ENERGY MARKET

Monthly Update

January 2020

Market Commentary

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

Those of us who regularly follow the natural gas market will readily profess this simple truth: natural gas prices have been progressively sliding since Nov-2019 and are now at historic lows. The lows are no longer *historic* from a three-to-five-year perspective, they are nearing all-time lows. In fact, we are now seeing prices in the spot market that haven't been eclipsed since 1999; at last week's low of $1.83/MMBtu, the energy commodity was trading at its lowest price for January in twenty-one years. The Feb2020-Apr2020 forward contracts continue to all trade below the $2/MMBtu mark, while the summer packages also continue to move closer to that psychological barrier. To put this in a recent perspective, natural gas futures are now over 60% lower than the most recent highs witnessed in November of 2018. How did we get here? Simply put, overall supply growth steadily increased during that time period, while demand has failed to keep up in any meaningful way; the market is structurally oversupplied. Dry gas production has been expanding for 138 consecutive weeks, and storage levels (2,947 Bcf) are now significantly in surplus when compared both to this point last year (+23.3%) and the five-year average (+9.3%). The largest withdrawal this winter has been -161 Bcf, and withdrawals since then have only averaged -76 Bcf, an extraordinarily low figure considering we are in peak demand season. As it stands, the weather picture for early February means there isn't much room to improve the oversupplied condition – there could be *some* technical support on the horizon, but come spring time (and potentially even before), we could see natural gas prices test the $1.611 low that we saw at the end of peak demand season in 2016.

As mentioned last month, several producers are not nimble enough to continue producing below the $2 price point. They've become a victim of their own success in many regards as it is no longer a profitable undertaking. We've seen multi-billion-dollar write-offs, spending cuts, and a general movement away from further investment and capital expenditure. The good news for producers is that the oversupplied condition is beginning to right itself, albeit slowly and slightly, and production has retreated from December heights. In fact, the EIA forecasts U.S. dry gas production will drop by 600 mcf next year, the first annual decline since 2016, as low prices finally rein in drilling in the Appalachia. Despite LNG reaching record demand levels last week at 9.1 Bcf/d, China's tariffs are adding some additional bearish pressure on prices.

Quick Hits

- The EIA reported Thursday morning that, for the week ending January 17, U.S. inventories decreased by 92 bcf, right in line with analysts' predictions of 79-103 bcf withdrawal range.
- Governor Phil Murphy of NJ has revealed his energy master plan, which includes a commitment to reach clean energy goals of 50% by 2030 and 100% by 2050. As more detail is released, we will keep our readers informed on the exact impact on NJ consumers.
- A group of lawmakers from North and South Carolina proposed legislation that would study electricity market reforms in order to break up utility monopolies and create a more competitive system.
- In Virginia, the Clean Energy Choice Act was introduced so that competitive suppliers may continue to deliver renewable power to customers with strict oversight by the State Commission. This 100% renewable purchase option is currently being threatened by Dominion's pending application for an 100% renewable energy product which could shut down sales by competitive suppliers to new customers under Section 56-577 A 5 ("Section A 5") of the Virginia code.

Bullish Factors

- US LNG exports have increased to an average of 5 bcf/d in 2019, reflecting approximately a 65% increase from the previous year, surpassing Malaysia and placing the US in third in worldwide LNG exports.
- Lower 48 production continues to trend downward throughout January 2020, dropping sharply to 93 bcf/d, the lowest since September of last year.
- According to Baker Hughes, total natural gas and oil rig count is down 200 year over year.

Bearish Factors

- The winter season is continuing its trend of mild short-term weather, with highs being forecasted in the 30s to 50s throughout the northern US and in the 50s to 70s across the southern states.
- Current weather outlooks are expected to be warmer than normal for both the 6-10 and 8-14 days according to the latest forecast from NOAA.
- January natural gas production has averaged 96 Bcf per day, which is up 1.9 Bcf year over year.
- Forward pricing in the power markets are down across the board reflecting the currently oversupplied market.

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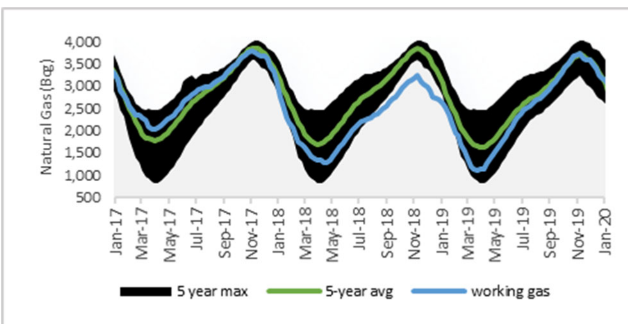
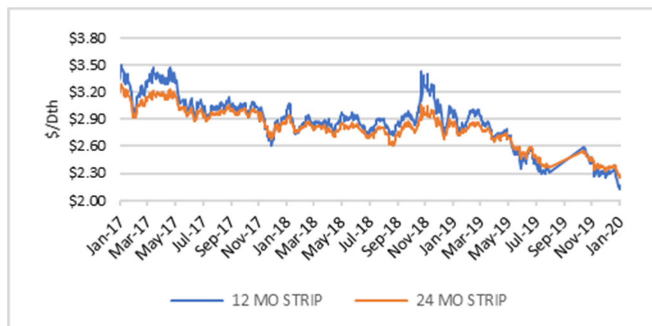
Natural Gas

CURRENT/HISTORICAL STORAGE (Bcf)							HENRY HUB PROMPT MONTH NAT GAS SETTLEMENTS							
Region	1/10/2020	1/17/2020	% Chg.		Year Ago	5-Yr Avg.	Trade Date	Open	High	Low	Settle		% Chg.	Est. Vol
East	716	696	2.87%	▲	566	625	1/21/2020	1970	1970	1825	1895	▼	-3.81%	162,624
West	1247	1186	5.14%	▲	979	1130	1/22/2020	1912	1942	1895	1905	▼	-0.37%	145,826
Producing	1076	1065	1.03%	▲	823	940	1/23/2020	1915	1980	1913	1926	▲	0.57%	186,158
TOTAL	3039	2947	3.12%	▲	2368	2695	1/24/2020	1938	1945	1872	1893	▼	-2.32%	150,095

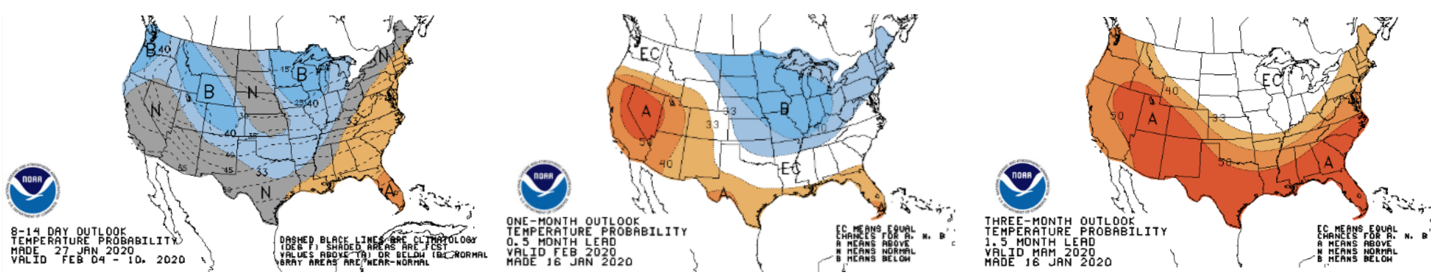
WORKING GAS IN UNDERGROUND STORAGE



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



NOAA TEMPERATURE PROBABILITY



Weekly Average Retail Electricity Price Trends (March Start)

Week Ending	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
12-month	$0.0909	$0.0830	$0.1010	$0.0480	$0.0528	$0.0543	$0.0659	$0.0580	$0.0884
24-month	$0.0925	$0.0853	$0.1011	$0.0503	$0.0539	$0.0520	$0.0686	$0.0590	$0.0884
36-month	$0.0922	$0.0855	$0.0998	$0.0513	$0.0544	$0.0501	$0.0699	$0.0593	$0.0878

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

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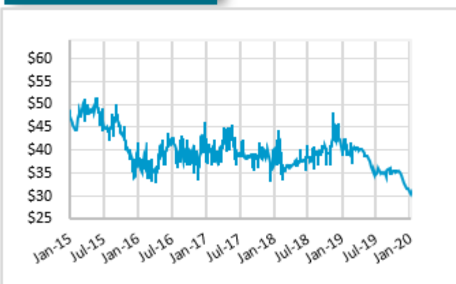
NYISO - ZJ (NYC)



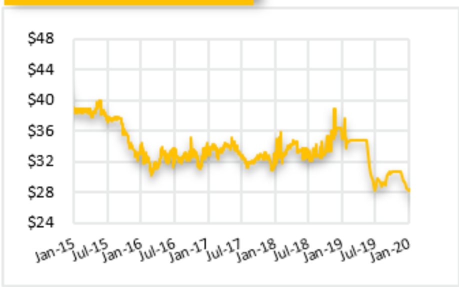
PJM - PSEG (NJ)

ERCOT - North (TX)

NE-ISO - MASS HUB (Northeast)

PJM - COMED (IL)

PJM - ATSI (OH & PA)



Energy Market News

US working natural gas in underground storage decreases by 92 Bcf: EIA
https://bit.ly/3aKZUG5

Declining gas prices drive drops in US coal production and demand in 2020: Platts Analytics
https://bit.ly/2vrYgJo

Baker Hughes to focus on gas, LNG amid energy transition: CEO
https://bit.ly/2tUHIJy

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	11/18/2019: **$57.05 /bbl**
↓ $4.35 from week earlier	↑ $1.06 from year earlier
Natural Gas Inventories	11/8/2019: **3,732 Bcf**
↓ 92 Bcf from week earlier	↑ 554 Bcf from year earlier
Natural gas futures price	11/18/2019: **$2.556/MMBtu**
↑ $0.110 from week earlier	↓ $1.206 from year earlier
Weekly coal production	11/2019: **13.067 million tons**
↓ 0.137 million tons week earlier	↓ 3.166 million tons year earlier

For more Information:

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