Henry Hub—Abundance Meets Reluctant Hedges

Swap dealers' (CFTC) net short in NYMEX Henry Hub has fallen from a March peak of ≈792k contracts to ≈657k—a reduction of ≈135k contracts, or ≈1.35 Tcf of gas. That equals roughly 30 mid-August EIA injections or 11½ days of current U.S. output. The shift comes amid record May production (118.09 Bcf/d, +4.8% annualized), one of the strongest refill seasons on record, and a spot collapse from ≈$4.50 in March to ≈$2.75. Fundamentals are abundant, but producers are reluctant to sell forward into a weak strip, leaving dealers with fewer shorts to warehouse.

Dealer positioning has tracked the ebb and flow of producer hedging appetite. At March's peak, producers sold forward into near multi-year highs, locking in revenue protection. By April, as prices softened, some hedges were lifted, cutting shorts to ≈711k. In June, positions rebuilt to ≈769k as injection season began. Today's ≈657k (YTD low) reflects oversupply and little incentive for producers to hedge at depressed prices.

1. Why fewer dealer shorts now?

- Price incentive flipped: $4.50 was hedgeable; $2s–$3s are not.
- Abundant cover: At 118 Bcf/d and refills on track to 3.94 Tcf, urgency to hedge is low.
- Flow mix shift: More risk in options/OTC, less straight delta for dealers to short.

The reduction is not "bullish dealers." It is reluctant producers and less client demand for long delta at weak prices. **Dealers carry what customers want—currently, that's less forward gas**.

2. Supply and storage: abundance confirmed

- Production: May set an all-time high, reversing last year's 6.8% decline.
- Storage: Refills rank among the strongest ever, achieved despite heavy summer cooling load. Our base case calls for ≈3.94 Tcf end-season, enough to flip deficits into surpluses by mid-September.

With ample molecules and inventory cushion, risk has shifted from scarcity to *timing*: when (not if) winter demand materializes.

3. Price action and curve

- Flat price: Crashed from $4.50 to $2.75, confirming supply weight.
- Curve:
  - *Oct-25/Nov-25:* Mean –$0.205; downside bias, moderate vol.
  - *Nov-25/Dec-25:* Mean –$0.551; anchored contango, limited upside.
  - *Mar-26/Apr-26:* ≈flat mean, high σ (0.54); weather-beta optionality.

The market votes "heavy front." Winter is not tight but remains convexity-sensitive.

Bottom line

This tape is a study in abundance: record supply, muscular refills, and a front-end that stays heavy even in heat. The 1.351 Tcf short reduction confirms producers' reluctance to hedge at weak prices and a market that favors optionality over delta. Near-dated contango remains bearishly skewed; deferred winter is neutral but volatile—the right place to own convexity.

Stay sharp. Hedge with confidence.