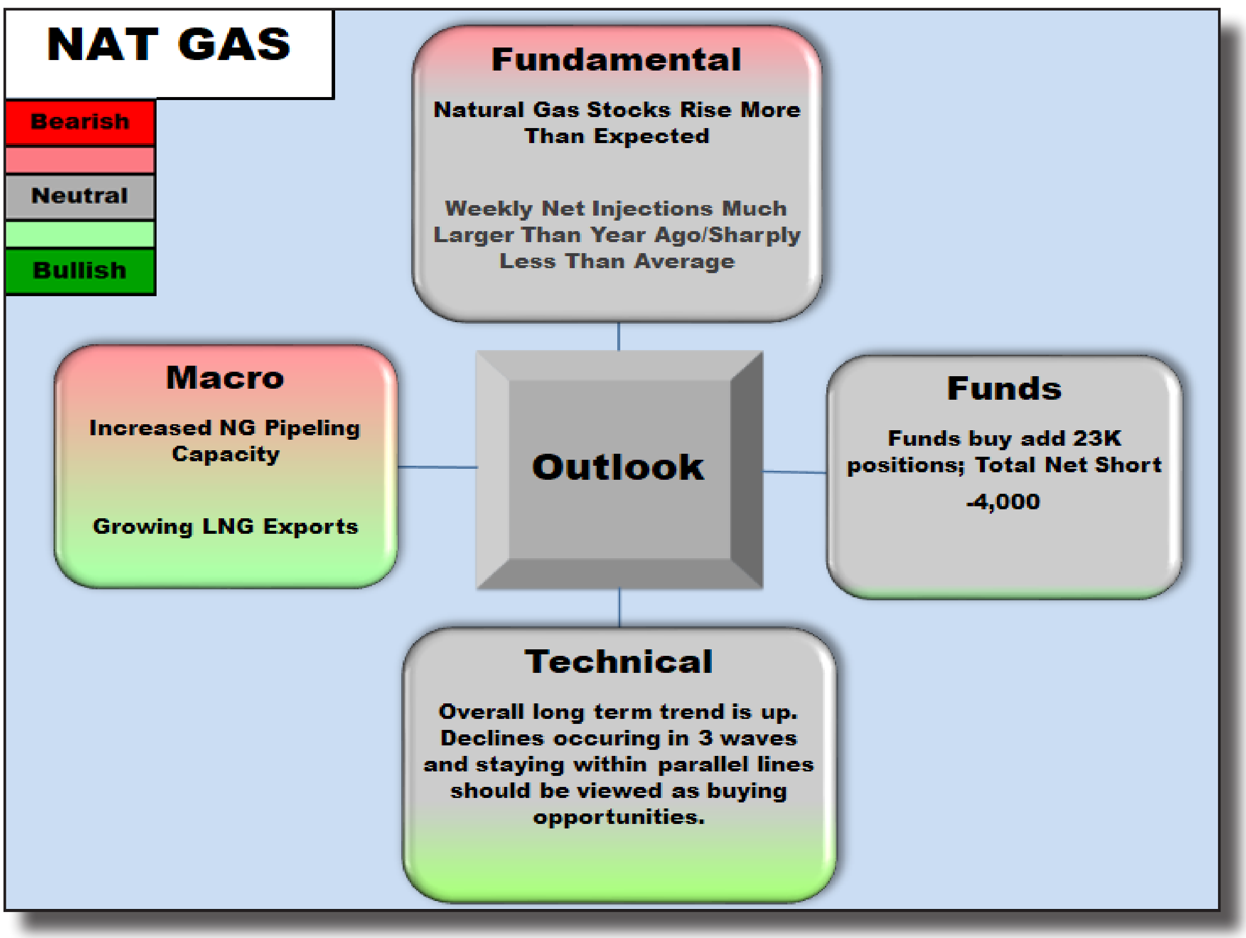
Trilateral Natural Gas Market Update

November 16, 2018

Recommendations

- If coverage is lacking throughout this winter, purchase calls to avoid a worst case scenario. According to the forward curve, the market is providing an opportunity to extend coverage at very attractive levels post April 2019. This week's move should be a wake up call and we recommend adding coverage that extends two to four years, dependent on individual local pricing opportunities. The risk/reward ratio is very favorable to extending coverage; check out chart 2 on page 5.



Market Highlights

Natural Gas

- Nat Gas Stocks Builds Rise More Than Expected
- Weekly Net Injections Much Larger Than Year Ago/ Average
- Weather Calls For VERY HIGH Demand
- Natural Gas Rig Count Up 2 To 195

- Supply Flat
- Demand Rises Significantly
- Natural Gas Feedstock Deliveries Increase

Read detailed recap

Market Recap

- The U.S. Energy Information Administration (EIA) reported Thursday morning that U.S. natural gas stockpiles increased by 39 billion cubic feet for the week ending November 9.
- Analysts were expecting a storage injection of around 33 billion cubic feet. The five-year average for the week is an injection of 19 billion cubic feet. Natural gas inventories rose by 65 billion cubic feet in the week ending November 2.
- Total Total U.S. stockpiles increased week over week from 15.6% to 14.0% below last year's level and also rose from 16.2% to 14.0% below the five-year average.
- The EIA reported that U.S. working stocks of natural gas totaled about 3.247 trillion cubic feet at the end of last week, around 601 billion cubic feet below the five-year average of 3.848 trillion cubic feet, and 528 billion cubic feet below last year's total for the same period. Working gas in storage totaled 3.775 trillion cubic feet for the same period a year ago.
- Chilly conditions will cover much of the US again with lows of teens to 40s, keeping national demand stronger than normal. A weather system exiting the Southeast will track north up the East Coast with areas of rain and snow, although not as cold as recent systems since its coming from the South. Another strong cold blast is expected into the central, southern, and the eastern US Sat-Wed with lows again of 10-30s north and 30s to lower 40s across portions of Texas and the South/Southeast. Overall, demand will be VERY HIGH.
- According to Baker Hughes, for the week ending Tuesday, November 6, the natural gas rig count increased by 2 to 195. The number of oil-directed rigs rose by 12 to 886. The total rig count increased by 14, and it now stands at 1,081.
- According to data from PointLogic Energy, the average total supply of natural gas remained the same as in the previous report week, averaging 91.3 Bcf/d. Dry natural gas production decreased by 1% compared with the previous report week. Average net imports from Canada increased by 19% from last week. Much of this increase can be attributed to increased U.S. imports from Canada at Waddington in upstate New York, as the 1.1 Bcf/d Iroquois pipeline is currently flowing at capacity, up from zero the week prior.
- Total U.S. consumption of natural gas rose by 27% compared with the previous report week, according to data from PointLogic Energy, as cooler-than-normal weather blanketed most of the Lower 48 states. This increase was led by the residential and commercial sectors, where consumption increased by 58%. Natural gas consumed for power generation climbed 16% week over week. Industrial sector consumption increased by 7% week over week. Natural gas exports to Mexico decreased 2%.
- Combined natural gas feedstock deliveries to all U.S. LNG liquefaction facilities have averaged 4.3 Bcf/d over the last week, compared to 4.0 Bcf/d the previous week, according to data from IHS Markit OPIS PointLogic Energy, as developers continue commissioning activities of the new liquefaction trains, including Sabine Pass Train 5, Corpus Christi Train 1, and Cameron LNG Train 1. Cheniere Energy, the developer of Sabine Pass and Corpus Christi liquefaction terminals, stated that the first LNG from Train 5 at Sabine Pass was produced in late October, and from Corpus Christi's Train 1 on November 14. Corpus Christi will be the third U.S. LNG liquefaction terminal placed in service, after Sabine Pass and Cove Point. An LNG vessel has been moored at the Corpus Christi's terminal berth to load the first LNG cargo from Train 1 since Sunday, according to SP Global Platts..

- **See Natural Gas Charts and Tables**

TRILATERAL

Natural Gas Charts and Tables

December Natural Gas Future (Close 3.918)

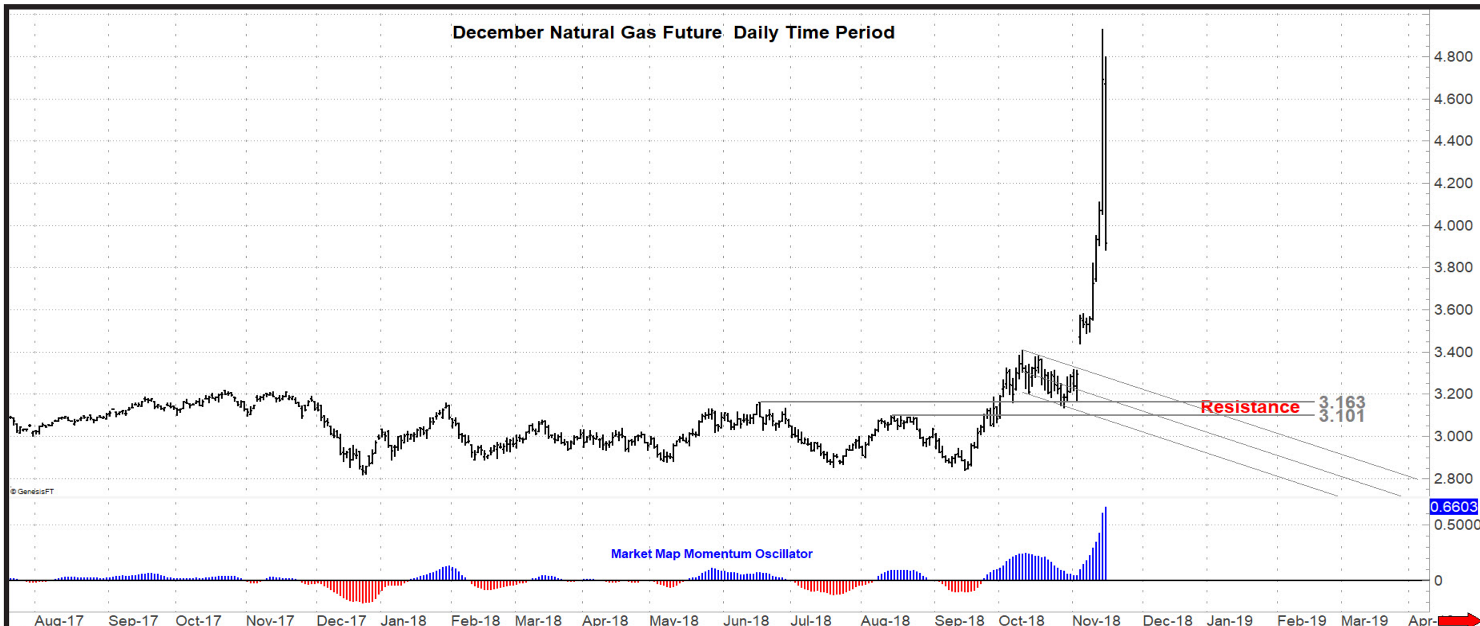
Support: 3.735, 3.486, 3.437, 3.166, 3.101, 3.047.

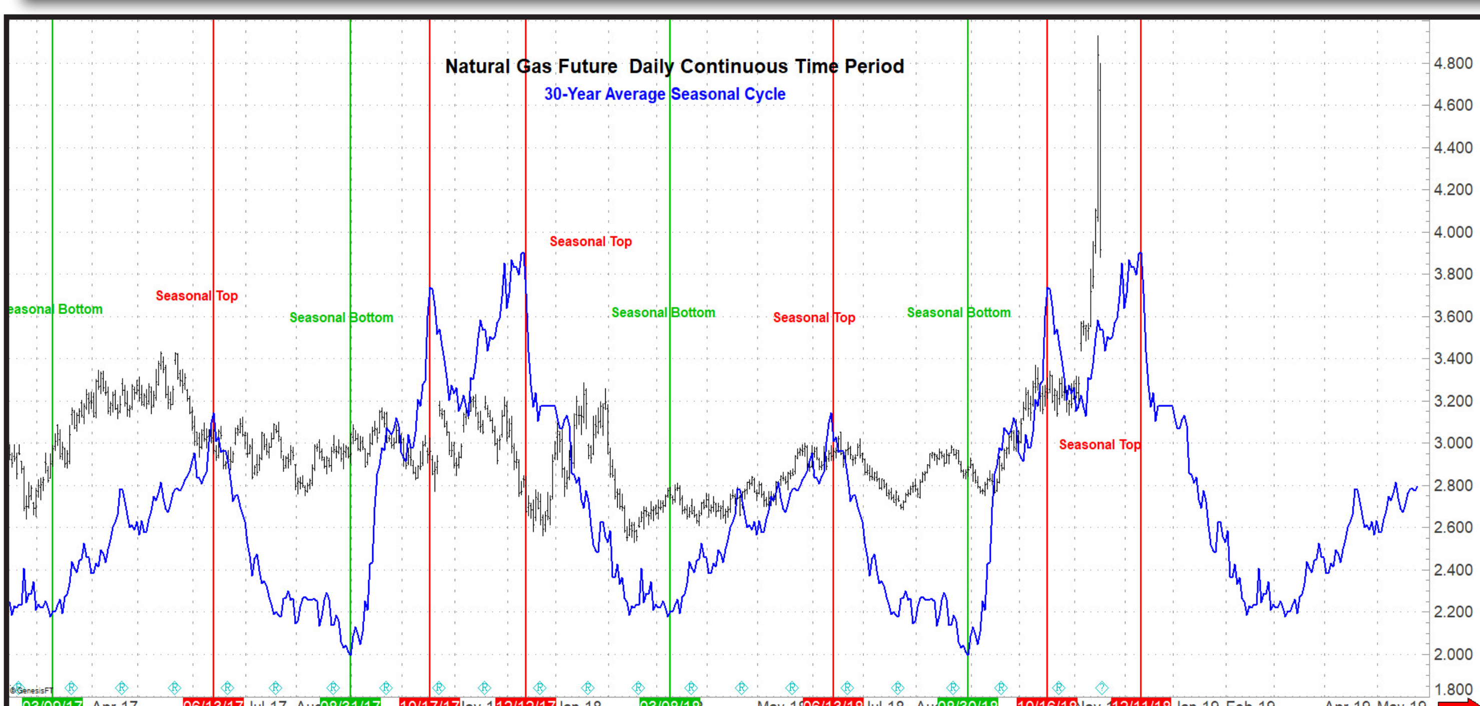
Resistance: 4.929, 5.277, 5/424.

Trend: Short-term: Up.

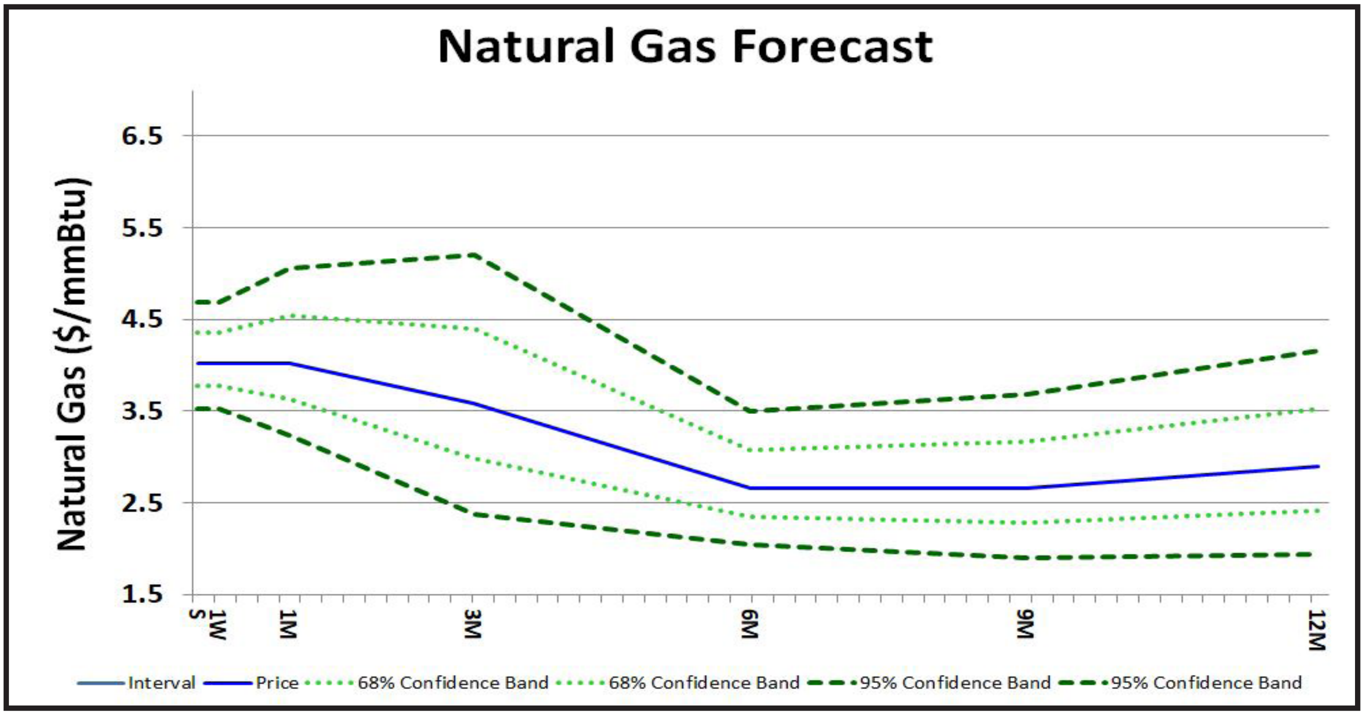
Long-term: Up.

TECHNICAL PERSPECTIVE: Natural gas broke out of its multi-month horizontal trading range, stabilized above resistance (3.101 to 3.183) and accelerated higher. There are reports/rumors of large hedge funds holding long crude oil/short natural gas positions being forced to liquidate. As long as prices remain above the break-out range between 3.101 to 3.183, the bias is to the up side. The seasonal cycle remain positive into yearend also keeping the bias up. It appears a 5-wave advance is unfolding with the recent peak the completion of wave 3. While a fourth wave correction is more than likely unfolding right now, once this correction is complete wave 5 should carry prices to a new high.





Natural Gas Price Forecast



Natural Gas 24-Month Strip

The chart of the 24-month Strip illustrates the value and beneficial risk/reward in extending coverage longer-term.