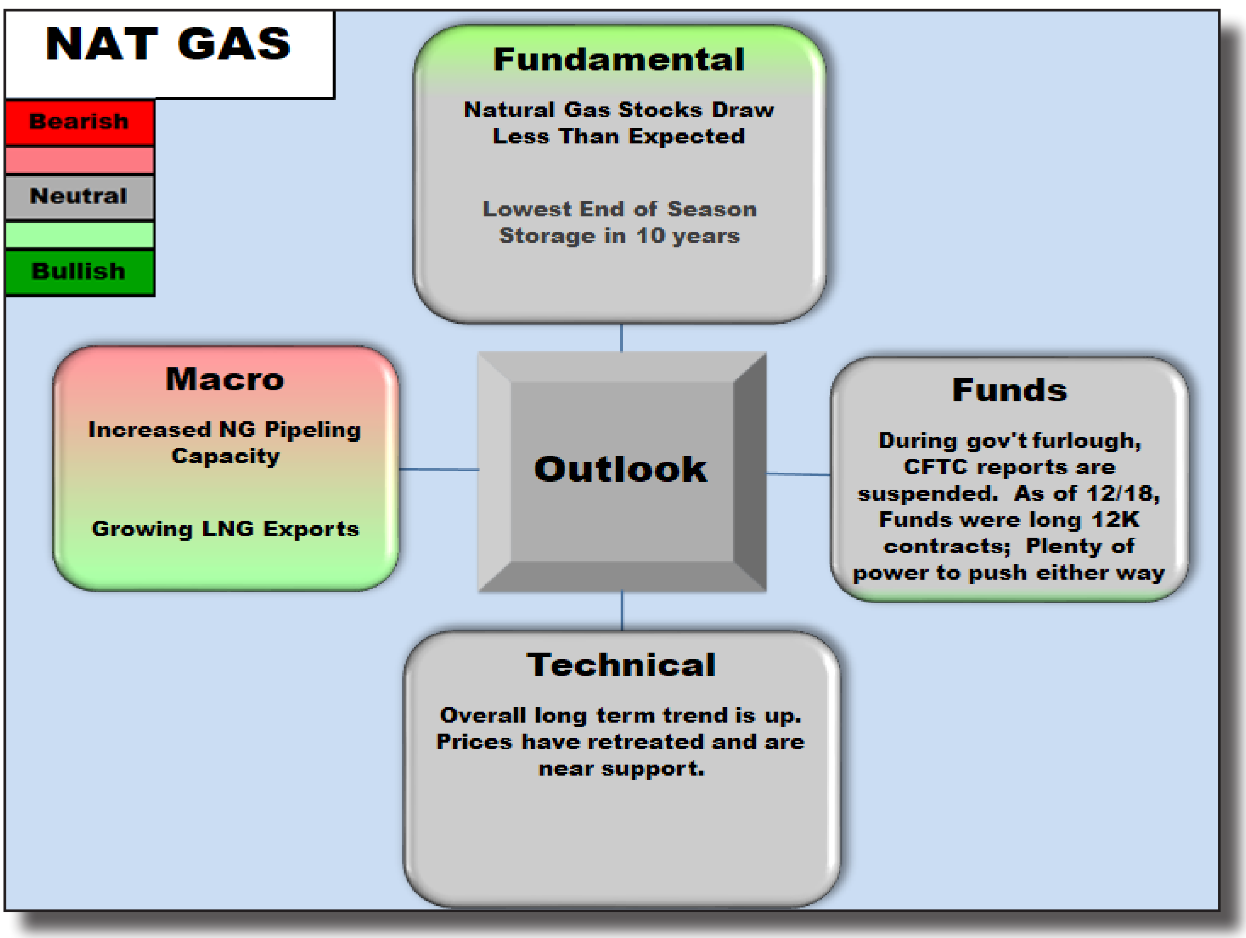
Trilateral Natural Gas Market Update

January 31, 2019

Recommendations

- 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 Less Than Expected
- Weekly Stocks Decline MoreThan Year Ago/Average
- Weather Calls For VERY HIGH, Then Low Demand
- Natural Gas Rig Count Down 1 To 197
- Supply Remains Flat
- Demand Rises
- U.S. LNG Exports Increase Week Over Week
- Annual Energy Outlook 2019 Projects Increased Natural Gas Production And Exports

[Read detailed recap]

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Market Recap

- The EIA released its weekly Natural Gas Storage Report today, outlining how national natural gas stocks have changed in the last week. In total, the EIA reports natural gas stocks fell by 173 Bcf last week, decreasing to 2,197 Bcf from 2,370 Bcf. This is 0.6% below the 2,211 Bcf that was in storage at this point last year and is 13.0% below the five-year average of 2,525 Bcf. This week's storage draw fell short of expectations, as analysts predicted a draw of 194 Bcf.
- All regions saw a draw this week, with the largest in the Midwest and South Central regions where stocks fell by 67 Bcf and 52 Bcf.
- Stocks in nearly every region are below the five-year average. Gas in storage in the Pacific region is the farthest below the five-year average.
- A dangerous polar blast continues to impact the Midwest with frigid temperatures of -40°F to -20s, with -20s to 0s across the Ohio Valley and Northeast, and 20s and 30s into the South and Southeast. The polar blast will exit Fri with strong warming to follow this weekend into next week with highs of 40s and 50s across the Great Lakes to Northeast with 60s and 70s over the southern US, locally 80s. Although, a strong cold shot is expected across the Midwest and Northeast late next week. The West will see increasing showers & becoming colder. Overall, national demand will be VERY HIGH Thu-Fri, easing to LOW this weekend.
- According to Baker Hughes, for the week ending Tuesday, January 22, the natural gas rig count decreased by 1 to 197. The number of oil-directed rigs rose by 10 to 862. The total rig count increased by 9, and it now stands at 1,059.
- According to data from PointLogic Energy, the average total supply of natural gas remained the same as in the previous report week, averaging 94.0 Bcf/d. Dry natural gas production remained constant week over week. Average net imports from Canada increased by 7% from last week amid cold weather.
- Total U.S. consumption of natural gas rose by 8% compared with the previous report week, according to data from PointLogic Energy. In the residential and commercial sectors, consumption increased by 11%, reaching a near-record high of 70.9 Bcf/d on Wednesday, January 30, the second-highest value ever recorded (the highest was 71.6 Bcf/d in January 2014). Natural gas consumed for power generation climbed by 6% week over week. Industrial sector consumption increased by 4% week over week. Natural gas exports to Mexico increased 3%—averaging 4.9 Bcf/d—reaching a record weekly high, according to Genscape.
- Despite decreased natural gas feedstock deliveries, U.S. LNG exports increase week over week. Seven LNG vessels (six from Sabine Pass and one from Cove Point) with a combined LNG-carrying capacity of 25.5, Bcf, departed the United States between January 24 and January 30, and one vessel was loading at Sabine Pass terminal on Wednesday, according to shipping data compiled by Bloomberg. Natural gas feedstock deliveries to U.S. liquefaction facilities have decreased during the past two weeks and averaged 3.9 Bcf/d, compared with an average 4.9 Bcf/d from January 1 to January 15, according to data from PointLogic Energy. The Corpus Christi terminal has not had any feedstock deliveries since January 20, when the facility exported its first five commissioning cargoes.
- EIA's recently released Annual Energy Outlook 2019 (AEO2019) Reference case projects continued growth in U.S. dry natural production and exports through 2050 as domestic natural gas prices remain relatively low and stable. Natural gas that is produced but not consumed domestically is exported, and the largest growth in exports is from liquefied natural gas (LNG). U.S. LNG exports are projected to increase from an average of 2 Bcf/d in 2017 to 14 Bcf/d by 2030. Much of the increase in LNG exports (8 Bcf/d) occurs between 2017 and 2023 as new LNG export facilities come online. This growth in production, consumption, and exports comes as U.S. natural gas prices are expected to remain relatively low and stable through 2050. The annual average Henry Hub spot price is expected to remain lower than $4.00 per million British thermal units (MMBtu) in real 2018 dollars through 2034 in the Reference case, and not to exceed $5.00/MMBtu by 2050. The range of Henry Hub natural gas spot prices in the AEO2019 is defined by the resource and technology side cases, indicating that assumptions about technically recoverable resources and costs drive the projections.
- **See Natural Gas Charts and Tables**

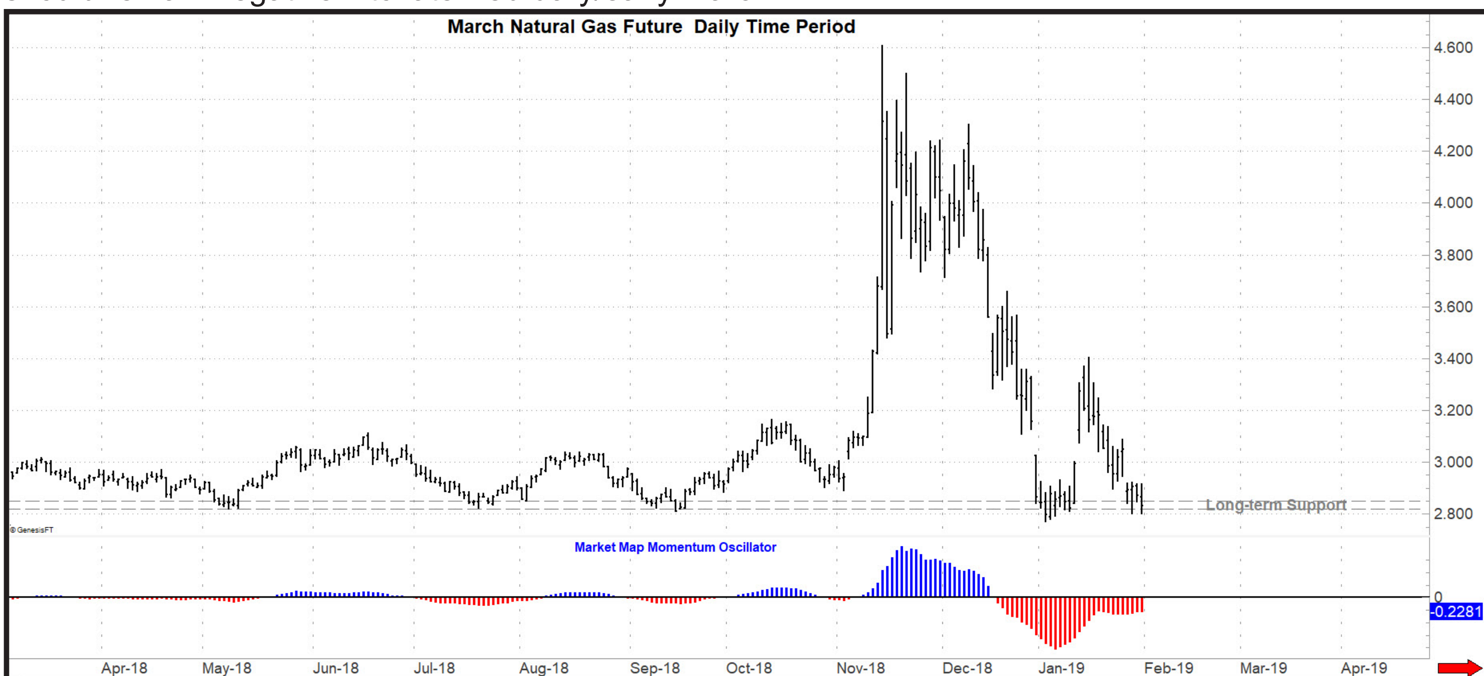
Natural Gas Charts and Tables

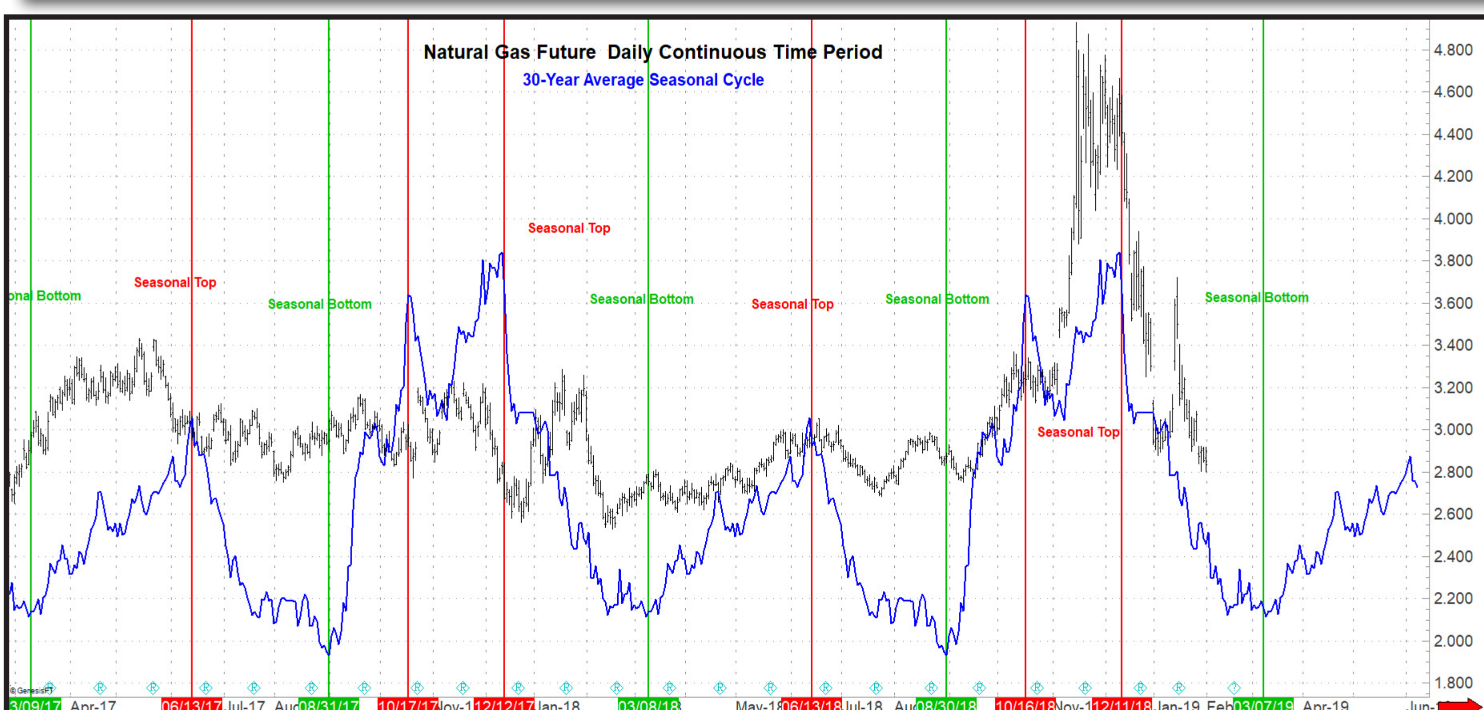
March Natural Gas Future (Close 2.832)

Support: 2.802, 2.771, 2.762, 2.752, 2.704, 2.695. **Resistance:** 3.090, 3.406, 3.659, 4.304.

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

TECHNICAL PERSPECTIVE: The severity of the decline in natural gas strongly suggests the entire November rally was part of a corrective process. Prices have returned to the origin of that rally which more than likely represents the current “cost of production”. So from current price levels the downside appears to be limited. Technically, the fact that prices have not exceeded the January low (2.771) could be a positive sign. Expect prices to well supported. The seasonal cycle transitioned from positive to negative and should remain negative into late-February/early March.





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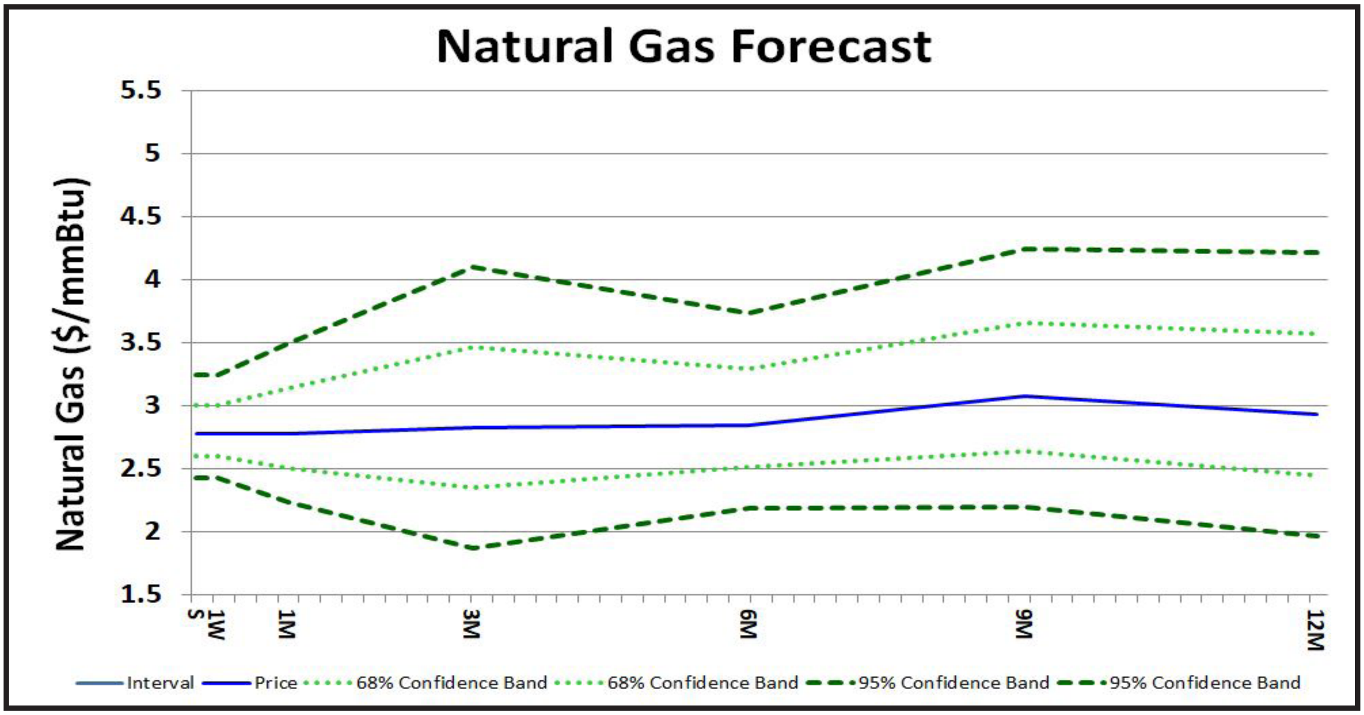
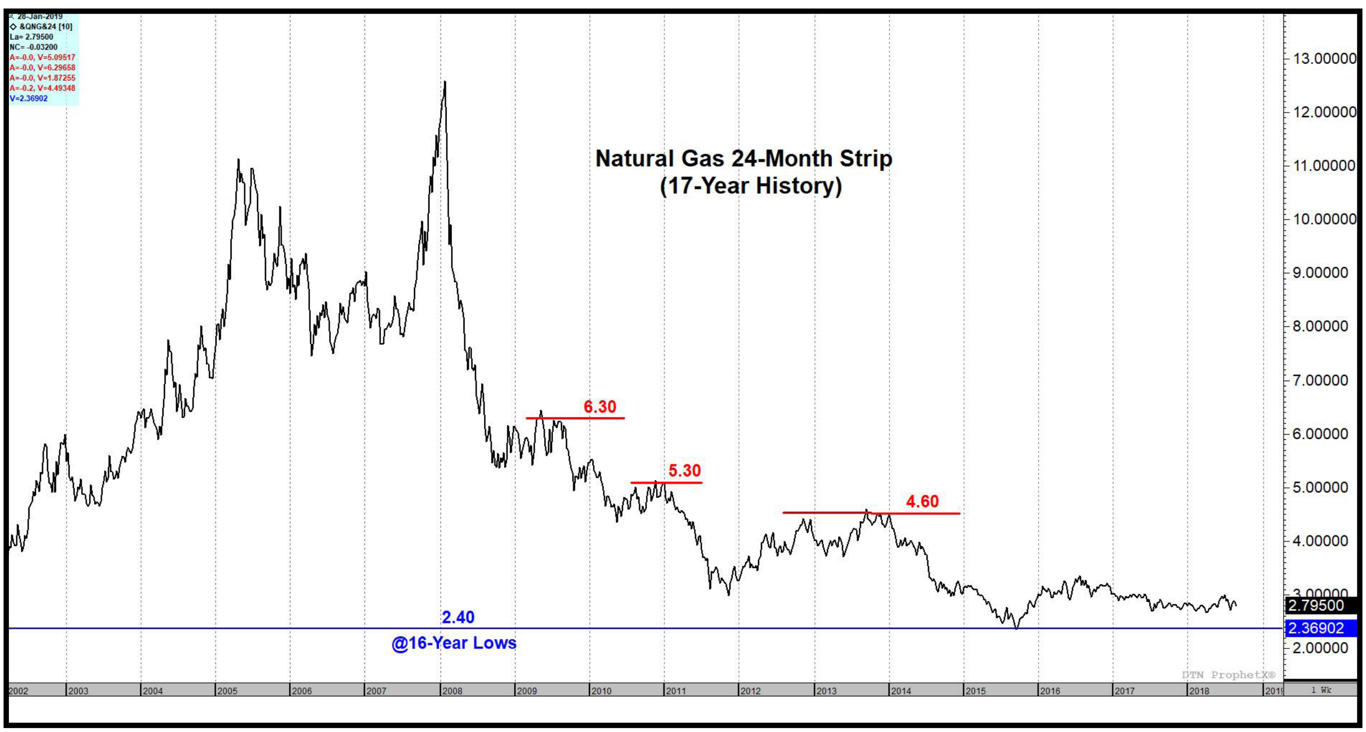
Natural Gas Price Forecast



Natural Gas 24-Month Strip



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