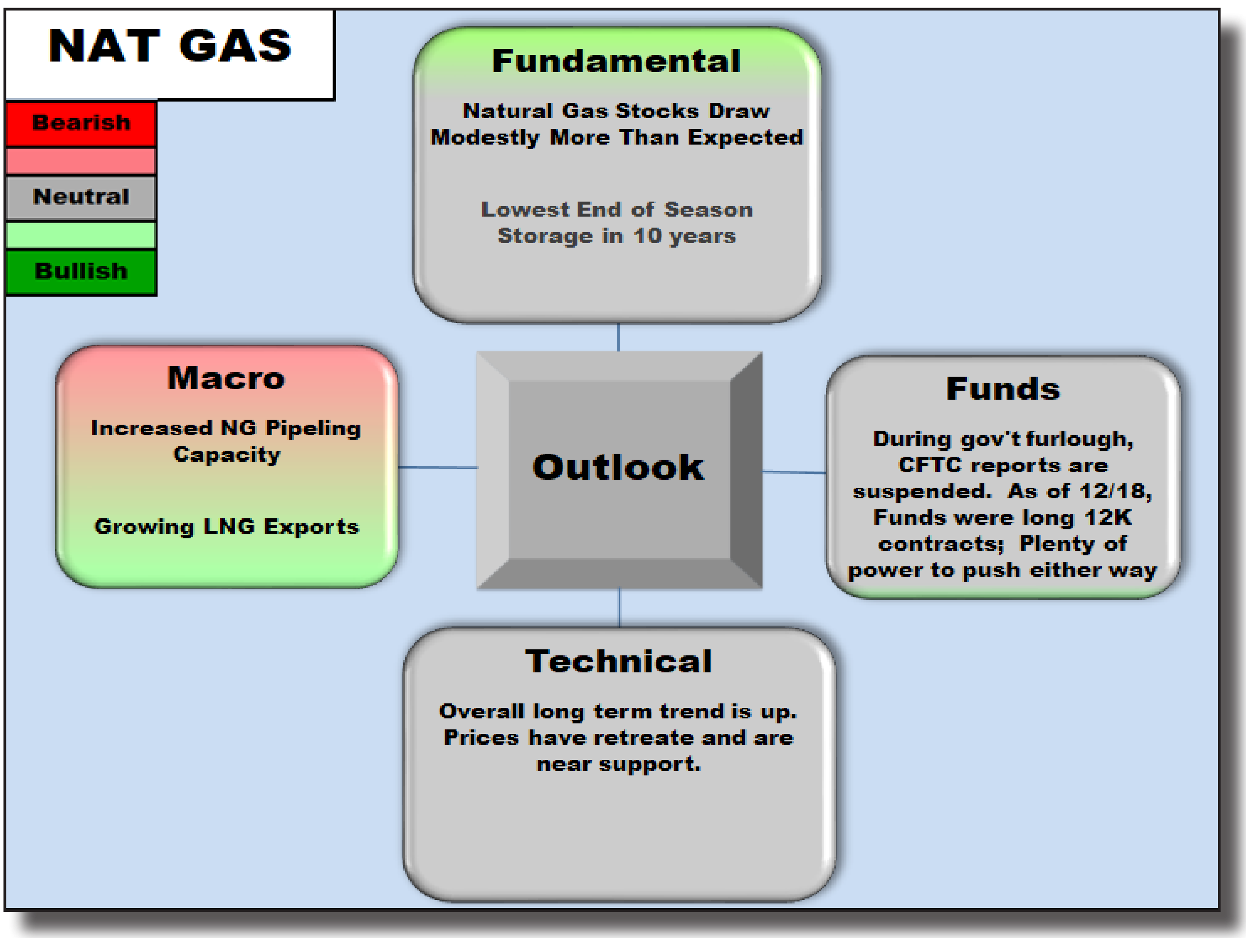
Trilateral Natural Gas Market Update

January 11, 2019

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 Draw Modestly More Than Expected
- Weekly Stocks Decline Significantly Less Than Year Ago/Average
- Weather Calls For MODERATE-HIGH Demand
- Natural Gas Rig Count Flat at 198

- Supply Rises
- Demand Falls Amid Warm Temperatures
- U.S. LNG Exports Are Flat Week Over Week, Set Record For Month Of December

[Read detailed recap]

Market Recap

- The U.S. Energy Information Administration (EIA) reported Thursday morning that U.S. natural gas stockpiles decreased by 91 billion cubic feet for the week ending January 4.
- Analysts polled by Reuters were expecting a storage withdrawal in a range of 50 billion to 115 billion cubic feet. The five-year average for the week is a withdrawal of 182 billion cubic feet, and last year's withdrawal totaled 359 billion cubic feet, an all-time record driven by extremely cold weather along the east coast. Natural gas inventories fell by 20 billion cubic feet in the week ending December 28.
- Total U.S. stockpiles increased week over week from about 14.3% to 7.2% below last year's level and also rose from about 17.2% to 15.1% below the five-year average.
- The EIA reported that U.S. working stocks of natural gas totaled about 2.614 trillion cubic feet at the end of last week, around 464 billion cubic feet below the five-year average of 3.078 trillion cubic feet and 204 billion cubic feet below last year's total for the same period. Working gas in storage totaled 2.818 trillion cubic feet for the same period a year ago.
- A strong cold front will push across the Great Lakes and Northeast the next several days with lows reaching the 0s to 20s for strong demand. However, much of the rest of the country will be mostly mild with highs of 40s to 70s to counter. Weather systems with rain and snow will track into the West Coast with rain and snow, but with only slight cooling. This weekend into early next week will bring weather systems across the southern and eastern US with rain and snow, followed by warming mid next week. Overall, national demand will be MODERATE-HIGH late this week into early next week.
- According to Baker Hughes, for the week ending Tuesday, January 1, the natural gas rig count remained flat at 198. The number of oil-directed rigs fell by 8 to 877. The total rig count decreased by 8, and it now stands at 1,075.
- According to data from PointLogic Energy, the average total supply of natural gas rose by 1% compared with the previous report week. Dry natural gas production remained constant week over week. Average net imports from Canada increased by 18% from last week as U.S. imports from Canada increased while U.S. exports to Canada declined. According to Genscape data, flows at Waddington, New York, on the 1.25 Bcf/d capacity Iroquois pipeline, which brings natural gas from Canada down to the New York City area, rose more than 30% week to week. Flows at St. Clair, Michigan, on the 1.35 Bcf/d capacity Vector pipeline, which delivers natural gas into the Dawn hub in Ontario, Canada, declined by more than 20% from the previous report week, driving declines in U.S. exports into Canada.
- Total U.S. consumption of natural gas fell by 3% compared with the previous report week, according to data from PointLogic Energy. Natural gas consumed for power generation declined by 1% week over week. Industrial sector consumption decreased by 2% week over week. In the residential and commercial sectors, consumption declined by 4%. Natural gas exports to Mexico increased 19%. U.S. exports to Mexico, which were low as a result of depressed holiday demand and higher production within Mexico, rebounded this week and reached a new daily high of 5.2 Bcf/d according to S&P Global Platts.
- U.S. LNG exports are flat week over week. 10 LNG vessels (7 from the Sabine Pass liquefaction terminal, 2 from Cove Point, and 1 from Corpus Christi) with a combined LNG-carrying capacity of 36.2 Bcf departed the United States between January 3 and January 9. One vessel was loading at Sabine Pass on Wednesday, according to shipping data compiled by Bloomberg.
- U.S. LNG exports reaches new record high last month. U.S. LNG exports in December 2018 set another record, with 36 exported cargoes, after Train 5 at Sabine Pass and Train 1 at Corpus Christi began producing LNG and shipped their first cargoes. Currently, seven liquefaction trains are operating in the United States across three facilities (five trains at Sabine Pass, one at Cove Point, and one at Corpus Christi). Three more liquefaction projects (Cameron LNG, Elba Island, and Freeport) are expected to enter service in 2019.
- **See Natural Gas Charts and Tables**

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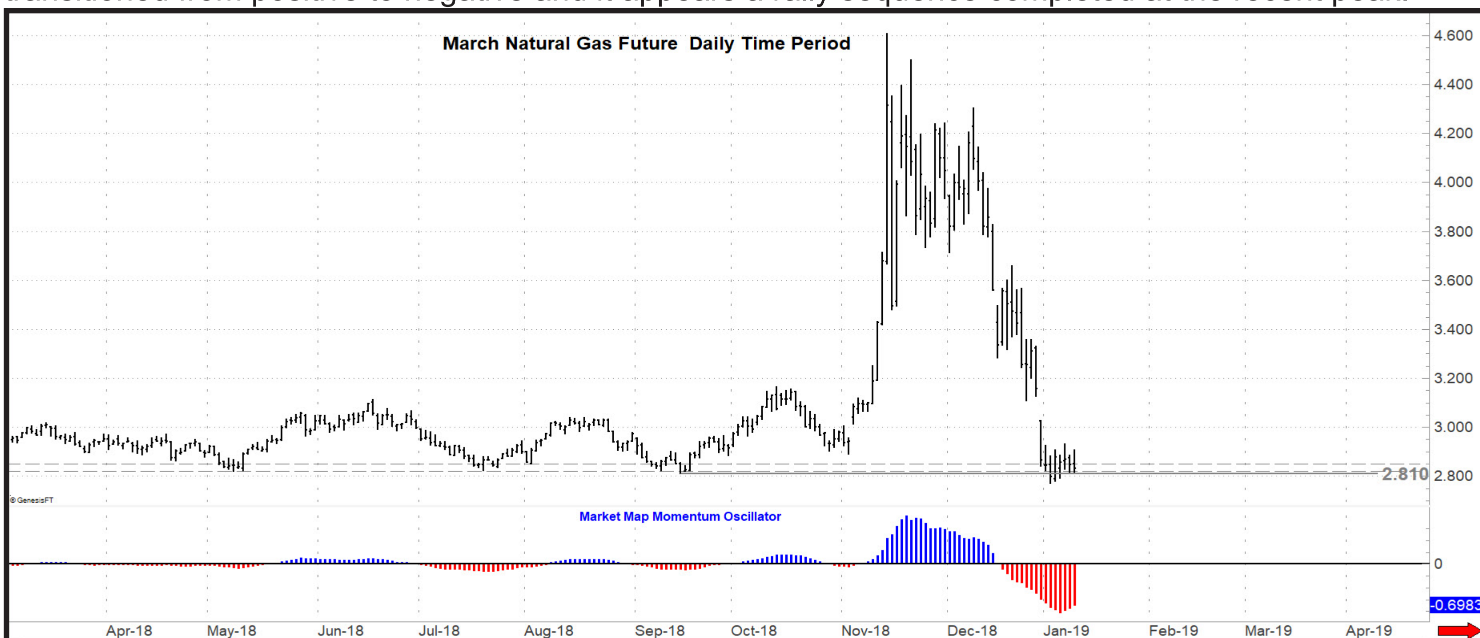
Natural Gas Charts and Tables

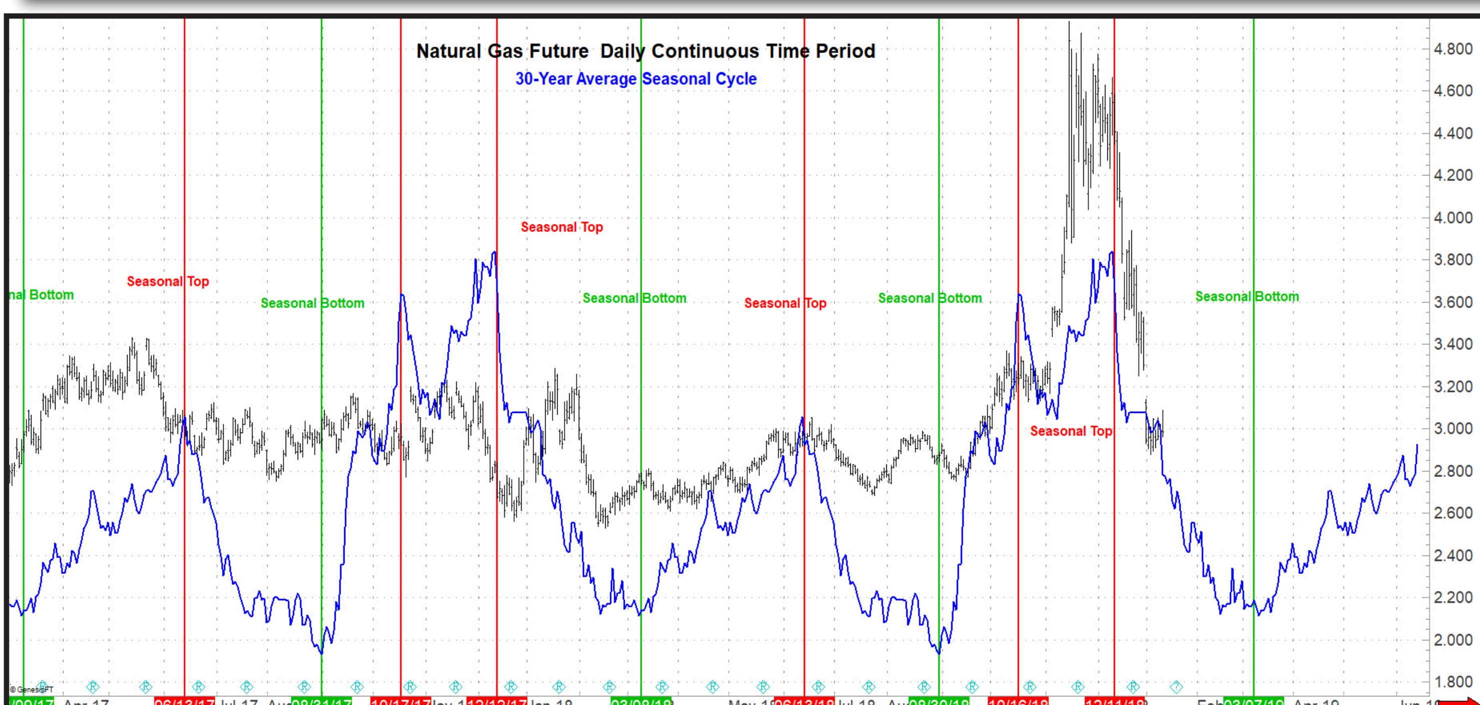
March Natural Gas Future (Close 2.834)

Support: 2.771, 2.762, 2.752, 2.704, 2.695. **Resistance:** 3.126, 3.361, 3.659, 4.304, 4.500.

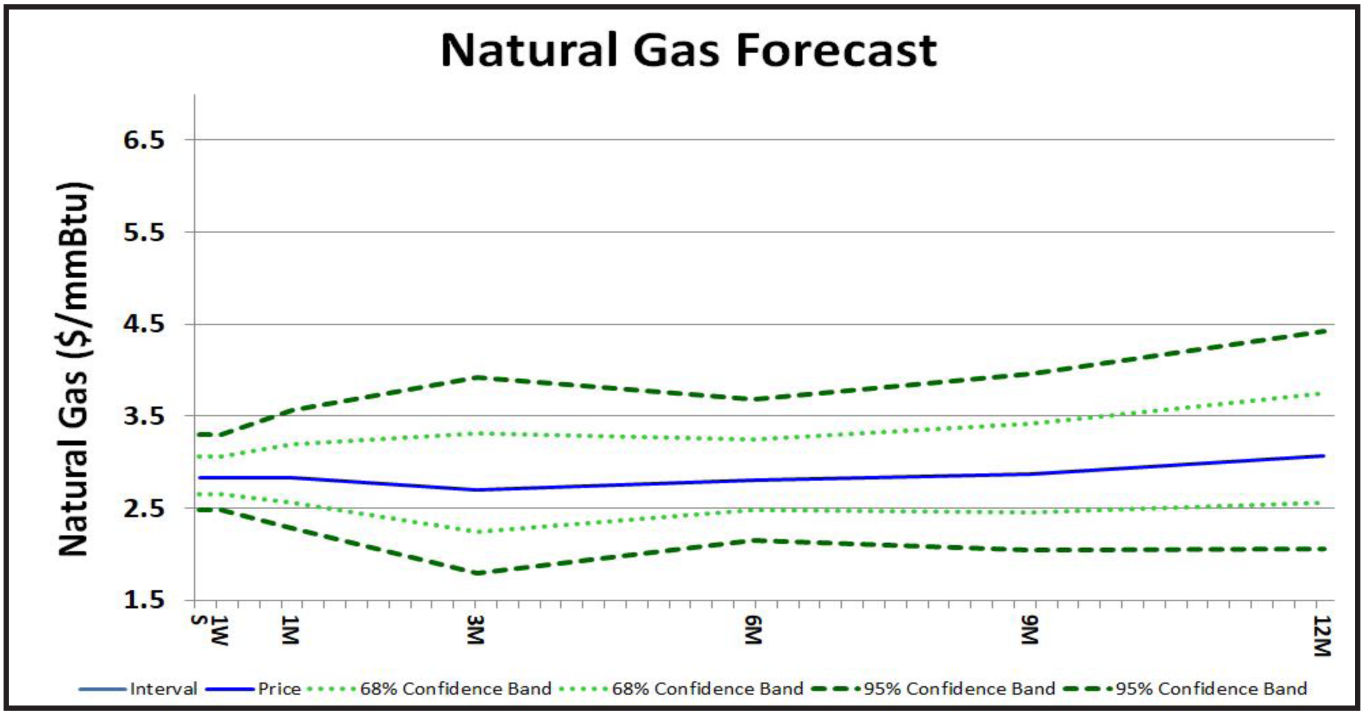
Trend: Short-term: Down. Long-term: Up.

TECHNICAL PERSPECTIVE: The severity of the decline in natural gas strongly suggests the entire rally was part of a corrective process. Prices have returned to the origin of the past rally which more than likely represents the current "cost of production". So from current price levels the downside appears to be limited. Technically, the rapid decline from the November peak has left several price "gaps" that ntend to be filled. So after additional stabilization at current levels, there is a strong chance that the price gap between 2.841 nad 3.126 will be filled. Expect a rally to be the major price event. The seasonal cycle transitioned from positive to negative and it appears a rally sequence completed at the recent peak.

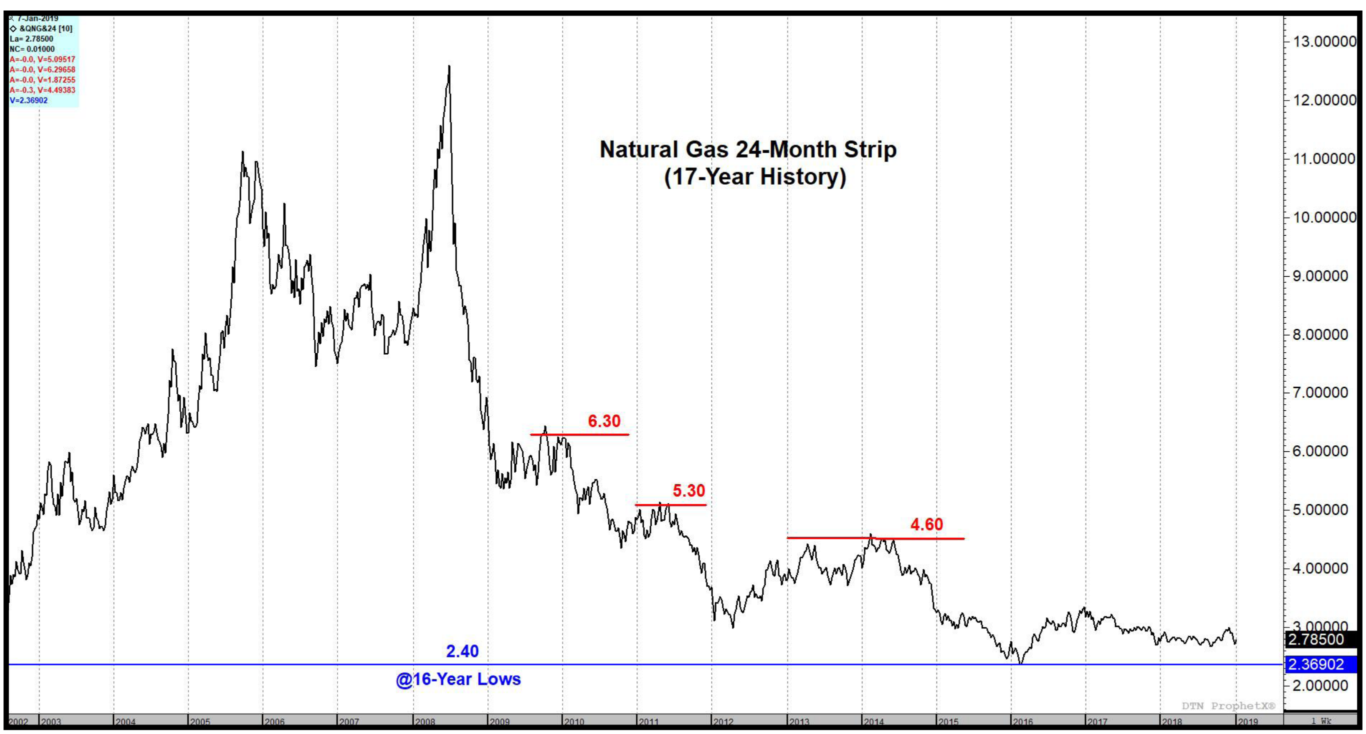




Natural Gas Price Forecast



Natural Gas 24-Month Strip



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