

Natural Gas Strong Summer Demand

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Dan Grunwald
Associate, Power and Gas
+1 312 244-7135
daniel.grunwald@morningstar.com

Data Sources Used in This Publication
EIA
CME

To discover more about the data sources used, [click here](#).

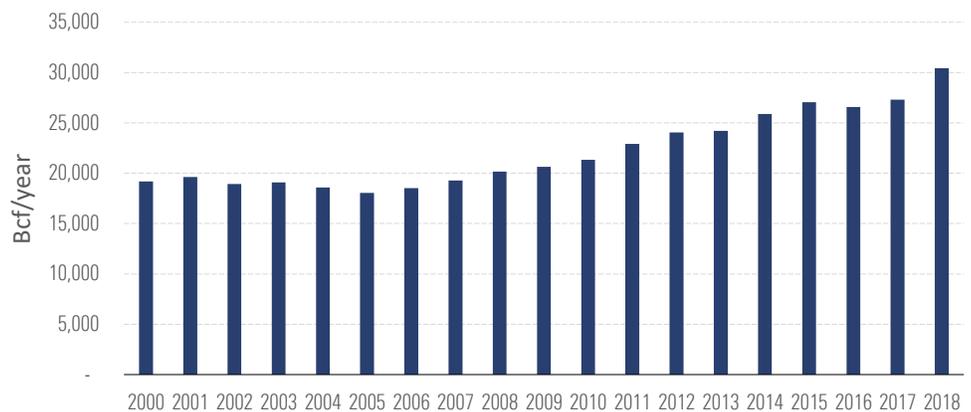
Natural Gas Dominance

Natural Gas supply is flush and putting downward pressure on the futures curve. Supply continues to break records as Appalachia and Permian output balloons. Yet for each new Bcf produced, we see demand growing in lock step. A significant portion of that new demand is coming from the power sector. As we exit another cold winter with low gas storage levels the summer is setting up for strong power demand as well. This note looks at natural gas supply and demand for the balance of 2019.

Supply Is Flush

Natural gas supply - primarily from shale basins - has climbed ever higher since 2010. Booming production has created an oversupplied market. This has suppressed prices and put downward pressure on the forward curve. The shape of traditional price curves is now out of whack as the shoulder season slopes and winter peaks have flattened out. Exhibit 1 shows 2018 was a record year for supply based on Energy Information Administration data and on its current trajectory 2019 is set to continue the trend.

Exhibit 1 Natural Gas Dry Production per Year

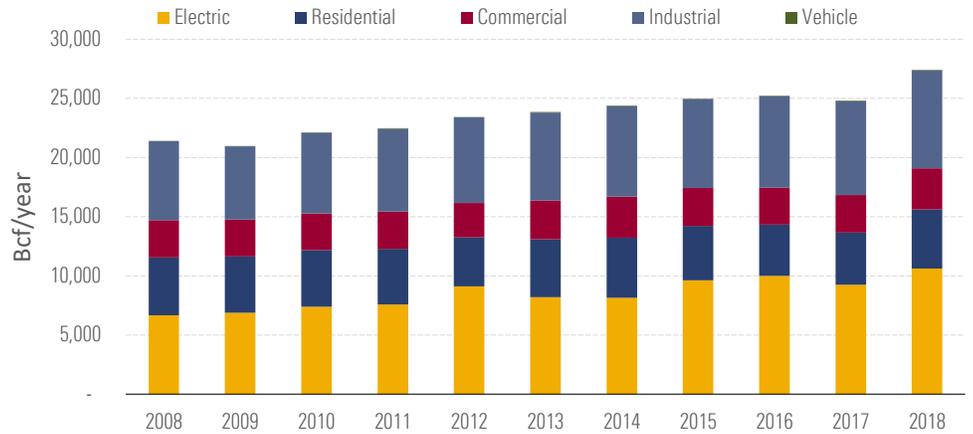


Source: EIA, Morningstar

Demand Is Matching

This added supply has been matched by demand growth as the electric sector built out more natural gas plants. As noted last year in our note [Natural Gas New Demand Season](#) the coming summer should be no different. We expect 2019 to be another record-breaking year for natural gas demand in the electric sector (Exhibit 2). According to EIA we saw a near 15% increase in annual electric natural gas consumption from 92,501 Bcf/year in 2017 to 106,257 Bcf/year in 2018.

Exhibit 2 Historical Natural Gas Consumption

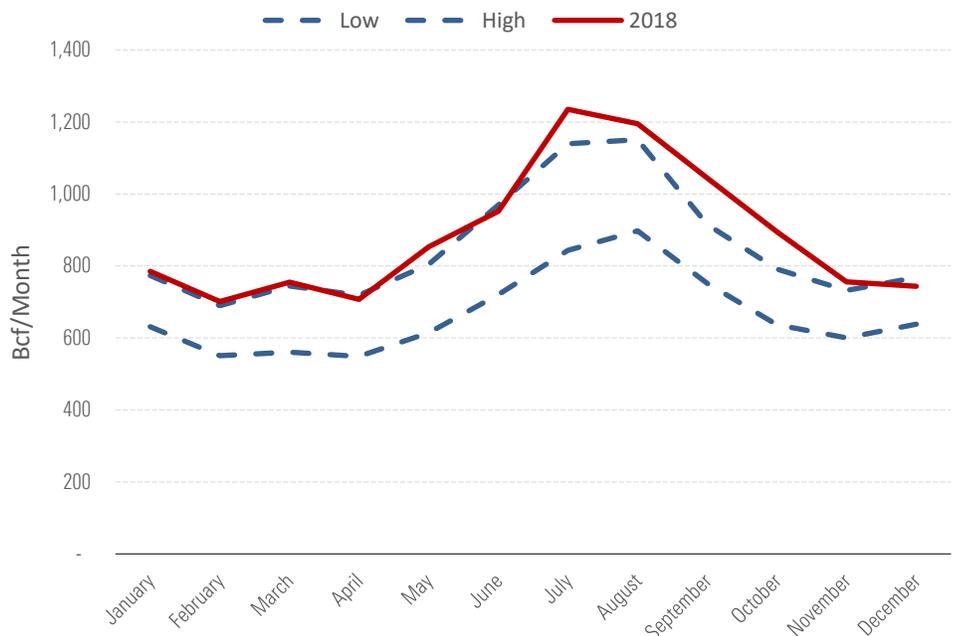


Source: EIA, Morningstar.

New Summer Demand Record

Exhibit 3 shows the monthly breakdown of natural gas demand coming from the power sector in 2018 versus the five-year average from 2013-17. With over 7,000 MW of generation capacity added in 2018 and another 6,500 MW of summer capacity being added this year before summer, we are set for another record-breaking demand season. The added gas capacity and loss of coal in the supply stack should see 2019 demand surpass 2018. If the total added plant capacity ran at 100% capacity this summer, it would add just over a Bcf/day. Realistically that will add between 0.5 to .75 Bcf/day outside of a very temperate summer.

Exhibit 3 Power Sector Monthly Natural Gas Demand Profile 2018 Versus Five-Year Range



Source: EIA, Morningstar.

Natural Gas Curve

Looking at the current CME futures curve (Exhibit 4) the summer months appear to be at a slight discount from recent years. That leaves slight upside potential in a strong demand summer with greater sector reliance on natural gas given coal retirements. Looking at the winter months, last year saw some volatility with tight storage levels but after a strong start to winter things settled back down. This year the winter curve has flattened again.

Exhibit 4 CME Natural Gas Futures Settlement (as of March 25, 2019)



Source: CME, Morningstar.

Natural Gas Summer

We expect another record-setting year for natural gas consumption in 2019. One of the largest drivers will be the power sector. A high demand summer could produce stronger price signals. Storage levels should be bolstered again this spring but like last year strong summer power demand could see us entering winter again at some of the lowest levels in years. ■■

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+1 800 546-9646 North America

+44 20 3194 1455 Europe

commoditydata-sales@morningstar.com



22 West Washington Street
Chicago, IL 60602 USA

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