E&C CONSULTANTS

MONTHLY MARKET ANALYSIS US SUMMER 2017

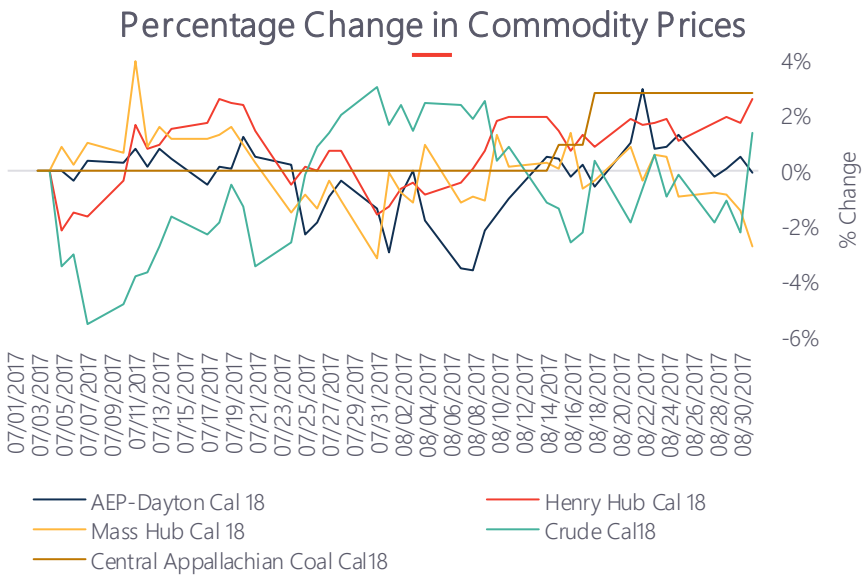
Writer: Nicholas Kerz | Editor: Benedict De Meulemeester | Designer: Joke Bruneel

CONTENT

Introduction 3
Natural Gas 4
Electricity 6
Oil 8
Coal 10
Graphs & Tables 11
News 16

INTRODUCTION

Past summer wasn't a very remarkable period when it comes to energy pricing. Hurricane Harvey's impact did bring the Henry Hub calendar futures above the breakeven point for most shale gas producers again, while power prices of most of the pricing hubs reached their annual lows during the summer. The oil market showed signs of a price recovery but the situation is far from balanced. Coal prices continued their bullish trend.



NATURAL GAS

Henry Hub natural gas futures enjoyed a depressed buyer's market for the entire summer until Hurricane Harvey caused a disruption on the last day of August. The key market threshold of $3 /Dth is the breakeven point for most shale gas producers. Henry Hub calendar futures for '18, '19, and '20 oscillated around the $3.00 /Dth midpoint throughout the summer until Harvey's impact brought us to $3.04 /Dth on August 31st.

Historically the summer can be a very volatile time for natural gas markets. Cal '18 forward strips traded between $2.899 /Dth and $3.04 /Dth in 2017 as compared to $2.932 /Dth and $3.074 /Dth in 2016. The strongest year-over-year differences were seen in Cal '19 and Cal '20 futures strips: Cal '19 highs in 2017 were $2.86 /Dth versus $3.019 /Dth in 2016, and Cal '20 highs in 2017 saw highs of just $2.835 /Dth as compared to $3.082 /Dth in 2016. This strong decrease in forward market pricing has contributed to the backwardation currently seen by natural gas buyers. The greatest buying opportunity seen is more opportune in the outer years as opposed to the prompt year, where the circumstances are not as favorable.

Buying opportunities for the prompt year are not as favourable as the outer years

US supply of natural gas was strong throughout the summer. Natural gas storage estimates were in the positive for every summer week as reported by the EIA. Domestic natural gas production is estimated to average 73.5 bcf/d in 2017, which is more than the expected domestic and international demand for the fossil fuel. However, growing exports in 2018 will counter rising production and bring the supply and demand in balance. Most of the expected export build is estimated for pipeline transportation, elevating to 7.37 bcf/d in 2018 from 6.71 bcf/d in 2017. Additionally, the build in LNG export is expected to once again rise in 2018 to 3.25 bcf/d from 1.98 bcf/d. This is due to the fully operational 4 terminals at Cheniere's Sabine Pass, and the opening of Dominion's Cove Point facility in Maryland. It will be interesting to see if the favorable political climate aiming to reduce bureaucratic red-tape in permitting such facilities will speed up the development of the eleven proposed backlog of LNG export projects.

The build in LNG export is expected to once again rise in 2018

Demand for natural gas during the first half of the summer was relatively lackluster due to the cool weather. However, the heat experienced during the month of August called for increased gas demand as homes and businesses consumed more power for electrical cooling. Mexico, the primary foreign demand source for US gas, accepts both pipeline and LNG shipments from the US. This growing external demand source is estimated to develop between 8.5-9 bcf/d of north-to-sough pipeline

projects entering service in the next few years, according to ConocoPhillips. Mexico has revitalized it's generating fleet to be dominated by natural gas fired fleet which is expected to command 70% of all generation in the coming years.

Several natural gas pipeline infrastructure projects in Appalachia are coming into service beginning in the end of 2017 & 2018. Most notably, Energy Transfer Partners LP's Rover Pipeline has a capacity of 3.25 bcf/d. The traditional flow of natural gas before the shale gas revolution in the US has been from south-to-north. However, with the unlocking of new production in the Northeast, natural gas has had a hard time being moved from the Marcellus to demand centers. Gas users in the immediate area have experienced very favorable basis pricing during this time as producers are looking to offload this gas by any means possible. The new projects coming online will finally make Marcellus Shale gas available for transport to areas of high demand. Unfortunately, this means that the sometimes negative basis pricing seen in the PJM region has eroded.

As we enter the shoulder months of September & October it will be quite important to closely track natural gas markets. How quickly will the US recover from Hurricane Harvey? Will natural gas production and storage builds allow for a destabilization of futures prices around $3 /Dth? What kind of additional pipeline and LNG capacity will allow for gas to flow freely into more opportune markets? Also, what kind of winter weather is expected? E&C will answer many of these questions in our September MMA.

Average Gas Prices

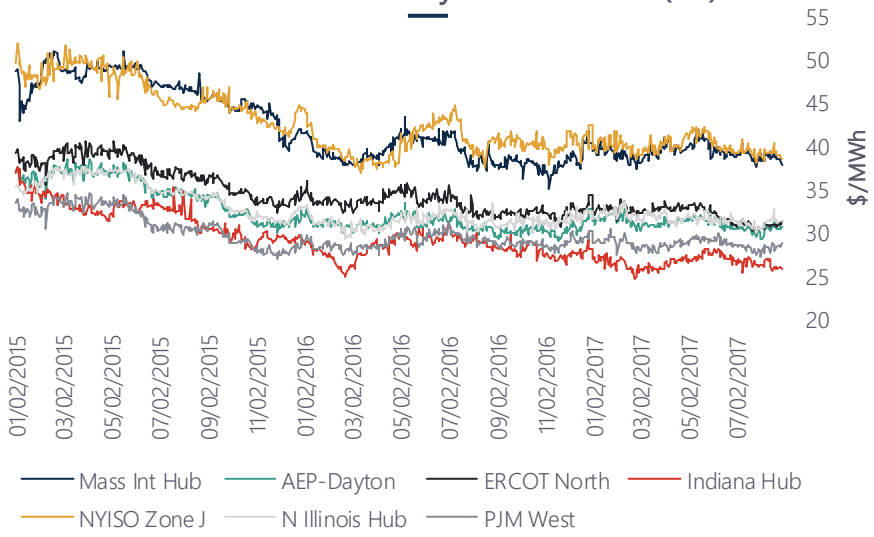
Regional Gas Futures

Henry Hub Natural Gas Futures

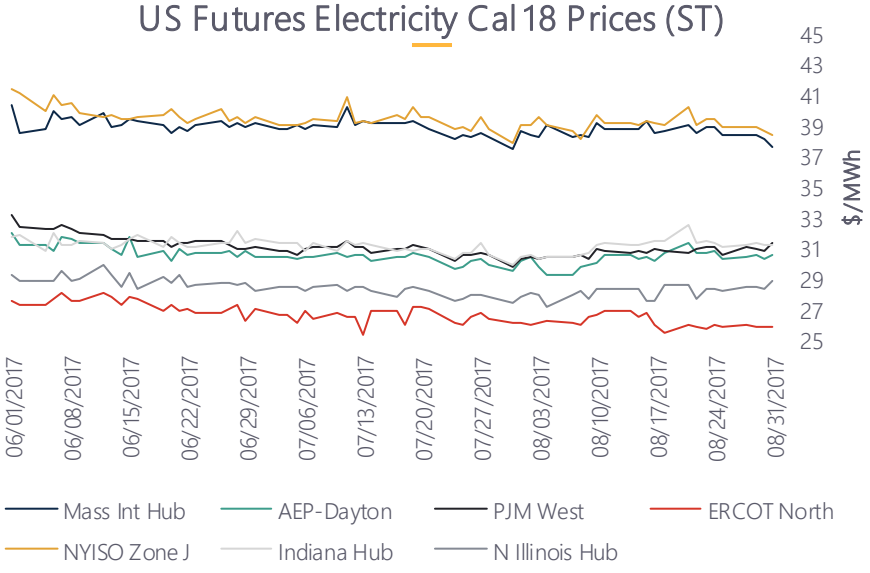
Average Electricity Prices Last Month

	Mass Int Hub ATC	AEP-Dayton ATC	PJM West	NYISO - Zone J ATC	Indiana Hub	N. Illinois Hub
Cal 18	$ 38,74	$ 30,31	$ 30,79	$ 26,33	$ 39,20	$ 31,06
Spot	$ 27,56	$ 29,81	$ 29,19	$ 32,88	$ 29,85	$ 28,61

US Futures Electricity Cal 18 Prices (LT)



US Futures Electricity Cal 18 Prices (ST)



back to the electricity analysis

NEWS

Five questions on energy contract negotiation

With experience on negotiating energy contracts ...

by author Bart Verest

READ MORE

Energy risk management: settlement or OTC fixation?

Different processes of the supplier to ...

by author Benedict De Meulemeester

READ MORE

Henry Hub natural gas basis in the US: to fix or not to fix

When buying natural gas in the United States, you ...

by author Benedict De Meulemeester

READ MORE

THIS FILE IS ONLY A PREVIEW OF OUR ANALYSIS

Would you like to read the full version?

Register here