

NATURAL GAS MARKET INDICATORS

AMERICAN GAS ASSOCIATION

UPDATE: JUNE 15, 2009



Reported Prices – even with firming oil prices (now exceeding \$70 per barrel) natural gas has separated from the oil complex and has fallen to a daily and prompt month range of \$3.50 to 3.85 per MMBtu. Optimism regarding future economic recovery seems to be fueling the oil commodity price rebound. However, looking at natural gas, the nation’s underground storage position is strong, as are other supply-related indicators compared to natural gas consumption. It appears that physical fundamentals are carrying the day for natural gas pricing. Some analysts (without a supply disruption or strong power generation demand this summer) see them going even lower.

Weather – three cooler than normal weeks followed the three warmer than normal weeks that kicked-off the late spring and summer air-conditioning season. Although cooling degree day data shows 8.0 percent warmer than normal aggregate conditions since the first of May, the past three weeks have been as much as 21.6 percent cooler than normal. In addition, the *National Oceanographic and Atmospheric Administration’s* (NOAA) May forecast of anticipated Atlantic basin hurricane activity points to near normal activity for summer 2009 with 9-14 named storms, 4-7 hurricanes and 1-3 intense storms. NOAA estimates the potential impacts on U.S. natural gas production from the storm activity at about 36 Bcf, which to put into context is less than one day of domestic natural gas production.

Working Gas in Underground Storage – to say that current working gas volumes in underground storage are ahead of previous averages remains an understatement. At 2,337 Bcf for the week ending May 29, 2009 national inventories were 30.5 percent ahead of one year ago and 22.1 percent higher than the five-year average. Data from May 29, 2009 showed that for the first time in the history of reporting weekly volumes (which began in 1994) May inventories exceeded 2,300 Bcf. With that said; the current strong storage position (2,443 Bcf given a 106 Bcf net injection for the week ending June 5, 2009) continues to be one signal that compared to natural gas demand the nation’s supply picture remains robust.

Natural Gas Production – domestic natural gas producers accounted for 1,740 Bcf of marketed production during the 31 days of January, 2009, according to *Bentek Energy, LLC*. Months later, in May (also 31 days), about 1,706 Bcf was produced – not exactly a precipitous decline in domestic production even though rig counts have fallen dramatically. So, what is the bigger picture for natural gas producers, today? Why are companies still producing? One reason is to generate cash flow. Another may be to meet leasing terms that often require some production activity as a condition of the lease. In addition, as if the current demand situation did not complicate things enough, producers are increasingly concerned about supply-side, policy-induced production constraints, potential changes in leasing terms, fracture treatment regulations, and federal tax treatment of intangible drilling costs. With that said, marketed production for the first 10 days of June has been about 55 Bcf per day.

Rig Counts – total rigs operating slipped to 887 for the week ending June 5, 2009 even though some elements of upstream costs have declined. For example, *IHS/CERA* estimates that upstream steel costs dropped 25.2 percent from the third quarter of 2008 through the first quarter of 2009. Rigs operating are now 999 units lower than this time last year. Even so, of those remaining 79 percent are targeting natural gas plays.

Pipeline Imports and Exports – the most dramatic change in U.S. natural gas supply in 2009 (up or down) has come in the form of reduced pipeline imports from Canada. Imports that averaged 7.9 Bcf per day in January 2009 slid to 5.4 Bcf per day in May. Even though deliverability in Canada has decreased, the primary reason for the decline in pipeline exports to the United States has been that the gas simply is not needed. Having said that, the United States continues to export nearly 1 Bcf per day to Mexico compared to 0.6 Bcf per day on average in April 2009 and 0.7 Bcf per day in May 2008.

LNG Markets – pinpointing the short-term nature of the U.S. LNG market remains very fluid. In recent developments, the Nigerian government has put all new gas export projects on hold as a result of a policy shift that prioritizes ensuring sufficient gas supply to the domestic market, including the industrial and power generation sectors. This should serve to limit exports to the United States. In addition, the mix of sources for U.S. LNG imports is evolving. Chevron inked a supply agreement with a Qatari supplier that will support exports to the United States if market conditions warrant. Gazprom has been even more aggressive, announcing plans to push Russian LNG to North America, eyeing 1.5 Bcf per day in exports by the end of 2009 to what a company representative called “the infinite sink market” of the United States. The lower-48 looks to become a new exporter of LNG, with DOE approval of Freeport LNG and Sabine Pass LNG’s request to re-export foreign LNG on a short-term or spot basis over the next two years. With all of that said, LNG vaporized and injected into U.S. pipelines averaged 1.6 Bcf per day for the first ten days of June.

Natural Gas Market Summary – it is always interesting to follow how certainty in the natural gas market seems to change in short order. Two months ago there was a growing consensus that imported LNG would flood the U.S. market. As the comments above point out, recent supplier news may be contrary to that outlook. Natural gas acquisition prices seem to have diverted from that of oil and, of course, views regarding the recovery of the overall economy are many and diverse. So, which trend will lose traction over the next 60-90 days? Which market fundamental is most likely to shift? These are great questions but they are great unanswerable questions at this time.

In issuing and making this publication available, AGA is not undertaking to render professional or other services for or on behalf of any person or entity. Nor is AGA undertaking to perform any duty owed by any person or entity to someone else. Anyone using this document should rely on his or her own independent judgment or, as appropriate, seek the advice of a competent professional in determining the exercise of reasonable care in any given circumstances. The statements in this publication are for general information and represent an unaudited compilation of statistical information that could contain coding or processing errors. AGA makes no warranties, express or implied, nor representations about the accuracy of the information in the publication or its appropriateness for any given purpose or situation.

Information on the topics covered by this publication may be available from other sources, which the user may wish to consult for additional views or information not covered by this publication.

Copyright 2009 American Gas Association. All rights reserved.

www.aga.org