

What's Affecting Gas Prices the Week of December 4, 2018?

Welcome to the next installment in the soft launch of What's Affecting Gas Prices This Week, a new weekly offering from the integrated global energy advisory professionals of Stratas Advisors. We welcome your feedback and intend to continue to build the offering as we have done in with the What's Affecting Oil Prices This Week which has garnered a significant following in the 40+ months since it was launched.

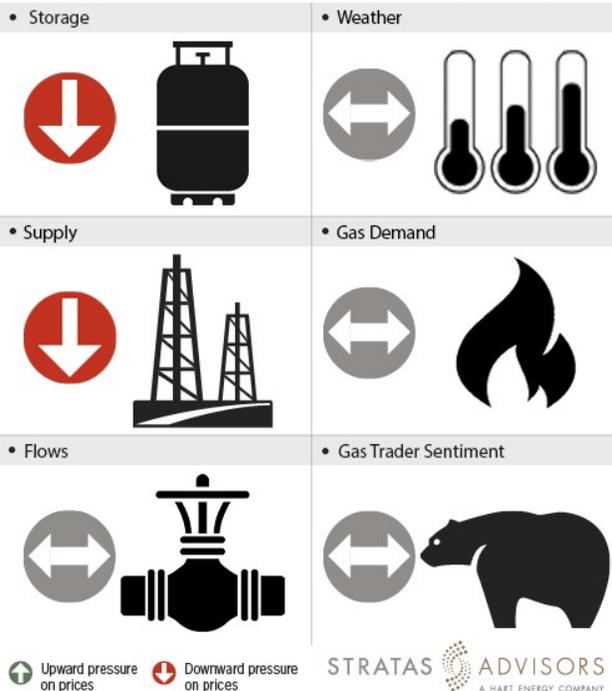
Key Points: Bloomberg scrapes imply gas field production was 730 MMscf/d higher or nearly 5.2 bcf for the week, but inflows from Canada and LNG sank 1.2 bcf and exports to Mexico grew by a bit more than 0.5 bcf. Demand fell in non-power domestic industries but power generators burned 14 bcf more gas than the prior week. (with all demand netting to a gain of 2.9 bcf over the week).

Our analysis leads us to expect the EIA to report later this week that there was a 58 bcf withdrawal for the week ended Friday November 27 (inline with the current 60 bcf whisper consensus withdrawal expectation and below the 74 bcf five-year average withdrawal, which would make it the first sub-normal withdrawal for the season to date).

While this week's storage withdrawal may prove to be below normal, the working gas storage level is well below normal. It's unprecedented that working gas storage levels sink below 3 tcf during the last week of November. And that could easily happen with this Thursday's report. Normally, storage hold above 3 tcf until mid to late January.

Looking further out, 2.1 tcf is normally withdrawn from working gas storage levels between the end of November through March. If a normal or even more severe than normal winter ensues through the next 4 months, market levels could drop below 1 tcf well before end of March, 2019. If that becomes the case and if that results in critical late-winter gas shortages or high prices, it will be interesting to see if government regulators move to stem LNG exports under existing LNG export permits.

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Supply - Negative

Higher field supply will likely continue to show up in the forthcoming report this Thursday, and we think there's nothing in the way of continued associated gas production gains across North America. Accordingly, Supply fundamentals will likely offer little but negative pressure to this week's price activity.

Weather - Neutral

Heating demand appears to be moderating from the cold blasts seen since the cold start of the 2018/19 winter. As the country thaws out, and as winds quiet in West Texas and likely shift more power load back to natural gas consuming mode, we see Weather as being neutral driver for gas prices this week.

Trader Sentiment – Neutral

We see directionless range-bound trading this week and next in the gas markets, and therefore see Trader Sentiment as a neutral driver of prices this week.

Storage - Negative

We estimate a storage withdraw of 58 bcf will be reported by the EIA this week for the week ended November 27, which is below the 5 year average. So this week's lighter withdrawal may be leading the market bulls to take a breather. All in, we see Storage changes as being a negative driver for gas prices this week.

Demand - Neutral

We see a neutral effect for structural demand side drivers this week. The report week ended November 27 will see higher demand as a result of not having the national Thanksgiving holiday although that extra day of full-on demand will be offset in part by more moderated heating demands. However, a moderating trend in W. Texas winter winds should cause wind turbine generation output to decline which will boost power generator demand for natural gas. We see Demand this week as being a neutral factor for prices.

Flows - Neutral

Absent any freezeoffs or other upset conditions beyond the known pressure and flow restriction on the import pipeline in British Columbia, we see Flows being a neutral driver for gas prices this week.