

July 2018



## Market Commentary

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

Since the beginning of July, the price of natural gas has continued to move lower. The total amount of natural gas in storage facilities around the United States stands at 2.203 trillion cubic feet. Last year at this time, there was 24.8% less natural gas in storage, and the current level stands at 19.1% below the five-year average. While it looks like cooler weather is in the forecasts for coming days and weeks, and the natural gas injections may increase, the amount of natural gas continues to flow into storage at a meager rate this year.

With 17-18 weeks to go before the start of the peak season of heating demand where inventories begin to decline, we will need to see an average injection of 99.8-105.7 bcf each week, depending upon when the drawdowns commence, to reach the four trillion cubic foot mark. Last November, the high in stocks were at the 3.79 tcf level. To reach that point, natural gas will need to flow into storage at an average rate of 88.2-93.4 bcf over the next 17-18 weeks.

The bottom line is that inventories continue to build at a slow pace, despite record production which means that demand for the energy commodity is increasing both domestically and globally. The good news for the bear camp is that the ongoing trade war between the U.S. and China continues to threaten China's status as one of the largest importers of U.S. LNG and is therefore adding some downward price pressure. Either way, natural gas has failed to eclipse the \$3 mark and continues to move downward, with a potential test of the bottom end of its trading range (\$2.75).

Even with the somewhat healthy injections we've seen (despite increased demand from C&I power burn and increased LNG export capabilities), natural gas is not making any progress in whittling down its significant storage deficit. This will not be a big issue if the upcoming winter is warmer than normal, or even normal. However, if the upcoming winter is much colder than normal, then parts of the country will run out of natural gas in storage and shortages will occur before the winter is over. This could cause a large rally in natural gas prices before the end of winter, if the winter is much colder than normal. At this point in time it is too early to know what the temperatures will be for the upcoming winter. Presently, this provides some nice (and unforeseen) buying opportunities to mitigate price exposure on any upcoming expiring supply contracts.

## Quick Hits

- For the week ending July 6th, EIA reported an injection of 51 Bcf, slightly below market expectations of the 54-56 Bcf range
- The +51 Bcf was also 26 Bcf lower than the five-year average of +77 Bcf, and 7 Bcf lower than last year's.
- Gas production at record high and growing is still offsetting a substantial 19% supply deficit if weather cooperates
- Barring an extreme weather event in late August or early September, at least a few of the summer peaks already set this year in various ISOs are likely to stand.

## Bullish Factors

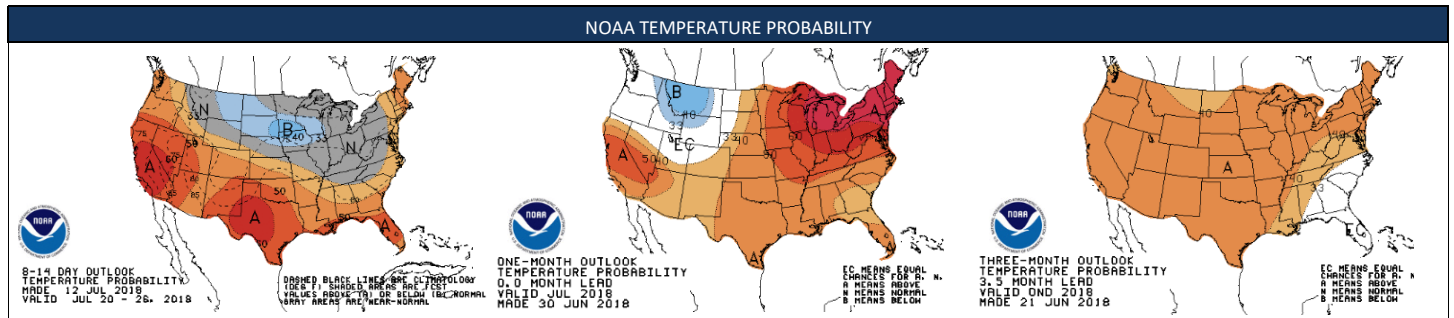
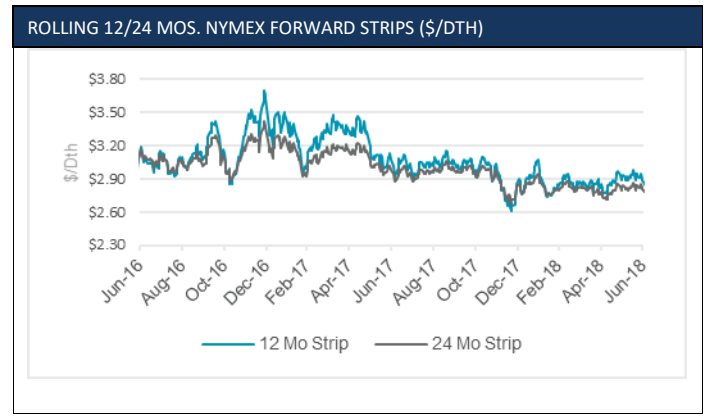
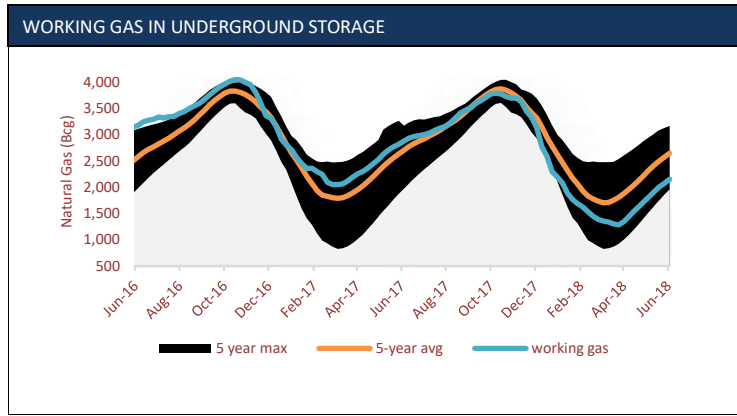
- Natural gas in storage is 519 Bcf below the five-year average, which is almost 20% below normal.
- Even after the extended-range ECMWF weather model issued its bearish revision, our analysis still indicates that natural gas storage level is likely to drop below 5-year minimum by August 3
- Last week's heat wave in the Northeast and Mid-Atlantic brought PJM load to three of its top five peaks of the year to date.

## Bearish Factors

- Gas production at record high and growing is still offsetting a substantial 19% supply deficit if weather cooperates
- The ECMWF-EPS long-range weather outlook shows cooler than normal weather conditions for the end of July into the first week of August.
- Lower 48 production has been averaging above ~81 Bcf/d and on pace to reach ~82 Bcf/d later this month, and fundamentals have been showing a daily surplus above ~10 Bcf/d despite high power burn.

## 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	460	430	6.98% ▲	536	569	7/11/2018	2.787	2.832	2.78	2.829	▲ 1.51%	114,846
West	851	809	5.19% ▲	1140	1079	7/10/2018	2.829	2.835	2.782	2.788	▼ -1.45%	135,458
Producing	841	835	0.72% ▲	1140	997	7/9/2018	2.839	2.865	2.817	2.828	▼ -0.39%	135,546
<b>TOTAL</b>	<b>2152</b>	<b>2074</b>	<b>3.76% ▲</b>	<b>2816</b>	<b>2645</b>	<b>7/6/2018</b>	<b>2.83</b>	<b>2.862</b>	<b>2.824</b>	<b>2.858</b>	<b>▲ 0.99%</b>	<b>110,183</b>



## Average Retail Electricity Price Trends (Jul Start)

Week Ending	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
6/08/2018	\$0.1039	\$0.0612	\$0.1164	\$0.0598	\$0.0577	\$0.0577	\$0.0762	\$0.0685	\$0.0993
6/29/2018	\$0.1041	\$0.0625	\$0.1165	\$0.0598	\$0.0575	\$0.0548	\$0.0758	\$0.0683	\$0.0990
7/06/2018	\$0.1048	\$0.0628	\$0.1170	\$0.0595	\$0.0577	\$0.0529	\$0.0749	\$0.0688	\$0.1005

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

### NYISO - Zone J



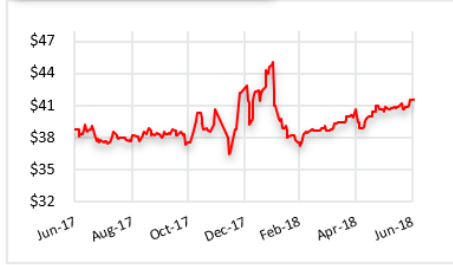
### PJM - PSEG



### ERCOT - TX NORTH



### NE-ISO - MASS HUB



### PJM - COMED



### PJM - ATSI



## Energy Market News

US Gas generation likely to hit records this summer

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

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

07/11/2018: **\$70.38 /bbl**

↓ \$3.67 from week earlier

↑ \$25.34 from year earlier

### Natural Gas Inventories

07/06/2018: **2,203 Bcf**

↑ 96 Bcf from week earlier

↓ 725 Bcf from year earlier

### Natural gas futures price

07/11/2018: **\$2.952/MMBtu**

↓ \$0.041 from week earlier

↓ \$0.218 from year earlier

### Weekly coal production

07/07/2018: **12.951 million tons**

↓ 1.623 million tons week earlier

↑ 0.510 million tons year earlier

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