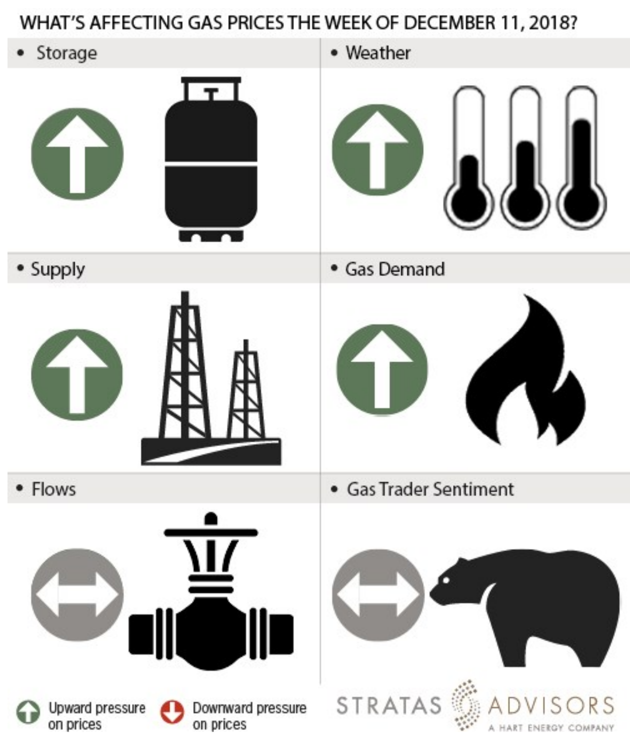
What's Affecting Gas Prices the Week of December 11, 2018?

Key Points: Bloomberg scrapes imply gas field production was nearly 0.11 Bcf/d lower when compared to past week. Inflows from Canada and LNG grew by 0.37 Bcf/d and exports to Mexico sank a bit by 0.09 Bcf/d.

Our analysis leads us to expect the EIA to report later this week that there was a 91 Bcf withdrawal for the week ended Friday 12/7 (3 Bcf more than the current 88 Bcf whisper consensus withdrawal expectation and 50% higher than the 63 Bcf five-year average withdrawal).

The hole in the storage levels that existed at Nov 1 has only gotten deeper after November's above normal withdrawals, and the deepening of the deficit looks likely to continue in December. We could see well-below normal ending levels of gas in working storage at or before the end of March 2019. That would not only put pressure of gas prices, but could also impact LNG exports in a detrimental way. Many projects were given the go-ahead by FERC presuming plentiful supply. It is very early and too soon to begin projections, but the permits are written to allow FERC to suspend exports in some cases. More analysis will come in future weeks.



Supply - Positive

Average field supply has reduced slightly for the week ended 12/7. The weekly average dry gas production dropped from 85.54 Bcf/d to 85.43 Bcf/d. There were no freezeoffs or delayed LNG import deliveries for the report week. Accordingly, supply will likely offer a slightly positive pressure to this week's price activity.

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Weather - Positive

For the week ended 12/7, incremental gas was consumed by both the power and residential/commercial sector, which the Bloomberg scrapes show adding to 4.2 Bcf/d or nearly 30 Bcf. Currently, the week-to-date weather dependent gas demand is certainly stronger than last week by roughly 30 Bcf coincidentally. By this time next week, we anticipate the severe and fast moving winter icy weather of this week will show that gas use has ramped strongly upward, so we think weather is a positive for gas this week.

Trader Sentiment – Neutral

The average Henry Hub natural gas prices are $4.51/MMBtu. Intraday spot prices as of press time today are at $4.46 /MMBtu. The CFTC's Dec. 7 commitment of traders report for NYMEX natural gas futures and options showed that reportable financial positions (Managed Money and Other) on Dec. 4 were 15,022 net long, and net long gain this week follows a string of consecutive net long declines. We think longs may be getting tired, so we see Trader Sentiment as neutral this week.

Storage - Positive

We estimate a storage withdrawal of 91 Bcf is likely to be reported by EIA this week for the week ended Dec. 7. In our prior forecast, we estimated a gas withdrawal of 58 Bcf for the week ended Nov. 30, which was at that time 2 Bcf below the consensus estimate. We were close to the actual value of 63 Bcf. Our 91 Bcf withdrawal expectation for this week is almost 50% higher than the five-year average value of 63 Bcf for the same week. Overall, we believe that higher withdrawal may be pushing prices higher. All in, we see storage changes as a positive driver for gas prices this week.

Demand - Positive

We see a positive effect for structural demand side drivers this week. The week-to-date Bloomberg scrapes for natural gas demand in power generation and industrial sector is showing the upward trend as compared to the same period in the report week ended 12/7. The three-day average for current week for industrial sector natural gas demand is 24.56 Bcf/d, which is up from 23.10 Bcf/d for the same period last week. The three-day average for power generation natural gas demand is 26.77 Bcf/d versus the 21.92 Bcf/d for the same period last week.

Flows - Neutral

We see Flows as a neutral driver for gas prices this week as there were no freezeoffs and no new upset conditions.

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