

## Blake Baxter

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**Subject:** FW: MEP Weekly Gas Update 1-20-2017  
**Attachments:** MEP Gas Storage Chart 2017 1 19.pdf; NG Price Curve 2017 01 19.pdf

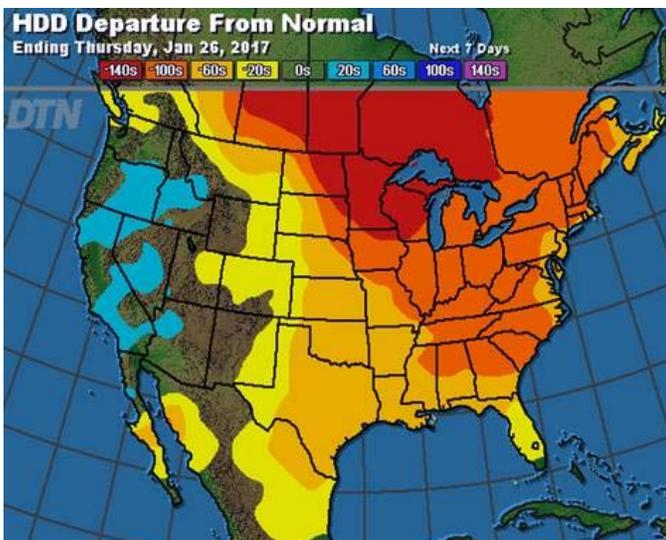
**From:** Blake Baxter  
**Sent:** Friday, January 20, 2017 3:09 PM  
**Subject:** MEP Weekly Gas Update 1-20-2017

### Natural gas is currently trading at \$3.204 per Dth

The EIA reported a storage withdrawal of -243 BCF this week. I have to admit to being quite perplexed by this report. I guess that the only consolation for me is that I am not alone amongst my peers at being perplexed. You may remember last week's update in which I published a US temperature chart that showed Boston at 58F and places like Cincinnati and Nashville being in the 60's. I also said that it was unlikely that we would see a large storage withdrawal this week with temperatures in those ranges in key gas consuming regions. Well guess what – I was dead wrong.

By comparison, the -243 BCF withdrawal has to be compared against last year's -175 BCF withdrawal even those we had 6% fewer heating degree days than last year. Expectations within the industry ranged from a -147 BCF withdrawal to a -253 BCF withdrawal. This in itself is very interesting as the range of expectations is usually about 20 BCF. Further, not only was the size of the withdrawal unusual, but the South Central region took the most gas with a -85 BCF regional withdrawal. Huh? Well I will keep digging into this and will let you know if a consensus develops on what happened.

So as you might expect, the market was staggered by the EIA report. February gas, which was trading as low \$3.26 /Dth before the report, immediately jumped to \$3.404 /Dth. However, the forecasts for warmer than normal weather that have been depressing the gas market lately soon took hold and gas traded back off to finish the day \$3.368 /Dth, up 6.6 cents. Prices have continued to tank today on the forecasts for warmer weather as February gas has closed at \$3.204 /Dth, down 16.4 cents. (We are publishing a day late this week as I was in Milwaukee for the state education conference and Josh and Jenny were busy welcoming their third child – a little boy).

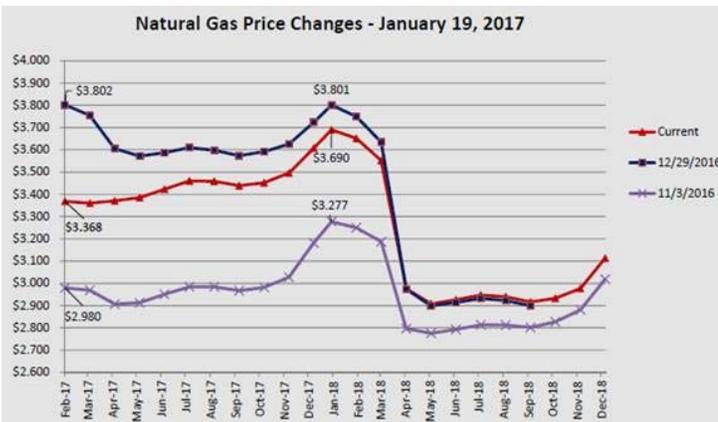


(Note: all of the pricing charts and values hereafter are using the Thursday close values to maintain consistency.)

Based on the Thursday close, pricing was relatively flat week on week. The Thursday close this week at \$3.368 /Dth compares against last week's \$3.386 /Dth.



On the same basis the 2017 Calendar strip was up 1.7 cents week-on-week to \$3.479 /Dth while the 2018 Calendar strip advanced 1.3 cents to \$3.128 /Dth. The 2017/18 Winter strip gained 1.6 cents week-on-week to finish at \$3.599 /Dth.



Looking forward I would have to say that I need to see more data after this storage report. One financial group is advancing the theory that the market is now structurally out of balance by more than 3 BCF per day. They are expressing deep concern that prices are too low as they expect demand to grow significantly in coming months. And we do know for a fact that more industrial and LNG export capacity will be coming on line soon, so short term demand from those sectors will undoubtedly increase. I would say that there is not a consensus on their view, but that on the other hand, the daily gas market seems to be acting as if winter is over. If it is not and the new demand does kick in, then we may not have seen the high price for this winter yet.

Longer term the picture is murky as we cannot forecast what the new administration in Washington will mean for natural gas. This is especially true as we are currently exporting more than 5 Bcf/day to Mexico and the new Commerce Secretary has said that NAFTA is his number one priority. As a result, longer term supply and demand has to continue to have a question mark next to it.

Have a great weekend.

Blake

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