative**

Production levels have been extremely strong throughout the summer and this trend continues into the fall season as well. Supply has reached 95 Bcf/d during the report week and has stayed up ever since. Dry gas production has increased by 0.84 Bcf/d or 5.9 Bcf during report week compared to prior week. Production growth hasn't helped raise prices. Accordingly, we believe supply will exert a negative pressure on gas price activity.

### **Demand – Positive**

Residential and commercial sector demand increased by 0.32 Bcf/d or 2.1 Bcf with the heating demand coming in as temperatures plunge. Power generation demand also rose, interestingly, by 0.35 Bcf/d during report week. Industrial demand rose marginally by 0.02 Bcf/d. We expect the demand side drivers to have a positive effect on prices.

### **Flows – Positive**

Flows to LNG terminals rose by an average of 0.21 Bcf/d or 1.4 Bcf/d during the report week. We believe that the increase of LNG flows would exert a positive pressure on gas price activity.

### **Trader Sentiment – Negative**

The CFTC's 10/25/2019 commitment of traders report for NYMEX natural gas futures and options showed that reportable financial positions (Managed Money and Other) on 10/22/2019 were 211,849 net short while reportable commercial operator positions came in with a 176,125 net long position. Total open interest was reported for this week at 1,277,297 and was down 9,640 lots from last week's reported 1,286,937 level. Sequentially, commercial operators this reporting week were cutting longs by 6,926 while cutting shorts by 28,447. Financial speculators added shorts and cut longs for the week (24,532 vs -384, respectively). We see trader sentiment as a negative driver for this week's gas prices.