Prices Rebound to Start the New Year

Today the EIA reported a reasonable delivery of natural gas from L48 underground storage. As of January 1st, inventories fell by 130 Bcf to 3.330 Tcf. The seasonal norm is 151 ±42 Bcf, and the five-year mean (interpolated) is 180 Bcf.

Per the EIA's estimates, LNG sendout fell by 2.69% to a 10.05 Bcf/d average as of December 31st, and according to the Edison Electric Institute (EEI), week-over-week L48 power production summed 74,553 GWhs, up 4.1% compared with the corresponding time series from a year ago. On a week-over-week basis, after the Xmas lighting season peaked, production declined 2.3%. The EEI notes that for the past 52 weeks, U.S. power production totaled 3,927 TWhs, down 2.8% from the previous 52-week period.

The report came in below the consensus surveys which ranged from 135 Bcf on The Desk and Reuters, 137 Bcf Bloomberg and Dow Jones, and 139 Bcf Platts.

As far as next week's report is concerned (EIA week ended January 8th) the early consensus is looking for a delivery in the high 130s to low 140s Bcf. The typical delivery for this week is 164 ±46 Bcf, and the five-year mean is 184 Bcf. In light of this estimate, we venture that the probability of finishing this season above the EIA's forecast (STEO) of 1.535 Tcf is 58% with a 50/50 line of approximately 1.582 Tcf. There is a 38% chance of finishing above the five-year mean of 1.694 Tcf.

The NYMEX Summer strip for 2021 peaked at a 52-week high of $3.033/MMBtu at the end of October. The market moved lower from there, bottoming at $2.484/MMBtu on December 28th. As we turned the page on 2020, the strip found new life, peaking this past Wednesday at $2.793/MMBtu.

Gas for next winter has also found a new lease of life. The NYMEX 2021-22 Winter strip peaked at the beginning of November at a 52-week high of $3.236/MMBtu but then fell on average by 0.42% per session, bottoming on December 28th at a five-month low of $2.761/MMBtu. Since then, the market has stormed back, rising on average by 1.46% per session, closing yesterday at $3.012/MMBtu.

As a result of the recent strength, the trend in the discount (contango) on Summer 2021 gas to next winter has narrowed from -$0.277/MMBtu to -$0.216/MMBtu. This contraction is constructive but, the market is still pricing in weaker fundamentals for the front-end of the 2021 price curve.

2020: A year for the record books.

Last year, Henry Hub natural gas futures on the NYMEX were the lowest in more than two decades! The spot market averaged $2.130/MMBtu, the lowest annual average since 1996. Prices started 2020 on a soft note because of mild space-heating demand and then tanked from there as COVID-19 mitigation protocols were enacted. A pullback in production and a rebound in demand for U.S. LNG is expected to help prices strengthen in 2021. Stay tuned.