



Market Commentary

*Powered by Transparent Energy and Gary Graham,
Director of Energy Management*

2017 started off with a bang as cold arctic air forecasts supported a price rally just before Christmas that peaked on December 28th. Prices hit a 2-year high less than a month from our seasonal shoulder price declines that witnessed the last major price dip in 2016. The arctic forecasts were not realized and when models updated, they showed a dramatic reversal with the cold being short-lived and warmer than normal weather dominating the eastern United States in January. The unexpected change from well below average to well above, started a sell off that is beginning to level off after losing 20% since January 1st. Both physical and speculative markets plunged, shifting our curves to levels that are more reflective of a shoulder season.

After a year in which power prices plunged across the country, highlighted by a 19% reduction y-o-y behind PJM's West Hub, this volatility has brought much needed support for producers. This coupled with an increase in oil prices should set the table for a more profitable year for producers while at the same time inspiring more business investment. Thus, production will likely increase, creating a ceiling for prices.

Going forward expect weather and production fundamentals to continue to act as the principal driver in short-term market movement as well as volatile demand which will create the pace of natural gas storage withdrawals, a major price indicator for electricity and natural gas markets.

Quick Hits

- La Nina is still under an advisory but new models indicate a transition to downgrading to neutral in February, this should normalize seasonal volatility *if* our weather patterns follow suit.
- U.S. oil producers added the most rigs since April 2013, Baker Hughes reported for the week of Jan 20, 2017, adding 29 rigs for the week bringing the total to 551 units.
- Scepticism remains on if the first OPEC oil production curtailments will be implemented and whether prices will remain above \$50 per barrel into the summer driving season.
- The rise in natural gas prices has caused producers to ramp up drilling activity. Natural gas and oil drilling rig counts have risen 72% since bottoming out in May 2016. The EIA projects natural gas production will increase by 2% versus the 2016 average.

Bullish Factors

- Potential for colder arctic air reaching the lower eastern half of the US in February, inspiring increased heating demand.
- Extreme cold can disrupt production as well-head freeze-offs can keep natural gas supply offline, tightening the market.

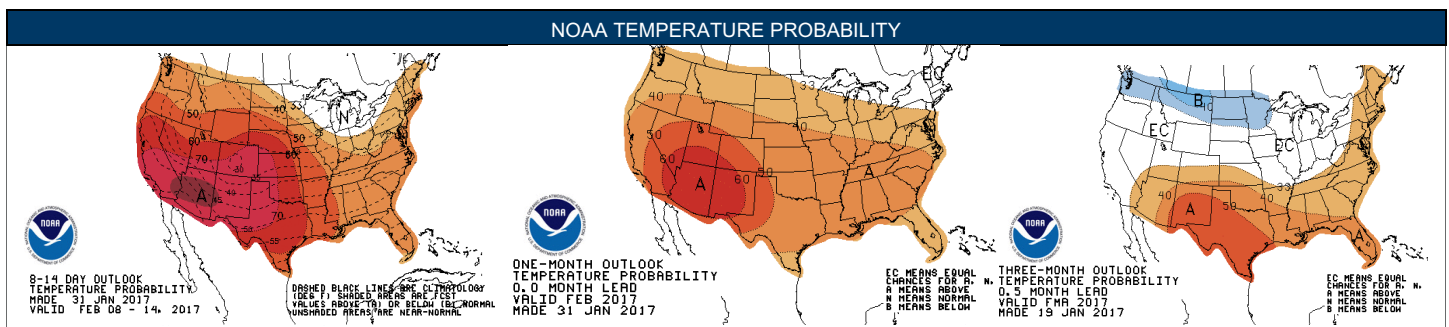
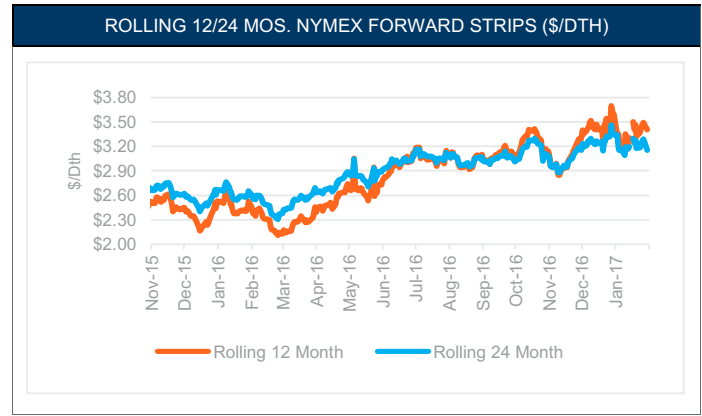
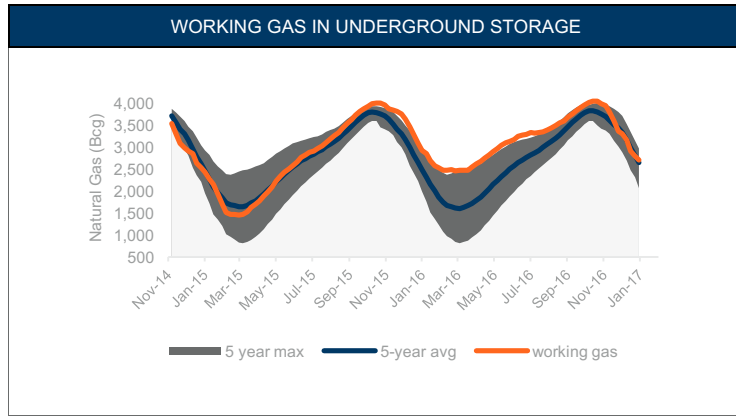
Bearish Factors

- Natural gas in underground storage remains above the 5-year average
- Reduced coal to natural gas power generation switching
- Increase in Oil prices has increased drilling rigs which includes associated natural gas production



Natural Gas

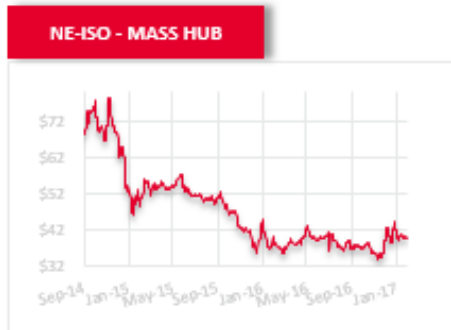
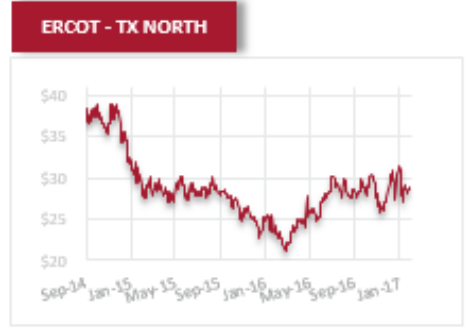
Region	CURRENT/HISTORICAL STORAGE (Bcf)						NYMEX NG FUTURES (PROMPT MONTH)					
	This Week	Last Week	% Chg.	Year Ago	5-Yr Avg.	Trade Date	Open	High	Low	Settle	Est. Vol	
East	596	639	-6.73% ▼	713	660	11/30/17	3.3	3.342	3.216	3.232	▼ -2.06%	140,634
West	757	795	-4.78% ▼	830	740	11/27/17	3.35	3.418	3.245	3.391	▲ 1.22%	23,093
Producing	1445	1483	-2.56% ▼	1603	1417	11/26/17	3.362	3.494	3.35	3.382	▲ 0.59%	88,798
TOTAL	2798	2917	-4.08% ▼	3146	2817	11/25/17	3.292	3.365	3.255	3.332	▲ -1.22%	51,800



Average Retail Electricity Price Trends (For the week ending 12/30/16 | January Start)

Term	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
12-Mo.	\$0.0971	\$0.0705	\$0.1074	\$0.0626	\$0.0660	\$0.0499	\$0.0836	\$0.0730	\$0.0879
24-Mo.	\$0.0979	\$0.0699	\$0.1115	\$0.0628	\$0.0673	\$0.0480	\$0.0827	\$0.0729	\$0.0926
36-Mo.	\$0.0995	\$0.0713	\$0.1103	\$0.0633	\$0.0696	\$0.0476	\$0.0858	\$0.0732	\$0.0939
48-Mo.	\$0.0960	\$0.0690	\$0.1069	\$0.0604	\$0.0701	\$0.0473	\$0.0866	\$0.0715	\$0.0907

*actual rates may vary by usage. Rates are aggregated from sources reflecting the General Service (GS) rate class



Energy Market News

Deregulated power markets save \$3B annually
<http://bit.ly/2kBEnsu>

The Days of Cheap Natural Gas Are Over
<http://bit.ly/2l48ciH>

Baker Hughes North American Rig Count
<http://bit.ly/1elov2d>

NOAA - US Seasonal Drought Outlook
<http://bit.ly/1fx4jgF>

EIA Short Term Energy Outlook
<http://www.eia.gov/forecasts/steo/>

Data Highlights

WTI crude oil futures price 1/30/2017: **\$52.63/bbl**
 ↓ \$0.12 from week earlier ↑ \$19.01 from year earlier

Crude oil inventories 01/27/2017: **494.8 m bbl**
 ↓ 6.5m bbl from week earlier ↑ 23 m bbl from year earlier

Natural gas futures price 01/27/2017: **\$3.391/MMBtu**
 ↑ \$0.187 from week earlier ↑ \$1.093 from year earlier

Natural gas inventories 01/20/2017: **3,146 Bcf**
 ↓ 348 Bcf from week earlier ↑ 60 Bcf from year earlier

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