



Market Commentary

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

Halfway through Q2 with the rudder slowly turning towards injection season, natural gas storage inventories now stand at 1,682 Bcf, a 29% reduction from just one year ago, and 18.1% below the five-year average. With stocks at a multi-year low, one month left in withdrawal season and some cold weather on the way for the northeast in March, we might expect to see some corresponding price movement to the upside. However, the price of natural gas has remained relatively stable of late, with the April futures contract now trading just under \$2.70/MMBtu. To put this in perspective, when we came out of 2014 winter and stocks were at an all-time low of 824 Bcf, the price of natural gas skyrocketed to \$6.50/MMBtu. That type of movement and volatility is traditionally the expectation when there are more buyers in a market than there are sellers, yet we find ourselves in a very similar situation with subdued volatility.

Natural gas production is currently one of the main drivers of low natural gas prices. Both improvement in technique and a favorable political climate have allowed for more efficient production in Marcellus shale regions. Furthermore, tax reform has had a significant impact on the economics of production and output. The result is continual record-setting production numbers, running about 6 Bcf/day higher than last year at this time. Essentially, the 6 Bcf per day of additional production over the last year is being demanded by seasonal heating loads when cold, power generation requirements on the coldest days, and pipeline exports to Mexico along with LNG trade. As the market transitions to the next storage injection season in April, it appears confident that strong flowing supplies will fill the increment by which storage inventories trail compared to recent volumes. If this is truly the case, and the next four weeks of withdrawal season prove to be bearish, then the question remains of when the market may find a bottom.

In the past two years, the market has reached lows in either February (2017) or March (2016). Depending on how any extreme cold weather ahead of us plays out, we could see a short-lived decline in the next few weeks that could potentially take us to a new low (~\$2.52/MMBtu). That being said, LNG export terminals are gearing up to offset gains in production, as LNG exports from Sabine Pass are approaching 1 trillion cubic feet since Feb-2016, with the top destinations being Mexico, South Korea, and China. Furthermore, the new LNG facility in Maryland (Cove Point) is inching closer to its first export under 20-year contracts inked with Japan and India. This vertical will surely continue to boost natural gas prices and will likely be one of the main drivers of prices returning to a more normalized average of \$3.20-\$3.30 in 2018.

Quick Hits

- FERC Orders another drilling halt on Rover Pipeline Site
- The EIA reported Thursday morning that, for the week ending February 23, U.S. inventories decreased by 78 Bcf, close to the expected withdrawal of 80 Bcf.
- According to a report released in February, the Energy Information Administration (EIA) expects a 40% increase in the amount of natural gas consumed in the U.S. industrial sector over the next 30-plus years, from the 9.8 quadrillion Btu consumed in 2017 to 13.7 quadrillion Btu by 2050.
- Over the 11-to-15-day forecast period, slightly below-average temperatures are anticipated in the Southeast while the central U.S. is projected to warm up.

Bullish Factors

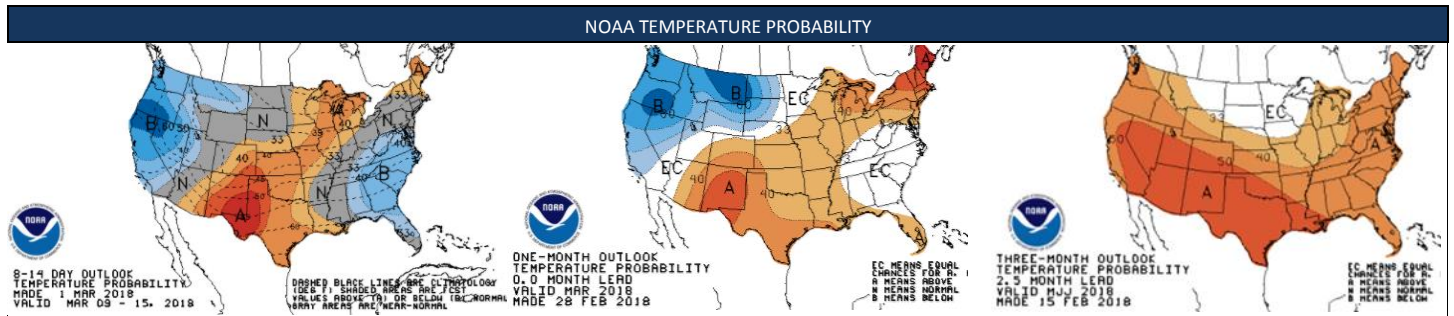
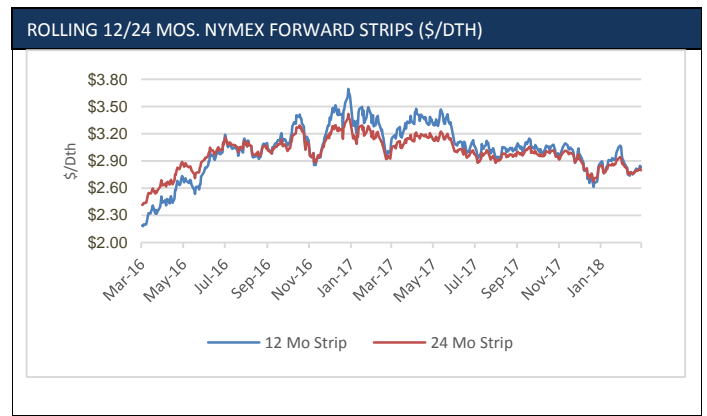
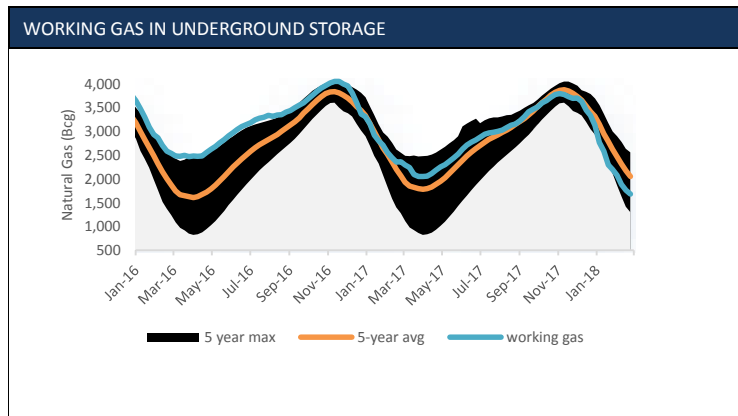
- Winter Storm Riley undergoing bombogenesis into a strong Nor'easter with damaging winds, coastal flooding, and heavy, wet snow in the east
- New Jersey Senate Bill 877— a continuation of Assembly Bill 5330 and SB 3560 which would have created the Nuclear Diversity Credit (NDC) program for PSEG's nuclear plants worth \$300 million annually—has passed out of the Senate Environment and Energy Committee on February 26.
- FirstEnergy to deactivate 1.3GW Pleasants coal power plant in 2019

Bearish Factors

- Temperatures are higher than normal during the storage week throughout most of the Lower 48 states east of the Rocky Mountains.
- Natural gas plant liquid production reaches new annual record in 2017, with projected continued growth.
- FERC approves \$3.2B TransCanada pipeline projects.

Natural Gas

CURRENT/HISTORICAL STORAGE (Bcf)						HENRY HUB PROMPT MONTH NAT GAS SETTLEMENTS						
Region	This Week	Last Week	% Chg.	Year Ago	5-Yr Avg.	Trade Date	Open	High	Low	Settle	% Chg.	Est. Vol
East	382	403	-5.497% ▼	422	413	3/2/2018	2.693	2.728	2.686	2.695	▼ -0.695%	314,474
West	689	743	-7.837% ▼	1100	1088	3/1/2018	2.668	2.668	2.642	2.698	▲ 1.149%	315,680
Producing	611	614	-0.491% ▼	982	795	2/28/2018	2.693	2.71	2.6590	2.667	▼ -0.600%	371,410
TOTAL	1682	1760	-4.637% ▼	2363	2054	2/27/2018	2.68	2.702	2.633	2.683		319,776



Average Retail Electricity Price Trends (April Start)

Week Ending	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
1/26/2018	\$0.0959	\$0.0581	\$0.1122	\$0.0561	\$0.0530	\$0.0419	\$0.0714	\$0.0657	\$0.0947
2/16/2018	\$0.0946	\$0.0567	\$0.1121	\$0.0561	\$0.0431	\$0.0469	\$0.0720	\$0.0651	\$0.0944
2/23/2018	\$0.0940	\$0.0562	\$0.1115	\$0.0557	\$0.0528	\$0.0446	\$0.0724	\$0.0650	\$0.0938

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

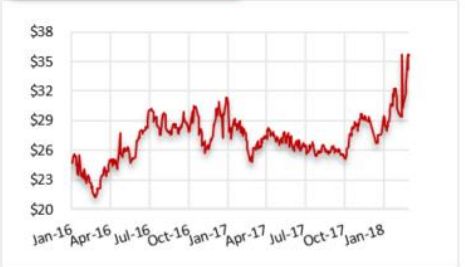
NYISO - Zone J



PJM - PSEG



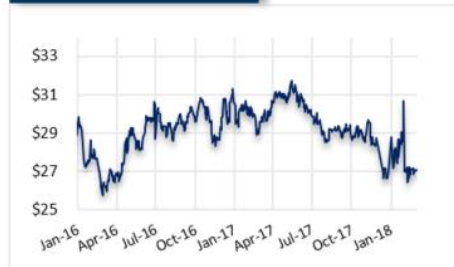
ERCOT - TX



NE-ISO - MASS HUB



PJM - COMED



PJM - ATSI



Energy Market News

Market reforms unlikely to bolster coal production
<http://bit.ly/2FjNh87>

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

↑ \$1.78 from week earlier

03/01/2018: \$60.99/bbl

↑ \$7.16 from year earlier

Natural Gas Inventories

↓ 78 Bcf from week earlier

02/23/2018: 1,682 Bcf

↓ 680 Bcf from year earlier

Natural gas futures price

↑ \$0.064 from week earlier

03/01/2018: \$2.698/MMBtu

↓ \$0.101 from year earlier

Weekly coal production

↓ 0.419 million tons week earlier

02/24/2018: 15.153 million tons

↓ 0.253 million tons year earlier

For more Information:

Gary Graham

Director of Energy Management
 Cushman & Wakefield
 +1 312.470.1851
garv.graham@cushwake.com

Luke Nemes

Transparent Energy
 +1 862.210.8770
lnemes@transparentedge.com

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