

Waiting for a January Spark

U.S. Power and Gas Weekly

Morningstar Commodities Research
9 January 2020

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

Data Sources Used in This Publication
NOAA
Energy Information Administration
PointLogic Energy

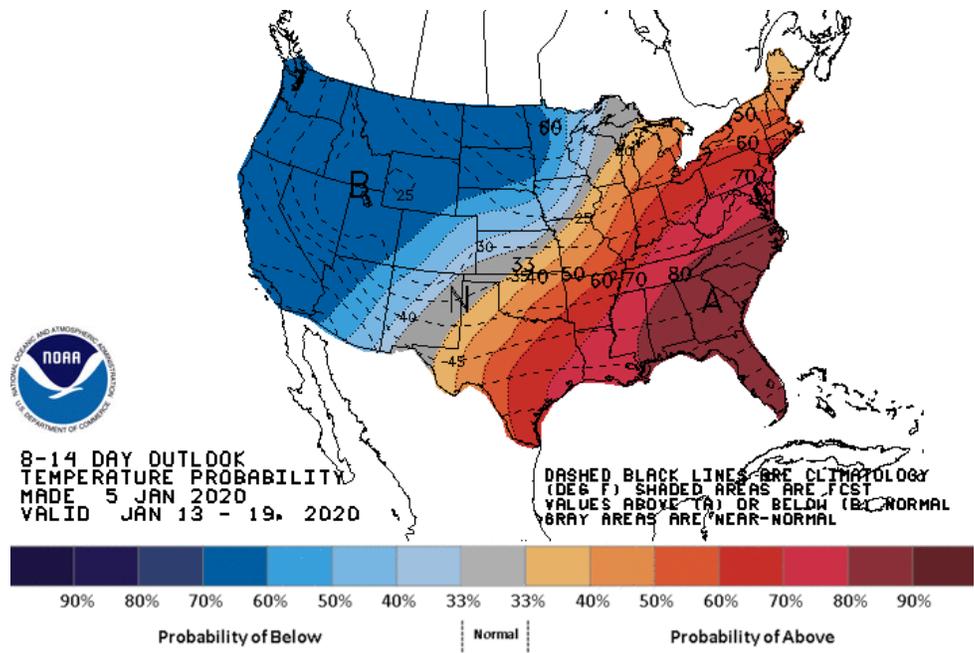
Warm Start to the Year

The new year has brought unseasonably warm temperatures to the United States after some areas experienced historically warm Decembers. Chicago, for example, experienced its warmest Christmas in decades. Along with the warmer temperatures, natural gas prices at Henry Hub dropped from around \$2.50/mmBtu in early December to \$2.12/mmBtu in early January. This piece provides our gas market outlook for the remainder of January.

Short-Term Forecasts

Short-term forecasts generated by the National Oceanic and Atmospheric Administration show warmer temperatures for the eastern half of the U.S. (Exhibit 1). The negative Pacific/North America pattern is driving the current forecast, which should continue through the rest of the month. The 8- to 14-day outlook shows a higher probability of warmer temperatures from the Gulf Coast up to New England, which is the geographic region known to drive winter price changes at Henry Hub.

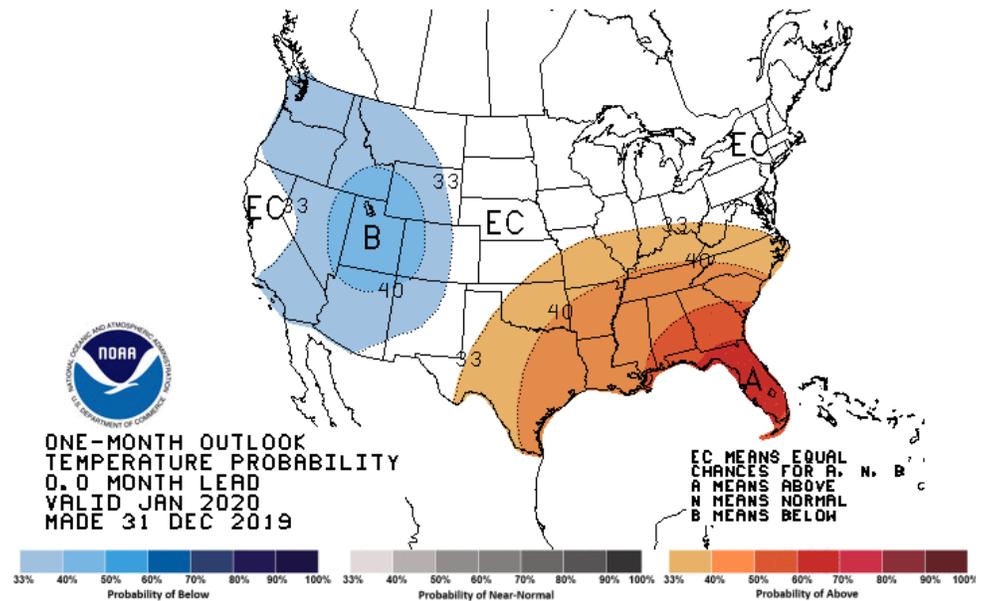
Exhibit 1 8- to 14-Day Outlook



Source: NOAA.

Looking beyond the 14-day outlook from Jan. 19, the overall view is similar (Exhibit 2). Most of the cold weather is expected to be concentrated in the western half of the country. While the West is likely to see colder-than-normal temperatures, large portions of the Midwest and Northeast will experience normal conditions. Temperatures from the Southeast to Texas show a higher probability of warmer-than-normal temperatures, spelling lower levels of residential heating demand for natural gas in January.

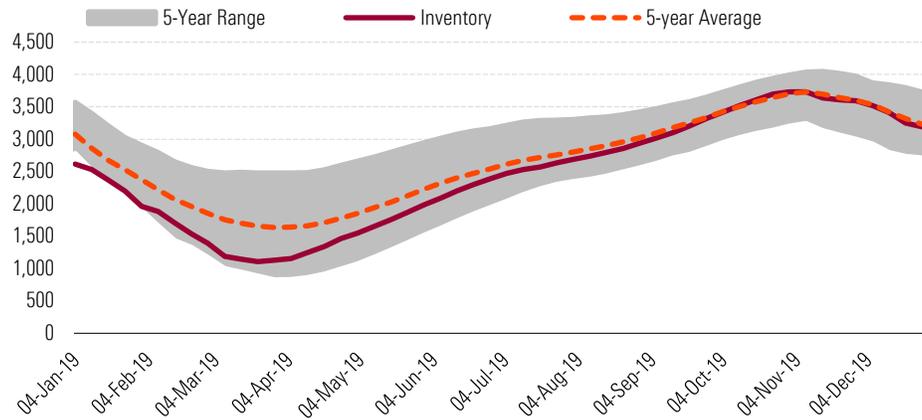
Exhibit 2 One-Month Outlook (January)



Source: NOAA.

Bearish Natural Gas Fundamentals

Beyond weather, other natural gas fundamentals point toward the bearish side for the month. Working gas inventories recovered over the course of 2019 to normal levels, and warmer-than-average temperatures in December did not create any stresses on the system (Exhibit 3). Residential and commercial demand estimates for December 2019 came in slightly above December 2018 levels by 0.4 billion cubic feet a day. The more temperate January is already showing in the natural gas-dependent eastern region. ResCom demand numbers that are flat to December at around 39.8 bcf/d, or almost 9 bcf/d lower than January 2019. This flat demand is happening in the Northeast region where natural gas production, while relatively flat month over month, is still 8 bcf/d higher than at this point last year, spelling a greater risk to the downside this winter.

Exhibit 3 Working Gas in Storage, Week Ended Dec. 27

Source: EIA.

Conclusion

Major price spikes in the winter seasons are typically driven by changes in demand, and January is looking uneventful for the eastern portion of the country if the current forecast holds. The bearish fundamentals probably explain why Henry Hub futures have flattened for the remainder of the winter months this season, trading around \$2.15/mmBtu. While parts of the country can experience bursts of cold, the larger structural theme is leaning toward the warmer side. Longer-term forecasts for February and March show some cold slipping into the Great Lakes, but temperatures along the East Coast are forecast to be normal to above normal, threatening to push natural gas prices down even further as we move deeper into winter. ■■

About Morningstar® Commodities Research™

Morningstar Commodities Research provides independent, fundamental research differentiated by a consistent focus on the competitive dynamics in worldwide commodities markets. This joint effort between Morningstar's Research and Commodities & Energy groups leverages the expertise of Morningstar's 23 energy, utilities, basic materials, and commodities analysts as well as Morningstar's extensive data platform. Morningstar Commodities Research initially will focus on North American power and natural gas markets with plans to expand coverage of other markets worldwide.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individuals, financial advisors, and institutions. Morningstar's Commodities & Energy group provides superior quality market data and analytical products for energy data management systems, financial and agricultural data management, historical analysis, trading, risk management, and forecasting.

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

©2020 Morningstar. All Rights Reserved. Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses, and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete, or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses, or opinions or their use. References to "Morningstar Credit Ratings" refer to ratings issued by Morningstar Credit Ratings, LLC, a credit rating agency registered with the Securities and Exchange Commission as a nationally recognized statistical rating organization ("NRSRO"). Under its NRSRO registration, Morningstar Credit Ratings issues credit ratings on financial institutions (e.g., banks), corporate issuers, and asset-backed securities. While Morningstar Credit Ratings issues credit ratings on insurance companies, those ratings are not issued under its NRSRO registration. All Morningstar credit ratings and related analysis are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Morningstar credit ratings and related analysis should not be considered without an understanding and review of our methodologies, disclaimers, disclosures, and other important information found at <https://ratingagency.morningstar.com>. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To license the research, call +1 312 696-6869.