

November 2, 2015

Natural Gas Trends

Highlights

Northeast supply drives Henry Hub below \$2

Cash prices at the Henry Hub settled below \$2 on Friday for the first time since April 2012. The root cause is a fundamental oversupply from the Northeast, which could worsen as gas flows on the two new backhaul expansions. The magnitude of last week's drop took much of the market by surprise, though market fundamentals have been pointing to a strong downward correction since early in the summer. Largely, the weakness has been driven by higher-than-normal storage inventories across the US. In the Southeast market area, working gas storage has trended above the five-year average since mid-April and broke above the five-year range in late August. Southeast regional inventories are now estimated at 6 Bcf above all-time highs, through the year-on-year estimated differential (2015 versus all-time high) reached 27 Bcf in early October.

However, these records mask a more substantial record for salt-dome inventory levels, which broke above all-time highs in early May and are currently estimated at 366 Bcf, 36 Bcf above all-time highs recorded in any period of the year, with at least a week or two of injections left in the season. What may be more concerning is that last year, despite the non-salt withdrawal season starting by the second week of November, salts continued to see injections through late December, acting as shock absorbers for the mild start to winter. The early season build in storage was driven by higher-than-normal flows into the Southeast. Net flows averaged 2.7 Bcf/d higher than 2014 during the first quarter of this year, falling to 2.1 Bcf/d higher year-on-year during the second quarter. This initial surge of gas from all adjacent regions brought Southwest inventories back above five-year averages and drove salt-dome inventory levels to new seasonal highs. During the second half of the year, net flows have tapered, but have still averaged 1.2 Bcf/d above last year's levels, more than offsetting year-on-year declines in Southeast production.

In October, new flows have averaged 0.8 Bcf/d higher than last year, falling from a year-on-year build of over 1 Bcf/d in September. Falling inflows from Texas (where many of the oil-rich producing areas have experienced natural declines) have been more than offset by new flows from the Northeast. Flows from the Northeast have averaged 0.8 Bcf/d, a net reversal of 1.3 Bcf/d compared with last October, whereas Texas inflows have only fallen to 6.4 Bcf/d, a 0.4 Bcf/d drop from last year. Total net flows into the Southeast are currently averaging 5.2 Bcf/d this October, a 0.9 Bcf/d build over last year.

Source: Platts Gas Daily

Data

- December 2015 Natural Gas Futures Contract (as of October 30), NYMEX at Henry Hub closed at \$2.321 per million British thermal units (MMBtu)
- December 2015 Light, Sweet Crude Oil Futures Contract WTI (as of October 30), closed at \$46.59 per U.S. oil barrel (Bbl.) or approximately \$8.03 per MMBtu

Last week: Texas cooler than normal last week

For the week beginning 10/25/15 and ending 10/31/15, cooling degree days (CDD) were lower than normal (cooler) on average for the week and for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 10/31/15	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	0	0	1488	11%
Austin	20	-8	2798	-4%
DFW	6	-5	2976	17%
El Paso	2	-1	2851	27%
Houston	32	4	3224	15%
SAT	39	9	3404	15%
Texas**	26	5	2847	10%
U.S.**	9	3	1404	18%

* A minus (-) value is cooler than normal; a plus (+) value is warmer than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which CDDs are calculated. ** State and U.S. degree days are population-weighted by NOAA.

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 3,877 Bcf

For the week ending 10/23/2015 working gas in storage increased from 3,814 Bcf to 3,877 Bcf. This represents an increase of 63 Bcf from the previous week. Stocks were 409 Bcf higher than last year at this time and 153 Bcf above the 5 year average of 3,724 Bcf.

Source: <http://ir.eia.gov/ngs/ngs.html>

U.S. WORKING GAS IN STORAGE				
Region	Week ending 10/23/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,994	1,961	33	-0.7%
West	531	524	7	2.5%
Producing	1,352	1,329	23	12.9%
Lower 48 Total	3,877	3,814	63	4.1%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

Last week: U.S. gas rig count up for the week

The gas rig count for the U.S. was up four this week and was down 149 when compared to twelve months ago. The total rig count for the U.S. stayed was down twelve compared to last week and down 1154 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

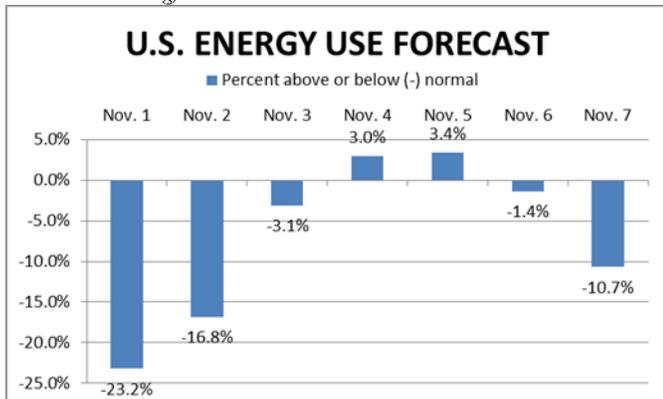
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 10/30/2015	+/- prior week	Year ago	+/- year ago
Texas	339	-7	901	-562
U.S. gas	197	4	346	-149
U.S. oil	578	-16	1582	-1004
U.S. total	775	-12	1929	-1154
Canada	191	1	429	-238

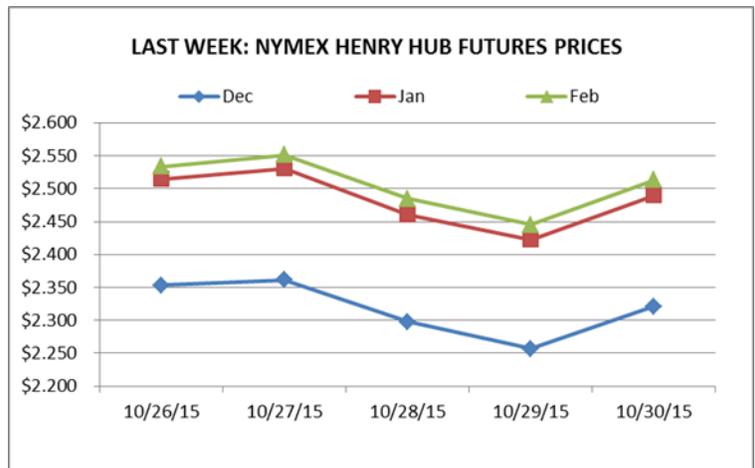
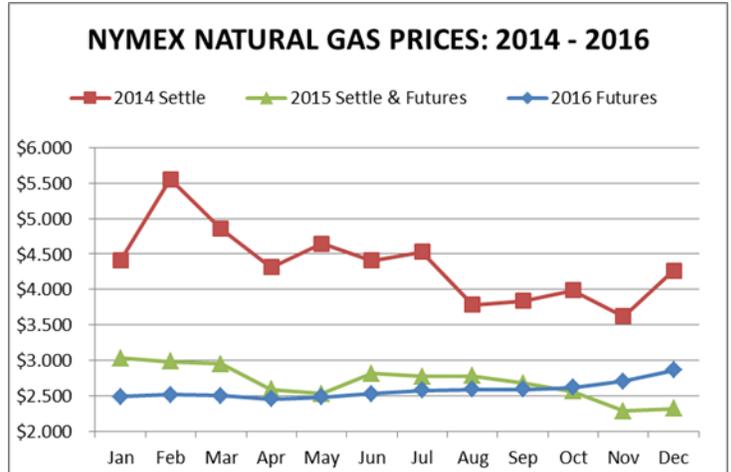
This week: U.S. energy varies this week

U.S. energy use is predicted to vary this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan.-Oct. and futures prices for the remainder of the year.



NATURAL GAS PRICE SUMMARY AS OF 10/30/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US December futures				
NYMEX	\$2.321	\$0.035	-\$1.961	\$2.692