ENERGY MARKET

Monthly Update

June 2019

Market Commentary

By Luke Nemes, Chief Procurement Officer & Market Intelligence Director at Transparent Energy

The arrival of the June and July prompt-month contracts have brought on substantially weaker commodity prices, as both oil (Brent/Crude) and natural gas continue to slide amid fears of a global economic slowdown. Coupled with a very mild weather pattern, one that is presently resulting in the coolest June since 2009, the price of natural gas recently fell to its lowest level since 2016 at $2.276 per MMBtu this month after trading to the highest price since 2014 at $4.929 per MMBtu last November. In short, the price of natural gas was more than double its current level at the end of last year, another reminder of just how volatile this commodity can be in the absence of supply/demand balance. That being said, there are a few burgeoning shifts on the horizon that could potentially begin to offer price support and put an end to the slide; if they don't come to fruition however, we could see natural gas prices begin to test the 2016 lows of $1.611 per MMBtu.

As mentioned, nationwide demand for natural gas has been relatively muted outside of power burn (~50% of total demand during injection season) and there are only two or three potential offsets in the immediate future that I can see putting a halt (gradual or prompt) to the slide. Firstly, and this is one that continues to emerge, would be some actual heat in the summer to support cooling demand in major demand centers – presently there is a higher risk of extreme heat for the eastern seaboard later this summer, related to a number of atmospheric conditions over the North Atlantic and corresponding snowmelt spikes in Greenland. When exactly that might occur is anybody's guess, as is always the case with weather, but late June and July-August could provide some desperately needed price support in the way of extended cooling demand. The second potentially price supportive shift would hit the supply side of the equation – namely, that natural gas prices are too low to support continued growth in production. Already in 2019, we have seen stagnation in production growth when compared to the previous five years, as I had mentioned last month. Even since April, we are ~2 Bcf/d off from the highs that were established. Nevertheless, we continue to see triple-digit injections into natural gas storage, and the injections into storage have been 40% higher on average this year when compared to the five-year average. But, most of those injections were timed when natural gas was still trading well above $2.50 per MMBtu. Over the past two weeks, natural gas has fallen almost $0.40 per MMBtu (~15%), certainly not a supportive metric for producers considering a boost to their capex for the second half of 2019.

Finally, looking ahead we can turn to two demand verticals that show no signs of slowing down in our search for price supportive indicators: exports – to Mexico, and globally – via LNG. There's a bit of a lag in the EIA reporting on this data, but there is one statistic that shouldn't change for quite some time, provided the political landscape continues to allow for it: exports remain the fastest-growing source of demand for American natural gas. Next year, the natural gas share of exports will overtake domestic residential consumption (on a 12-month average basis).

Quick Hits

- Working natural gas in storage as of June 14th totalled 2,203 Bcf, which is 209 Bcf (10.5%) more than last year's level and 199 Bcf (-8.3%) lower than the five-year average of 1,994 Bcf.
- Despite ending the withdrawal season this year at the largest deficit to end a winter since the 2014 season of the Polar Vortex, the gas market is still expected to reach a level of 3,730 Bcf (according to EIA) by the end of the injection season in October. This level would be right in-line with the five-year average heading into a winter.
- August-October futures contracts traded at below $2.20 per MMBTu on Thursday, June 20th – the lowest marks we've seen since May of 2016.

Bullish Factors

- Overall US NG production stagnation over past six months.
- LNG total exports expected to average 11.8 bcf/d in June-July-August (+23.54% y-o-y).
- The hottest weather of the season is set to impact the Plains/Midwest (SPP, MISO, west PJM) June 27-July 1; widespread 90s with some 100s expected.
- The total count of active U.S. drilling rigs falls by 6 to 969, the fifth decline in six weeks, according to Baker Hughes' latest weekly survey.

Bearish Factors

- Thursday's storage report reflected an injection of 115 Bcf, compared to market expectations of 107 Bcf.
- This is the sixth-straight triple digit injection into working underground storage.
- The outlook on the economy continues to waver as negotiations continue with China on tariffs, May unemployment disappointed, and the Fed hints at potential rate easing this year
- Lowest amount of population weighted cooling degree days for month of June (234) since 2009.
- Weak El Niño condition anticipated to remain throughout remainder of the summer.

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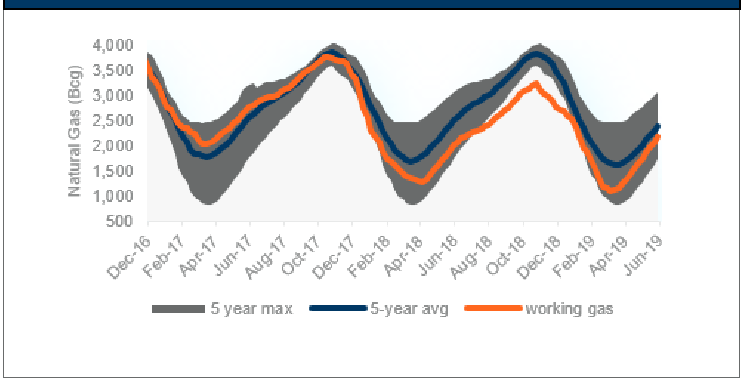
Natural Gas

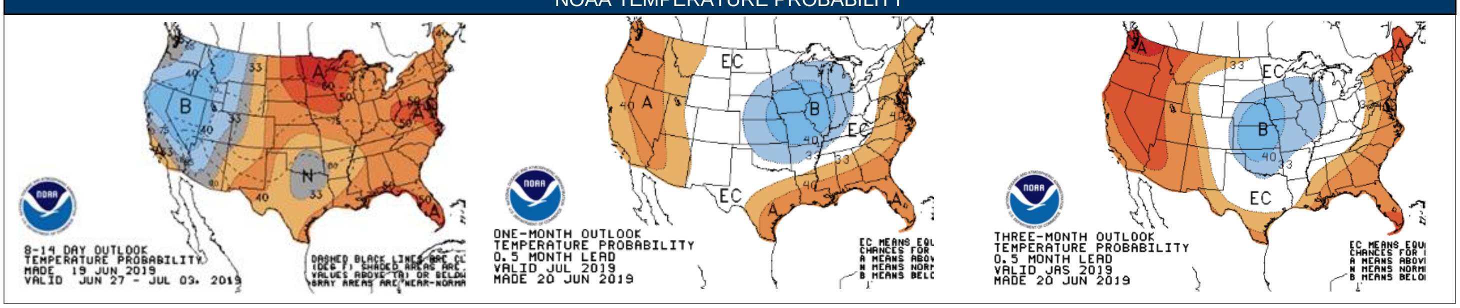
CURRENT/HISTORICAL STORAGE (Bcf)							HENRY HUB PROMPT MONTH NAT GAS SETTLEMENTS							
Region	6/14/2019	6/7/2019	% Chg.		Year Ago	5-Yr Avg.	Trade Date	Open	High	Low	Settle		% Chg.	Est. Vol
East	472	440	7.27%	▲	406	484	6/13/2019	2.381	2.384	2.326	2.323	▼	-2.44%	198,879
West	855	807	5.95%	▲	774	958	6/14/2019	2.328	2.399	2.323	2.387	▲	2.53%	137,954
Producing	875	842	3.92%	▲	828	960	6/17/2019	2.389	2.418	2.357	2.386	▼	-0.13%	124,255
TOTAL	2202	2089	5.41%	▲	2008	2402	6/18/2019	2.373	2.404	2.318	2.328	▼	-1.90%	124,819

WORKING GAS IN UNDERGROUND STORAGE



ROLLING 12/24 MOS. NYMEX FORWARD STRIPS ($/DTH)

NOAA TEMPERATURE PROBABILITY

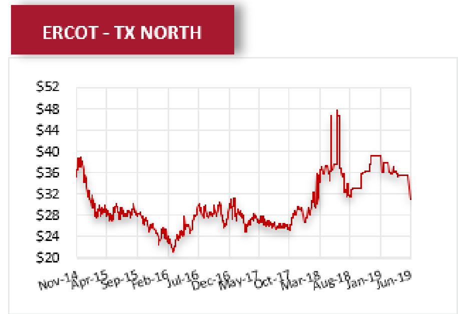


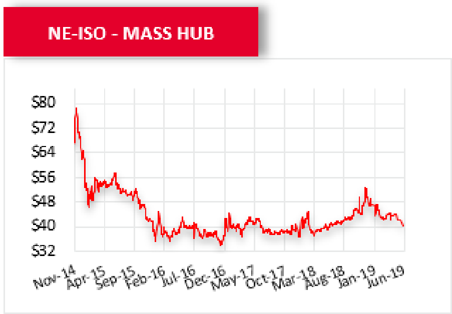
Weekly Average Retail Electricity Price Trends (Aug Start)

Week Ending	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
12-month	$0.1011	$0.0849	$0.1095	$0.0560	$0.0604	$0.0521	$0.0803	$0.0661	$0.0969
24-month	$0.1068	$0.0852	$0.1072	$0.0560	$0.0606	$0.0525	$0.0818	$0.0679	$0.0945
36-month	$0.1082	$0.0842	$0.1054	$0.0579	$0.0609	$0.0514	$0.0847	$0.0681	$0.0930

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

Forward Wholesale Electricity Price Settlements





Energy Market News

New York emissions-reduction bill would push natural gas out of power sector by 2040
https://bit.ly/2ZDXiTV

New reports indicate coal & nuclear will have 'almost disappeared' from US power mix by 2050
https://bit.ly/2ZBKoWM

New York set to pass 100% clean energy bill
https://bit.ly/31HOVJ3

Baker Hughes North American rig count
http://bit.ly/1elov2d

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

Data Highlights

WTI crude oil futures price
↑ $2.62 from week earlier
06/19/2019: **$53.76 /bbl**
↓ $11.31 from year earlier

Natural Gas Inventories
↑ 115 Bcf from week earlier
06/14/2019: **2,203 Bcf**
↑ 195 Bcf from year earlier

Natural gas futures price
↓ $0.110 from week earlier
06/19/2019: **$2.276/MMBtu**
↓ $0.624 from year earlier

Weekly coal production
↑ 0.137 million tons week earlier
06/08/2019: **12.164 million tons**
↓ 2.468 million tons year earlier

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