

## Blake Baxter

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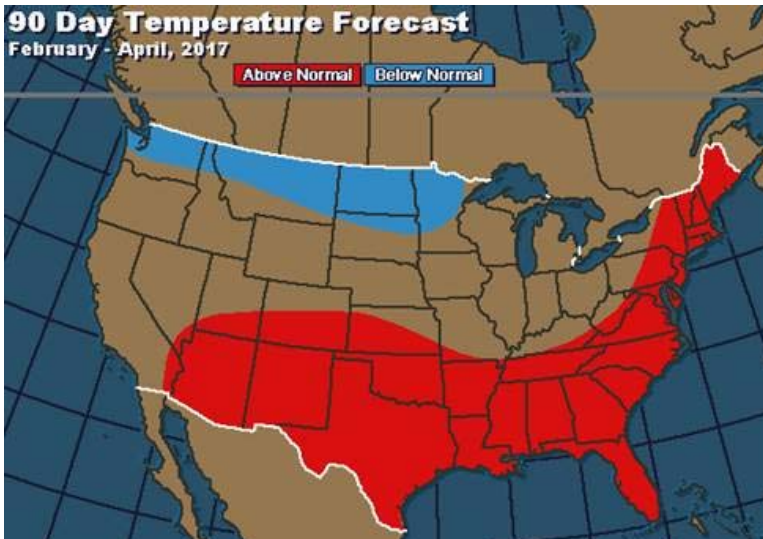
**Subject:** FW: MEP Weekly Gas Update 2-2-2017  
**Attachments:** MEP Gas Storage Chart 2017 2 2.pdf; NG Price Curve 2017 2 2.pdf

### Natural gas is currently trading at \$3.187 per Dth

So it is official - Punxsutawney Phil has declared that we will have six more weeks of winter. That may not be so surprising for the people of Wisconsin as we indeed have been having something that looks a lot like winter this year. Just yesterday I was out still trying to clear the remnants of our last snow fall. I certainly did not get much help from the sun today with a high of 14 degrees.



But this year Phil seems to have some company as NOAA continues to show us normal to below normal into spring.



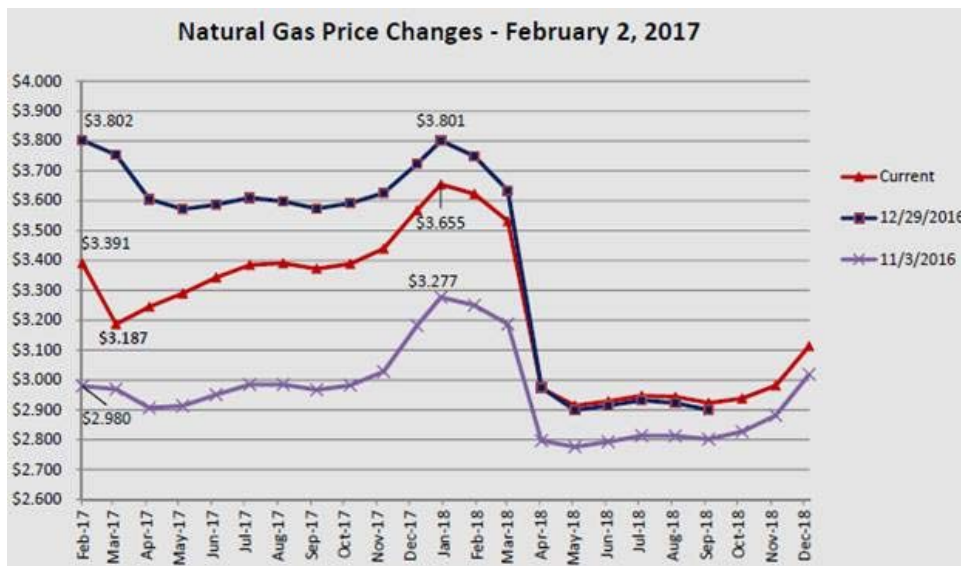
So are this week's lows for the March gas contract going to be the lows for the year? There is at least one theory that says that could be the case. The argument runs this way:

Natural gas prices are currently reacting to warmer than normal southern temperatures and an easing year on year storage decline. It does not look like the southern temperatures are going to change much, but the northern tier of states had a much warmer February and March last year that led to very tepid storage withdrawals. If both Phil and

NOAA are right on their forecasts, then we should easily start to increase the year on year inventory deficit in February and March. Moreover, we currently have less production this year and both LNG and industrial demand are expected to increase in coming months. If you remember last year, we had trouble filling storage even though we had higher production levels. If both the weather and demand forecasts are correct then producers need to start bringing more gas to market – much more. While rig activity has been increasing it is not near recent highs, so will gas show up? Also, while NOAA says that last summer was hot, the record heat was in the SW while Texas and much of the South was closer to normal. If we end winter with a bigger inventory deficit and get hotter summer weather, then gas prices would undoubtedly stay strong. In fact if you look at the current pricing for summer, which is about 20 cents higher than the March current, this theory in one form or another seems to be favored by the market.

As I said that is one theory. EIA also seems to think that gas prices will remain higher during the summer, but that they will be capped when power companies opt to replace higher priced gas with coal. Between increasing renewables and moth balled coal plants, I am not sure that there will be as much switching as they think will occur in that scenario. The ability of gas generation to regulate to power loads will certainly keep a lot of gas units running. All of this sets up what should be a very interesting summer.

One last observation – markets generally hate giant ski slopes on their charts. Just look at that March to April, 2018 price drop. I think that would even intimidate Eddie the Eagle.



The March gas contract has remained weak since February rolled off last week at 3.391 /Dth. March traded down to \$3.118 /Dth in early morning trading today before bouncing on the EIA report of -87 BCF withdrawal and stronger cash prices for northeast gas supplies to finish at \$3.187 /Dth, up 1.9 cents.



With the March gas contract in the lead we saw the 2017 Calendar drop 10.2 cents to \$3.411 /Dth week-on-week. Winter 2017/18 declined 6.1 cents to \$3.564 /Dth while the 2018 Calendar strip increased 0.5 cents to \$3.123 /Dth for the week.

Have a great weekend.

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