

June 2018



Market Commentary

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

As we move into June and begin to home in on both the summer forecast and the anticipated cooling demand, let's first review some of the recent activities and their corresponding impact to natural gas and electricity futures.

Last month, I wrote that we should begin to see some "triple digit" injection numbers show up every Thursday morning with the EIA's natural gas storage reports. While we've come close in the past three weeks (91/96/92), we haven't quite hit the mark just yet. Much of this is due to a historically warm May that resulted in some unforeseen power burn to accommodate the associated cooling demand. So, while injections have been relatively healthy compared to historical averages, and production has continued to set y-o-y records, the substantial storage deficit remains. Even though the amount of natural gas in storage has risen from 1.281 to 1.817 Tcf since the injection season commenced last month, the stocks remain 30.5% below last year's level and 22% under the five-year average as of week-ending June 1. We are still within the five-year historical range, but should this trend continue for remainder of the summer, we could quickly be at or below the 5-year minimum. A dip below the 5-year minimum would likely be met with a flurry of activity to the upside.

While the EIA forecasts storage inventories will total 3,520 Bcf by the end of the injection season, or 8% below average and 7% below last year's 3,790 Bcf total at the end of October 2017, LNG exports and pipeline exports to Mexico will likely continue to offset the advances and gains in production. Accordingly, prices for both natural gas and electricity have remained firm. Again, we find ourselves amid a market that will be highly sensitized to weather driven demand, and more specifically, highly correlated to increases in cooling degree day (CDD) accumulation throughout the upcoming summer. Currently, both the 6-10 and 8-14 day outlooks are calling for above average temperatures in the high demand areas of the country. Presently, this is all supportive of the bull camp, but that could change quickly should the predictions of a cooler second half of the summer come to fruition.

In regulatory news, President Trump's administration continues to push measures geared towards reviving failing nuclear and coal generation fleets. President Trump has now directly requested this from Energy Secretary Perry via a White House memo. While nothing has been officially put in place, most market participants continue to advocate against such a move as it would likely upend competitive markets. In other, albeit related, news, PJM's latest Base Residual Auction resulted in 25% less nuclear capacity. As a result, capacity costs increased for the majority of the market for planning years 2021/2022.

Quick Hits

- For the week ending June 1st, EIA reported an injection of 92 Bcf, in line with market expectations and in middle of 85-98 Bcf range
- The deficit to both last year and the five-year averages increased this past week and is likely to continue to increase over the next few weeks given demand and weather forecasts.
- Cleared nuclear capacity fell by more than 7 GW from PJM's last base residual auction, while demand response, renewables, gas and coal all saw their shares expand.
- President Trump has directed the DOE to prepare immediate steps to halt the wave of nuclear and coal-fired power plant closings.

Bullish Factors

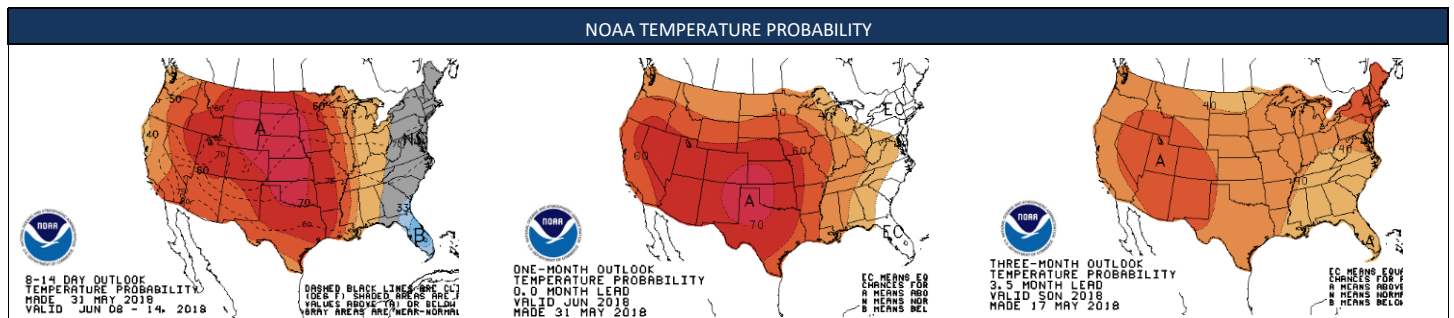
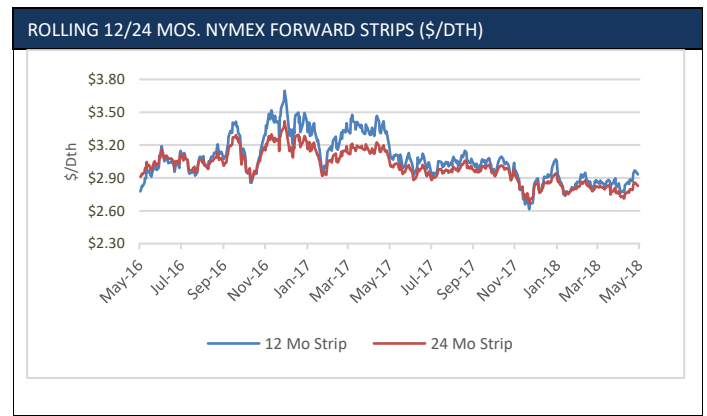
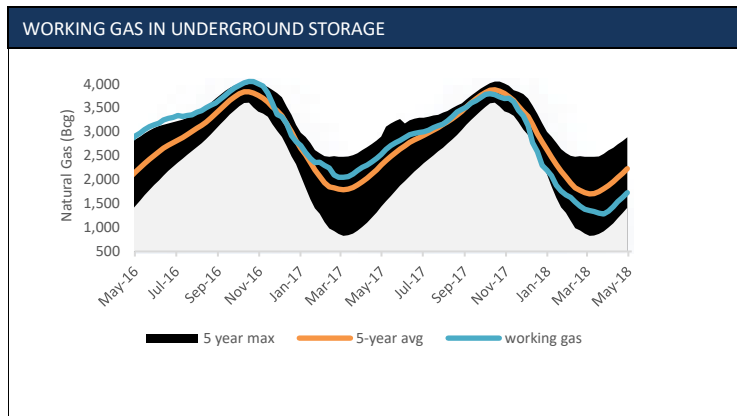
- The storage deficit, currently at -35% compared to year-ago levels and -22% compared to the five-year average, has been supporting NYMEX prices above \$2.50/MMBtu.
- Last summer was generally cool and May 2018 was one of the hottest in recent memory, so demand is elevated and compounded by increasing LNG exports and Mexico exports.
- Warm temperatures are projected throughout the continental U.S. over the 11-to-15-day forecast period. Above-average temperatures are expected to continue across the Lower 48.

Bearish Factors

- The Federal Energy Regulatory Commission last week approved full service on the \$4.2 billion Rover natural gas pipeline's Mainline B across northern Ohio. The approval allowed Texas-based Energy Transfer Partners and its subsidiary, Rover Pipeline, to begin full commercial service, flowing 3.25 billion cubic feet per day (Bcf/d) on two segments with two side-by-side pipelines.
- As per Baker Hughes, the number of active U.S. oil drilling rigs moved higher again this past week. Shale rig count rose by 5.
- The most recent NOAA data on Tropical Pacific water temperatures points to slightly cooler ocean temperatures this summer leading to a less impactful El Nino for 2018 – more normal rainfall and temperatures. The next update will be released June 14th.

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	328	299	9.70 % ▲	419	429	5/31/2018	2.891	2.988	2.887	2.952	▼	2.11%	107,418
West	649	608	6.74% ▲	1009	884	5/30/2018	2.901	2.926	2.867	2.885	▼	-0.55%	219,289
Producing	748	722	3.60% ▲	1097	912	5/29/2018	2.974	3	2.864	2.903	▲	-2.39%	163,059
TOTAL	1725	1629	5.89% ▲	2525	2225								



Average Retail Electricity Price Trends (Jul Start)

Week Ending	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
4/27/2018	\$0.1007	\$0.0616	\$0.1155	\$0.0601	\$0.0565	\$0.0549	\$0.0770	\$0.0690	\$0.0990
5/18/2018	\$0.1028	\$0.0610	\$0.1144	\$0.0597	\$0.0554	\$0.0600	\$0.0761	\$0.0686	\$0.0976
5/25/2018	\$0.1035	\$0.0608	\$0.1153	\$0.0591	\$0.0554	\$0.0615	\$0.0761	\$0.0686	\$0.0982

*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 NORTH****NE-ISO - MASS HUB****PJM - COMED****PJM - ATSI****Energy Market News**

FERC commissioners show no support for Federal bailouts of nuclear & coal

<https://bit.ly/2HKgS7U>

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**

↓ \$3.67 from week earlier

05/31/2018: **\$67.04/bbl**

↑ \$18.72 from year earlier

Natural Gas Inventories

↓ 96 Bcf from week earlier

05/25/2018: **1,725 Bcf**

↓ 788 Bcf from year earlier

Natural gas futures price

↑ \$0.012 from week earlier

05/31/2018: **\$2.952/MMBtu**

↓ \$0.119 from year earlier

Weekly coal production

↑ 1.078 million tons week earlier

05/26/2018: **14.830 million tons**

↑ 0.083 million tons year earlier

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