

# Natural Gas Rally Continues

## U.S. Power and Gas Weekly

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**Data Sources Used in This Publication**  
Intercontinental Exchange  
NOAA  
EIA

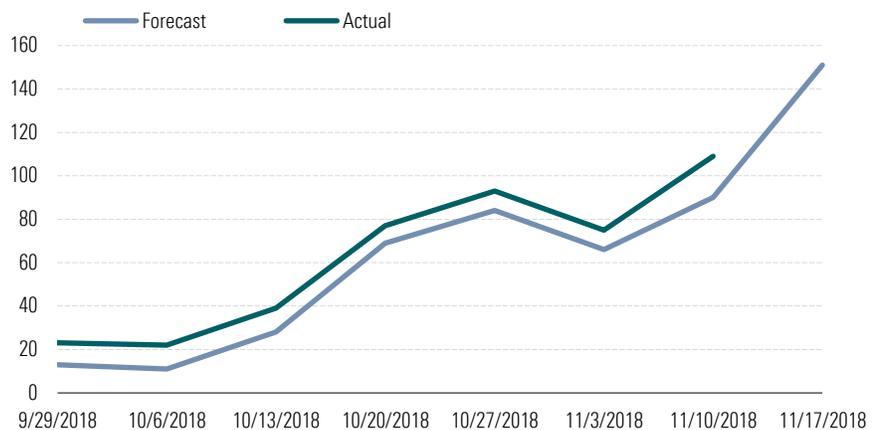
### Natural Gas Rally

Prices at Henry Hub remained range bound at around \$3 per million British thermal units this summer, even as below-normal storage injections left inventories at 3,208 billion cubic feet for the week ending Nov. 2—580 bcf lower than last year and 621 bcf lower than the five-year average. The first sign of bullish prices didn't come until October, with a shift from \$3/mmBtu to \$3.25/mmBtu, which had many wondering if it was a wake-up call or an overreaction ([Waking Up or an Overreaction?](#)). A second bump up started last Monday, with colder temperatures pushing prices up to above \$4.00/mmBtu. The last time prices hit \$4/mmBtu was at the end of 2015. Technical trading indicators point to an overbought market, but fundamentals point to a tighter supply environment. This note looks at whether the gas-price rally will continue.

### A Colder Weather Map

Over the last several weeks, short-term forecasts have trended colder, while longer-term forecasts continue to show equal probabilities for an above- and below-average season in the East. Population-weighted heating-degree days, or HDDs, for the Lower 48 have come in higher than forecast over the last few weeks, and the National Oceanic and Atmospheric Administration forecast for this week shows increased probability of higher-than-forecast heating demand.

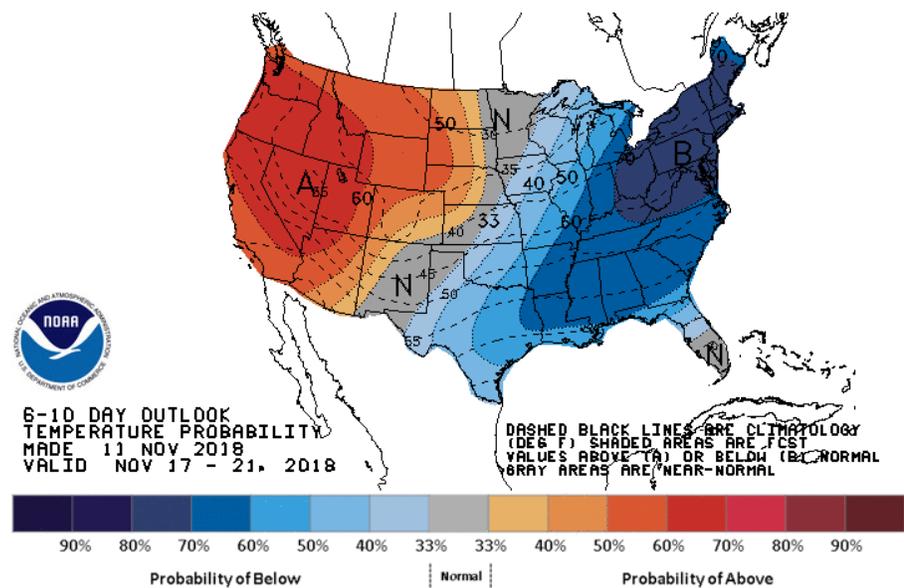
**Exhibit 1** Weekly Heating Degree Day Forecast, United States



Source: NOAA

Ensemble forecast models are trending colder for the week, and according to NOAA's six- to 10-day forecast (Exhibit 2), the cold will likely stick around. The weekly HDD forecast for the week ending Nov. 17 is expected to be 151, which is 29 more than normal and 25 more than last year. The daily HDD forecast is also trending colder, with the actual week ending Nov. 17 HDDs getting closer to 161. Natural gas demand will be stronger this week into next, as colder temperatures hang around.

**Exhibit 2** NOAA Six- 10-Day Outlook as of Nov. 12

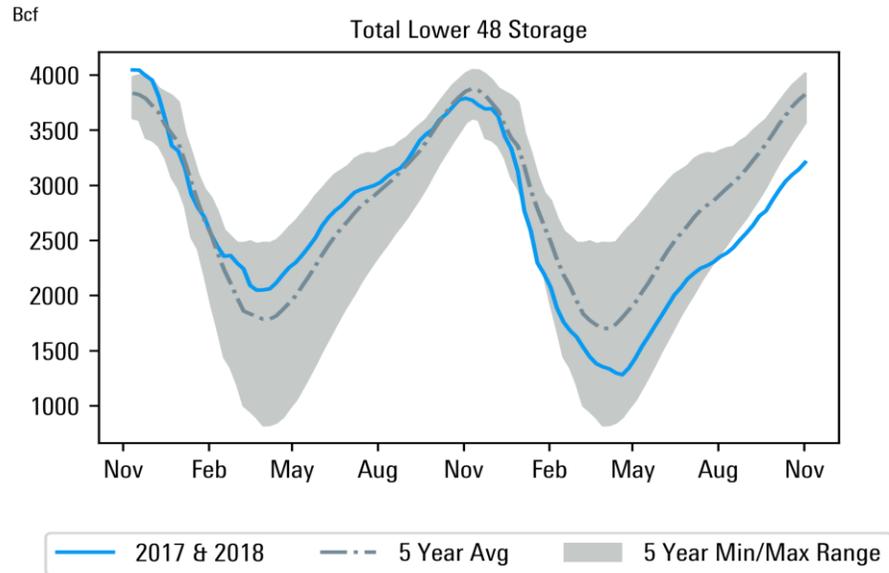


Source: NOAA

### Natural Gas Storage

On top of increased demand driven by colder temperatures, the gas storage position remains tight. The week ending Nov. 2 saw an injection of 65 bcf (Exhibit 3), which was higher than market expectations. Colder temperatures last week are likely to have put downward pressure on the injection number for the week ending Nov. 9 (due for release on Thursday due to the Veterans Day holiday). Current forecasts put the injection number somewhere in the mid- to upper 30s bcf, but the strong start to winter will show a withdrawal for the week ending Nov. 17. The injection for the week ending Nov. 9 would be higher than the 18 bcf withdrawal for the same week last year, and overall storage levels are likely to remain below the five-year range.

**Exhibit 3** EIA Weekly Storage (as of Nov. 2)



Source: EIA, Morningstar.

**Natural Gas Price Rally**

Since the end of summer, natural gas prices at Henry Hub moved up from \$2.80/mmBtu to \$4/mmBtu (Exhibit 4), primarily responding to changes to the short-term weather forecast. Lower national storage levels and an earlier assumption that temperatures were going to be milder in November led to this rally to the upside earlier in winter than expected. The rally is interesting because it is happening early in the winter season, when storage is still injecting. In this sense, the rally feels like an overreaction, although prices could now stay above \$3.80/mmBtu for the whole season, as the January, February, and March contracts moved up sharply with December this week.

**Exhibit 4** Henry Hub Prices (\$/mmBtu)



Source: ICE

Natural gas demand from the power and residential/commercial sectors is already higher than last year, and a strong start to winter points to this trend continuing. As natural gas generation continues to outpace coal generation in regions like PJM ([PJM, a New Coal/Gas Switching Regime?](#)), natural gas demand continues to grow and will stay above last year's levels. Current week natural gas demand is over 100 bcf/d, which are levels typically seen in January and February. The U.S. Energy Information Administration estimates for electric and res/com demand for the week ending Nov. 9 is at 46 bcf/d, which is 1.5 bcf/d higher than the same period last year. The main driver for the increased week-over-week demand has come from the res/com sector, with overall lower 48 electricity demand pretty flat. Higher demand coupled with lower storage numbers early in the season increases risk of a price event down the road if operational challenges present themselves as they often do later in winter.

### **Mixed Signals**

The colder turn in temperatures for much of the eastern U.S. appears to have fully woken the market up to the fundamentals. Earlier forecasts pointing to a milder winter shocked an otherwise complacent market higher when contradicted by Mother Nature. Colder short-term weather and moderate long-term forecasts are providing cover for the bulls as winter has a strong start. The fact that long-term forecasts still show a lot of uncertainty means prices will see greater volatility as the winter picture comes into greater focus. However, we expect temperatures to begin warming by the end of next week, and prices at Henry Hub to come down in response. The early price bump has pushed up the other winter contracts and could leave them above \$3.80/mmBtu for most of the winter, with risk to the upside as we enter the peak winter months. ■■■

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