



Market Commentary

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

Summer has finally arrived; and with it, a flurry of recent market volatility, storms, potential system peaks, and intermittent blackouts. Perhaps it was the pleading voices of the bull camp eager to see cooling demand ratcheting up that led to the sudden and extreme heat; or perhaps the multiple airings of “The Sandlot” have forced Summer to rear her head. More than likely, however, it is a result of La Niña influences interacting with high-pressure atmospheric conditions to create a “heat dome” over much of the country. On the heels of speculative trading activity regarding the potential impacts of Hurricane Barry making landfall in Louisiana, natural gas futures prices have risen and fallen throughout July, but the Aug contract has remained range-bound to \$2.25-\$2.40 per MMBtu. There is a bit of short-term cooling relief anticipated over the next few days, which should help to keep a lid on any significant price rally. In contrast, the following weeks are likely due for some more extreme and extended heat to settle in once again across most of the country, and therefore we may see some technical resistance levels (currently around \$2.30) being tested. This Thursday’s EIA natural gas storage report and the market’s reaction to the muted build should serve as a decent indicator for the price trajectory in the coming weeks.

On the subject of natural gas storage, we had a rather unusual instance occur last week. The report showed a build of 62 bcf, which was short of market expectations of around 65 bcf. While this injection continued to close the current inventory gap vs. the 5-year average, it was the lowest reported injection since the week ending April 5th. Still, the market moved down shortly after the release, a strong indication of the overall bearish sentiment. It is not unlike what we saw with Hurricane Barry’s potential impact – even though we saw a sell-off leading up to the storm due to fears of infrastructure damage, the price returned to the \$2.30 level. That said, even though hurricane season generally has a bearish impact on natural gas, shut-ins (when production is capped due to extreme weather) have just occurred during our hottest stretch of the summer thus far. Combine this with elevated power sector demand in most of the country, and we’re looking at a much smaller storage build than what we’ve become accustomed to this upcoming Thursday, and potentially the smallest of the summer. This should continue to provide some price support to the August contract in the short-term. It’s possible we have a few more hurricanes that threaten the Gulf Coast over the next few weeks and even into October, in which case, we’ll see the market run up accordingly and test technical resistance levels. However, barring any major weather events or sustained heat waves, the remainder of injection season may just be one big bear hug, with the annual lows still ahead of us.

On the regulatory front, FirstEnergy’s battle to receive subsidies for two of their nuclear plants in Ohio has just been passed in the House by a single vote. The legislation creates a ratepayer-financed \$1.1 billion subsidy. FirstEnergy will begin receiving \$150 million/year, beginning in April 2021, though they had claimed the funding was needed immediately.

Quick Hits

- The EIA reported Thursday morning that, for the week ending July 12, U.S. inventories increased by 62 bcf, just under analysts’ predictions of 65 bcf. During the same week last year, inventories grew by only 46 bcf.
- Total stockpiles now stand at 2,533 bcf, up 13% from a year ago, and down 5.3% when compared to the 5-year average.
- In 2018, the amount of natural gas in storage rose to a high at 3.247 tcf in November. To reach that level, stocks will need to rise by an average of 42.1 bcf over the next 17 weeks.

Bullish Factors

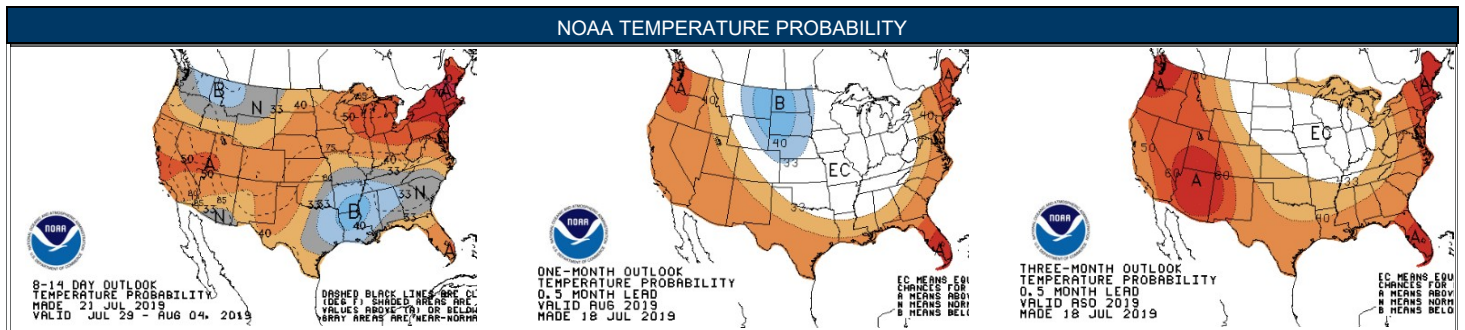
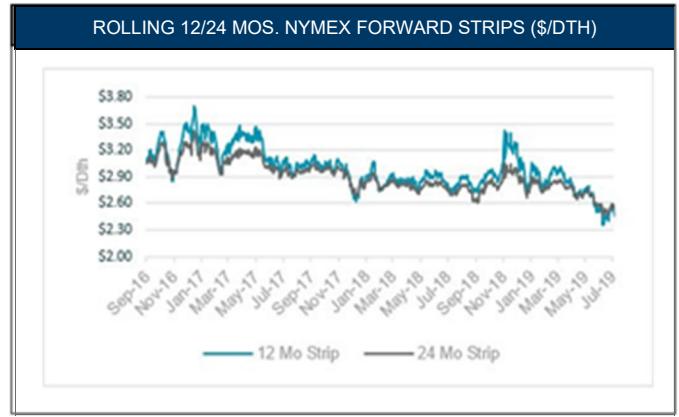
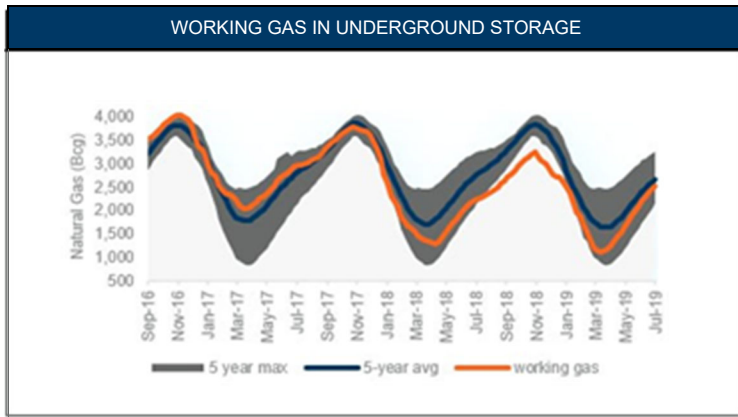
- Thursday’s EIA inventory build of 62 BCF was the first below- average build of the injection season.
- Next EIA report to be bullish with another below-average build amid current heat wave over much of the country; ~150 million people under Heat Advisory/Warning.
- FERC granted Freeport LNG permission to begin flowing feedgas to commission its first cargo in mid-August, keeping Freeport Train 1 on track.
- Sempra Energy’s Cameron LNG has asked FERC for permission to place Cameron Train 1 into commercial service. Sempra Energy’s success in commissioning Train 1 increases the odds that Trains 2 and 3 will be able to stick to their current schedules, providing a further boost to demand for LNG feedgas in the Gulf.
- Between July 10th and July 20th, more than 11.5 Bcf of offshore natural gas production was shut in by Tropical Storm Barry and its after-effects, shaving supply available to the market by more than 1.0 Bcf/d.

Bearish Factors

- Major weather pattern shift coming this weekend/early next week that will send the heat out West and noticeably cooler temperatures to the central and eastern U.S.
- Henry Hub natural gas spot prices for June, July, and August are expected to average \$2.37/mmbtu, according to the EIA. If that forecast holds, average summer prices would be at their lowest level since 1998.
- The January 2020 contract fell to \$2.654/MMBtu—its lowest price in three weeks and within pennies of its all-time low close of only \$2.605/MMBtu.

Natural Gas

Region	CURRENT/HISTORICAL STORAGE (Bcf)					HENRY HUB PROMPT MONTH NAT GAS SETTLEMENTS								
	7/12/2019	7/5/2019	% Chg.	Year Ago	5-Yr Avg.	Trade Date	Open	High	Low	Settle	% Chg.	Est. Vol		
East	561	544	3.13%	▲	507	584	7/16/2019	2.395	2.408	2.298	2.306	▼	-3.72%	156,756
West	1042	1000	4.20%	▲	904	1096	7/17/2019	2.318	2.346	2.290	2.278	▼	-1.73%	140,463
Producing	929	927	0.22%	▲	838	996	7/18/2019	2.309	2.355	2.266	2.287	▼	-0.95%	178,472
TOTAL	2532	2471	2.47%	▲	2249	2676	7/19/2019	2.290	2.300	2.242	2.251	▼	-1.70%	112,002

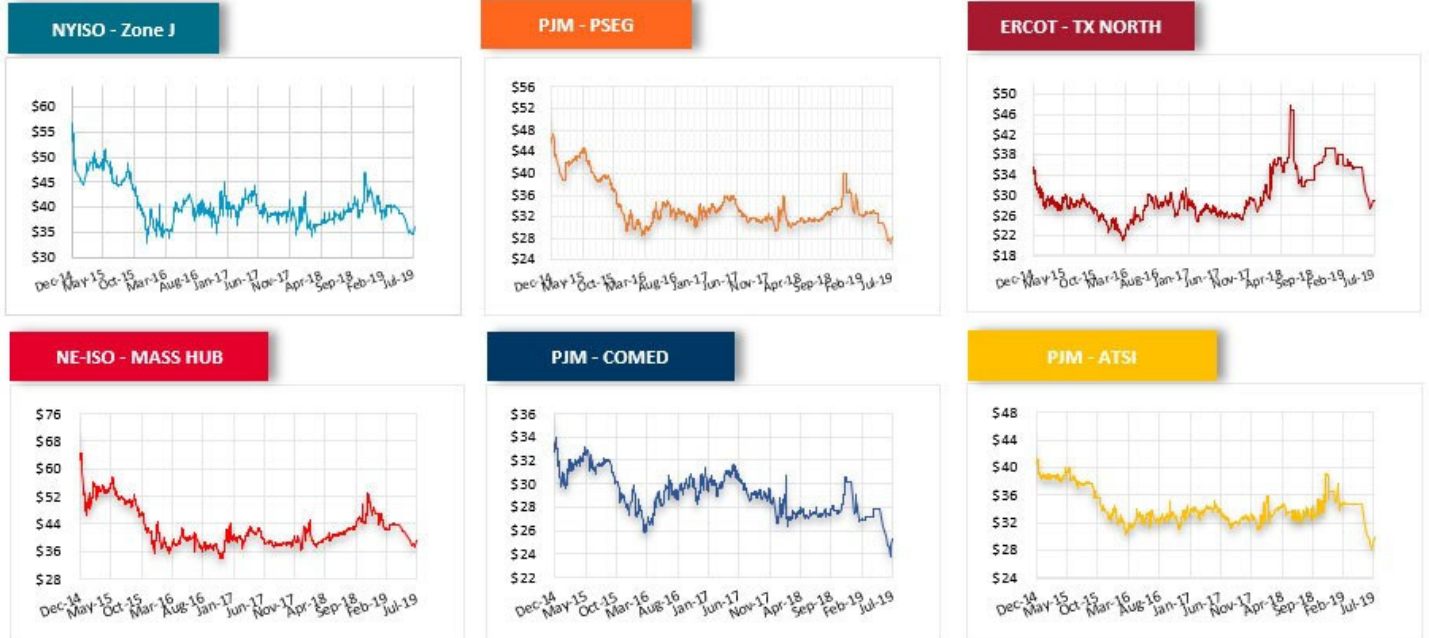


Weekly Average Retail Electricity Price Trends (Sep Start)

Week Ending	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
12-month	\$0.0977	\$0.0977	\$0.0977	\$0.0977	\$0.0977	\$0.0977	\$0.0977	\$0.0977	\$0.0977
24-month	\$0.0954	\$0.0954	\$0.0954	\$0.0954	\$0.0954	\$0.0954	\$0.0954	\$0.0954	\$0.0954
36-month	\$0.0944	\$0.0944	\$0.0944	\$0.0944	\$0.0944	\$0.0944	\$0.0944	\$0.0944	\$0.0944

*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

Ohio passes sweeping energy bill to support nuclear, coal plants

<https://bit.ly/2GtN01Q>

US gives Freeport LNG permission to flow gas

<https://bit.ly/2Yedb2y>

NY Governor signs landmark Green New Deal to incentivize offshore wind projects

<https://bit.ly/2Z1DKcw>

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

07/19/2019: **\$55.63 /bbl**

↓ \$4.58 from week earlier

↓ \$13.83 from year earlier

Natural Gas Inventories

07/12/2019: **2,533 Bcf**

↑ 62 Bcf from week earlier

↑ 291 Bcf from year earlier

Natural gas futures price

07/19/2019: **\$2.251/MMBtu**

↓ \$0.202 from week earlier

↓ \$0.518 from year earlier

Weekly coal production

07/13/2019: **13.874 million tons**

↑ 3.836 million tons week earlier

↓ 0.436 million tons year earlier

For more Information:

Gary Graham

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

Luke Nemes

Transparent Energy
 www.TransparentEdge.com
 +1 862.210.8770
 lnemes@transparentedge.com

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