

Blake Baxter

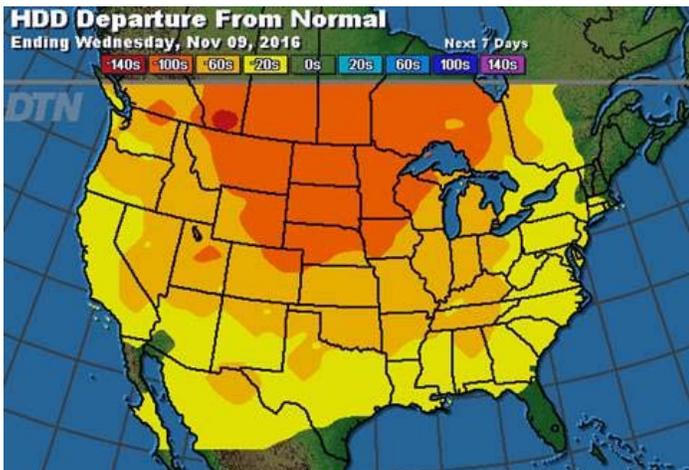
Subject: FW: MEP Weekly Gas Update 11-3-2016
Attachments: MEP Gas Storage Chart 2016 11 3.pdf; NG Price Curve 2016 11 3.pdf

From: Blake Baxter
Sent: Thursday, November 03, 2016 6:01 PM
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Natural gas is currently trading at \$2.769 per Dth

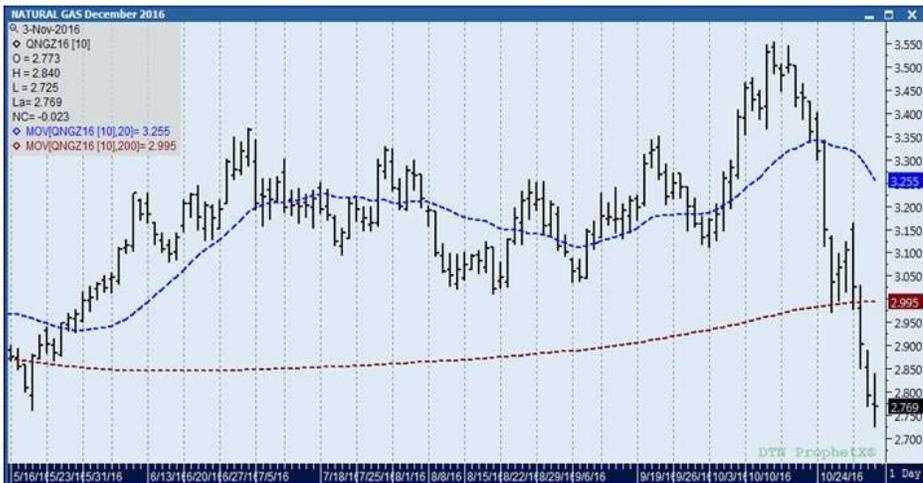
So who does not like 70 degree weather – in November? Another beautiful day in Blue Mounds. Paul and I took a long walk in the woods so that he could pretend to be a great canine hunter. In fact today he was able to flush a rabbit. Apparently it was a killer rabbit as he immediately tucked tail and ran. Oh my.

Speaking of things spooked and on the run – let's look at the gas market. Basically this week's weakness can be summed up with one chart:



Believe it or not we are, at this point, closely tracking last years very warm fall - with this year being just fractionally cooler. Of course this is what NOAA has been forecasting although I do not think their forecast gave any hint that it was going to be this warm. Right now when I look at our local forecast I see nothing but 45 degree nighttime lows for the next 10 days. That is not going to stimulate much gas demand in Wisconsin.

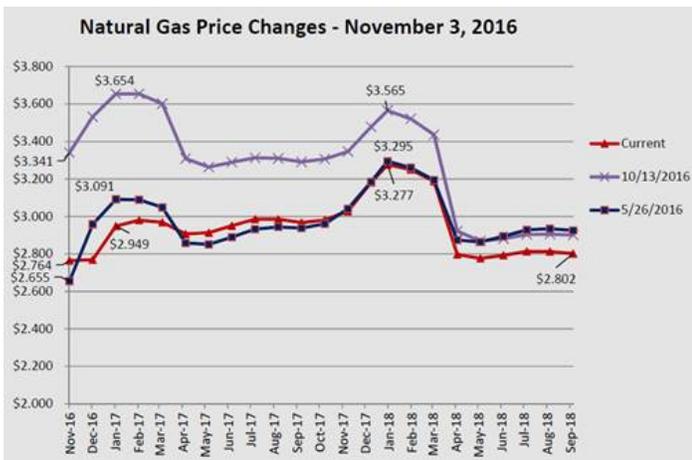
To be sure, we felt that the gas market's October surprise with a run up to the \$3.60's was an over-reaction to lingering cooling demand in the South. This current price collapse seems to have much the same feel to it. The fundamentals of the gas market have not changed appreciably. The only appreciable news other than short-term weather is that the Sabine Pass LNG terminal has come out of a month long maintenance outage and has 8 LNG tankers riding at anchor waiting to load cargos. (FYI – they expect to add 2 more trains in February thus doubling US export capacity). Still gas prices paused for a few days at the 200 day moving average (a major support level for technical traders) and then resumed their downward move this week by shattering the 200 day on Tuesday.



The only logical rationale for this exceptional price movement is that the financial market is sympathizing with the daily cash market which is being squeezed by a lack of demand, caused of course by the warm weather, at the same time that US storage inventories are topping 98% per cent full at the end of the gas injection season.

In fact today's EIA storage report of a +54 BCF injection (slightly below expectations) seemed to calm the market to a degree. We now have 3.963 TCF in inventory with next week's injection likely to put us back over 4 TCF for the second time in history. After gaining some strength after the report the December contract gradually faded into the close to finish the day at \$2.769, down 2.3 cents.

Strip pricing for the week demonstrated the same price weakness across all periods. The winter strip (Dec-Mar) sank down \$2.917 /Dth, down 19.1 cents, week-on-week. The 2017 calendar strip traded down to \$2.983 /Dth, off 16.9 cents, while the 2018 calendar strip was off 8 cents for the week to finish at \$2.936 /Dth. The magnitude of the movement shows starkly on the Change chart as much of the strip is now under the lows we experienced back in May.



With moves this big it is always hard to predict when a reversal may occur. Clearly NOAA believes that there will be a winter this year, but for now the market is strictly focused on the short-term.

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Have a great weekend.