Where Is Summer?

U.S. Power and Gas Weekly

Morningstar Commodities Research
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Matthew Hong
Director of Research, Power and Gas
+1 312 244-7649
matthew.hong@morningstar.com

Data Sources Used in This Publication
NOAA
NYMEX
EIA
PointLogic Energy

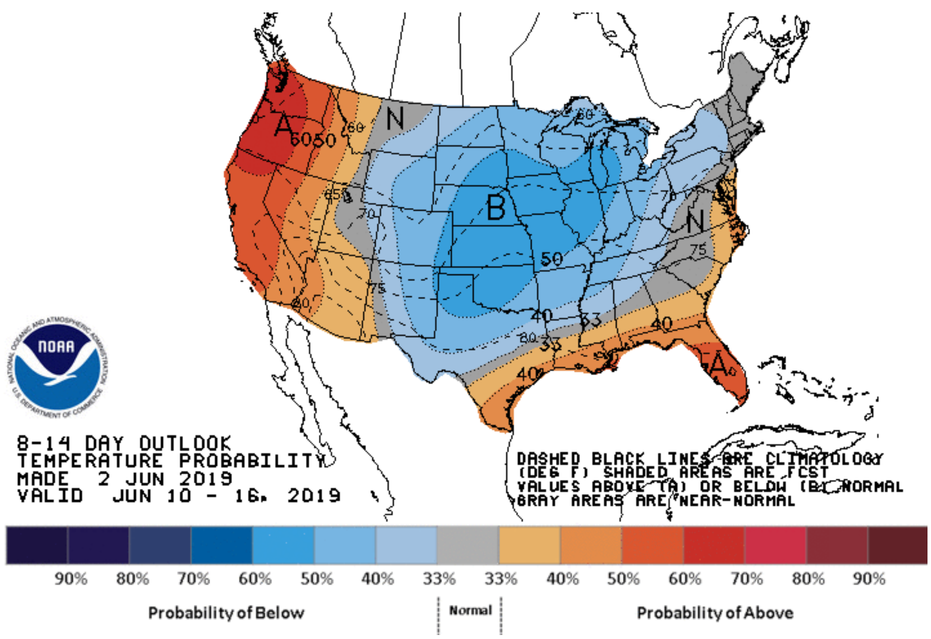
Stagnant Demand

Since the beginning of April, spot month natural gas prices at Henry Hub are down almost $0.20 per million British thermal units, and summer natural gas prices are averaging about $2.42/mmBtu. The Lower 48 has not seen prices settle below $2.40/mmBtu since 2016. Barring significant changes to market fundamentals, it is hard to see prices moving up significantly. Weather forecasts show unseasonably cooler temperatures for large portions of the country, which may put additional pressure on natural gas prices. This piece looks at how the market is setting up this summer and where prices are likely to go as a result.

Cooler Temperatures

The latest NOAA forecast on June 2 shows colder temperatures for large portions of the country (Exhibit 1). Looking at the 8- to 14-day forecast through mid-June, parts along the Southeast coast and in the West are the only areas expected to see higher-than-normal temperatures. Parts of the Northeast and most of the middle portion of the country are expected to be colder over the next few weeks, which should temper short-term demand.

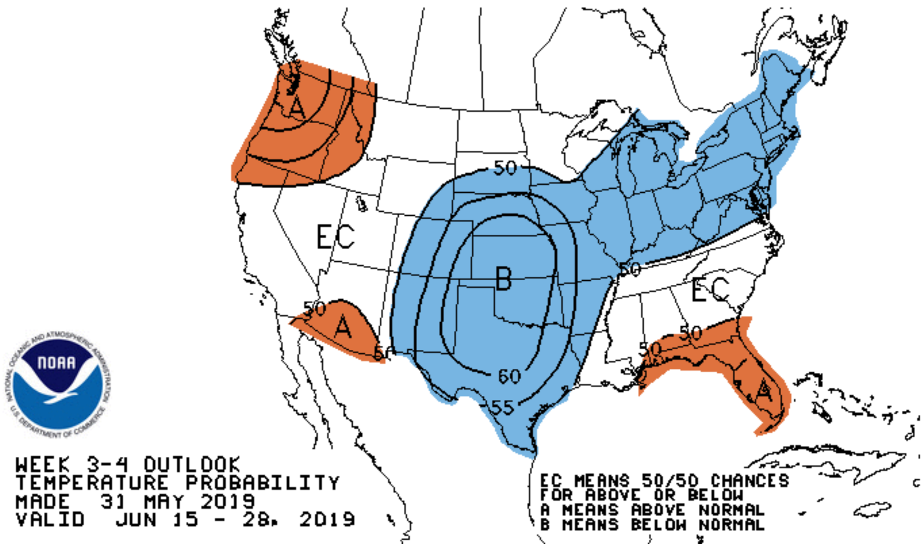
Exhibit 1 NOAA 8- to 14-Day Outlook ($/mmBtu)



Source: National Oceanic and Atmospheric Administration.

Looking beyond the first half of June, the prospect for higher demand in the three- to four-week outlook is similar (Exhibit 2). Temperatures are expected to be normal to below normal for most of the country, except for small areas in the Southeast, Pacific Northwest, and Southwest. The long-term seasonal view, which includes June, July, and August, show a similar trend, with the heat returning to the coasts, leaving the middle of country cooler than historical levels. While we will see bursts of heat in the Lower 48 from time to time, the overall trend is pointing toward a cooler summer for large parts of the country.

Exhibit 2 NOAA Three- to Four-Week Outlook

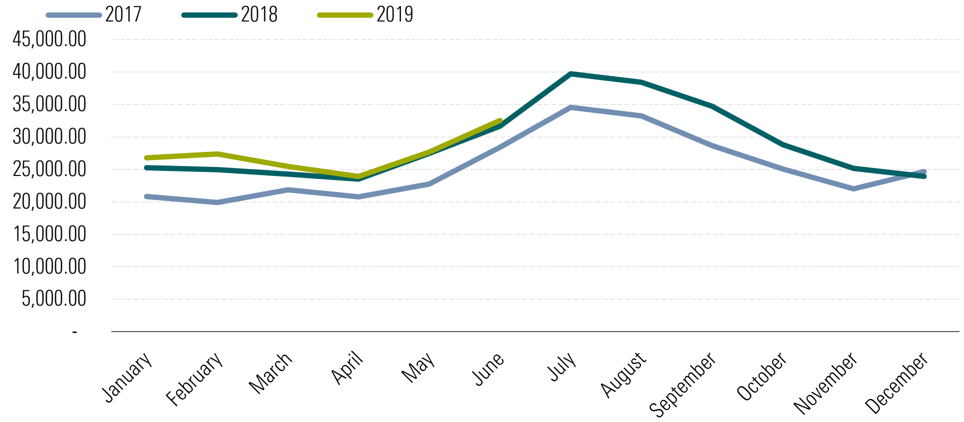


Source: NOAA.

Lower Prices Despite Increased Demand

While weather-related natural gas demand is not expected to surprise to the upside when looking at current forecasts, overall consumption of natural gas should be higher than last year. Expansion in natural gas generation across the country has pushed up structural demand for natural gas over the past several years and, combined with growth in liquefied natural gas exports, new demand is being added every year. However, supply growth over that same period has tempered prices (Exhibit 3). While natural gas consumption from the electricity sector in May increased around 0.9 billion cubic feet per day when comparing May 2018 and May 2019, supply grew by 8.2 bcf/d between the same two months. LNG demand over that same period grew from 3.1 bcf/d to 5.6 bcf/d. The summer could see two additional trains come on line—Corpus Christi Train 2 and Freeport LNG's Train 1—which would add another 1.25 bcf/d of LNG export demand.

Exhibit 3 Electricity Sector Demand by Month (mmcf/d)

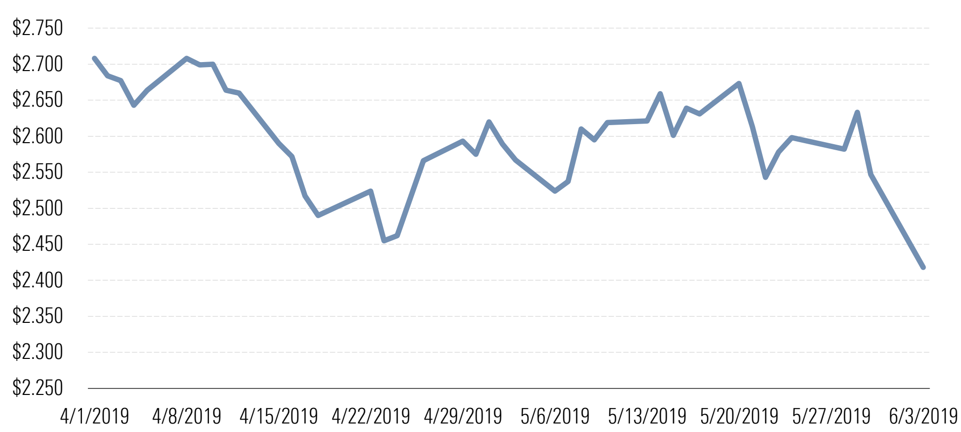


Source: PointLogic Energy.

The increased supply combined with less-than-stellar demand has helped push working natural gas in storage closer to the five-year average. The Energy Information Administration reported a 114 bcf injection for the week ended May 24, which was higher than market expectations for that week. Lower 48 inventories are estimated at 1,867 bcf, which is higher than the same week last year but below the five-year average by 12%. If weekly injections/withdrawals stay in line over the summer, inventory levels should remain healthy going into the winter, which may further pressure natural gas prices lower.

The current supply environment has weighed on spot gas prices over the last few months. Prices at Henry Hub have fallen since early April to around \$2.40/mmBtu (Exhibit 4). Barring a significant disruption to the supply chain, they could move down even further. Forward natural gas prices are also falling, suggesting that the market's expectations for a mild summer align with our view, and unless the market sees a tighter storage environment, prices are unlikely to move up significantly.

Exhibit 4 Nymex Spot Month Settlement (\$/mmBtu)



Source: Nymex.

Conclusion

Given stronger supply year over year and the cooler seasonal forecast for large parts of the country, it is difficult to make a bullish case for natural gas prices this summer. While there is considerable day-to-day variation in production, the Lower 48 is producing 9 bcf/d more now than at this point last year. While natural gas consumption has also grown, much of that is probably priced in at this point, and unless the summer forecast changes to one on the hotter side, natural gas prices are more likely to fall than rise. Without a significant change in the forecast or a long-term outage on the production or pipeline side this season, higher prices appear unlikely this summer.

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For More Information

+1 800 546-9646 North America
+44 20 3194 1455 Europe
commoditydata-sales@morningstar.com

22 West Washington Street
Chicago, IL 60602 USA