NATURAL GAS MARKET UPDATE
AUGUST 2021

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MARKET SUMMARY

BIGGEST FACTOR: WEATHER

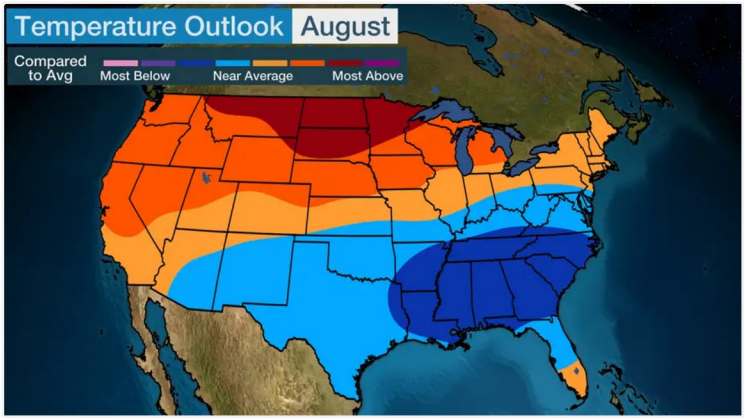
Natural gas generators have been in high demand to power cooling loads and supplement parched hydropower markets. Booming exports and more steamy weather will keep supplies down and prices up.

PROCUREMENT TAKEAWAY

Prices will remain elevated as the market forces a rebalancing. Short-term deals are favorable to avoid the summer craze while leaving the option to capitalize on a cooler, more stable market in the fall/winter.

WEATHER (BULLISH)

TAKEAWAY - Natural gas futures have gained 37% since April and are more than twice the price of a year ago. They settled over $4/Dth to begin the month.



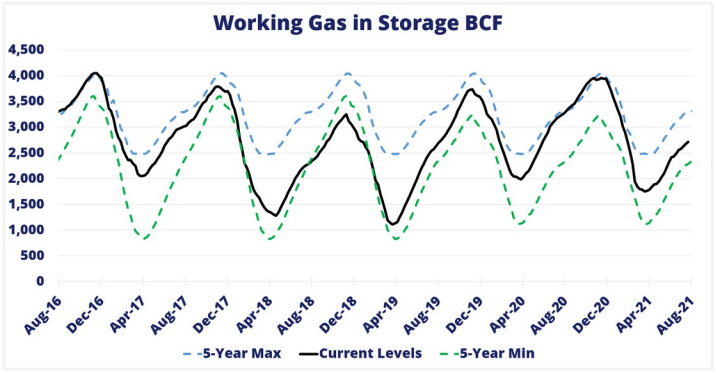
Source: The Weather Company

August usually brings extreme temperatures to the heavily populated coastal areas, which significantly impacts demand levels.

Additionally, ongoing fires and hot temperatures in August could cause important transmission lines to be derated. Ultimately, the biggest risk is a heat wave hitting the Western region at the same exact time.

STORAGE (BULLISH)

TAKEAWAY - As with summer, the cold season's impact on natural gas could be phenomenal due to concerning low levels of gas in storage.



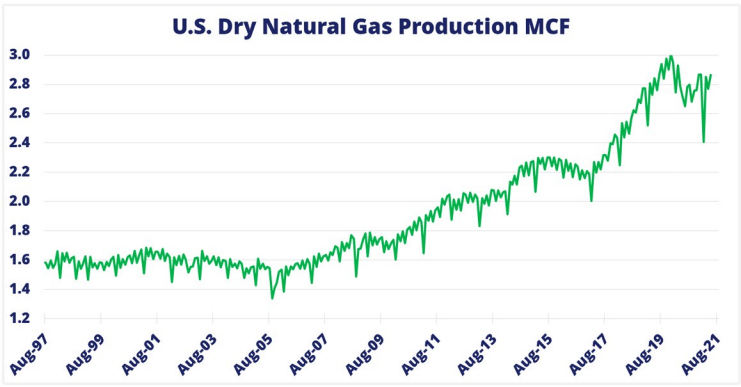
Source: EIA

STORAGE (CONTINUED)

Working gas in storage was 2,727 Bcf as of July 30. This represents a net increase from the previous week. Stocks were 542 Bcf less than last year at this time and 185 Bcf below the five-year average. At 2,727 Bcf, total working gas is within the five-year historical range.

PRODUCTION (BEARISH)

TAKEAWAY - After years of flooding the market, major producers are sticking to plans to maintain relatively flat output, accumulate cash, and keep natural-gas prices high enough for profits.

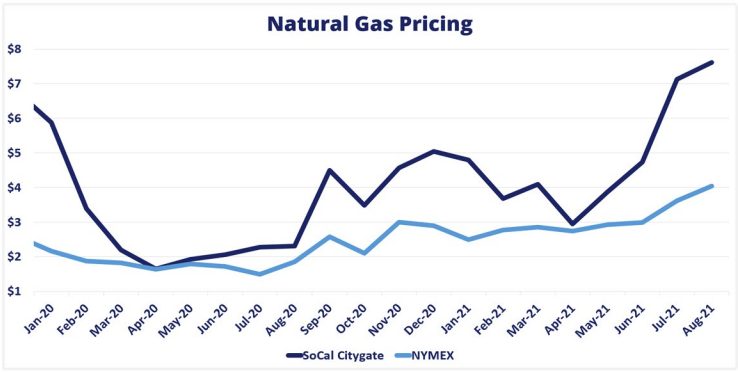


Source: EIA

Despite the highest summer gas prices since 2014, producers have yet to send many more drilling rigs into their fields.

LNG export demand increases in 2022 will offset potential production increases on the horizon.

PRICING



Source: EIA

IN THE NEWS

The rising number of COVID-19 cases because of the Delta variant does not appear to be creating much concern in the natural gas market. With the Delta variant being more infectious than the original strain, corporate America is addressing the ongoing reopening. Vaccination requirements by some companies and cities could derail consumer spending going forward.

Japan is highlighting the use of hydrogen during this year's Summer Olympic Games held in Tokyo. When Japan first hosted the Olympics in 1964, Japan used propane gas in the Olympic cauldron. For this year's Olympic Games, the cauldron is fueled by a mix of hydrogen and propane. In addition, hydrogen is being used in 500 fuel cell vehicles to transport officials and in 100 fuel cell buses to transport athletes. Hydrogen from fuel cells is powering part of the Olympic Village, Harumi Flag, as well. The hydrogen used at the Tokyo 2020 Olympics is produced using solar power generated in Fukushima Prefecture, where the now idle Fukushima Daiichi Nuclear Power Plant is located.

Russia's gas giant Gazprom boosted its natural gas exports to Europe by 23% annually in January to July 2021. Demand for natural gas in Europe has rebounded strongly this year, following the slump in the spring and summer last year when demand fell with the pandemic-induced lockdowns across Europe.

A massive methane plume detected last month over Kazakhstan occurred near a major pipeline that supplies natural gas to China. The cloud was observed roughly 62 miles west of the largest Kazakh city of Almaty on July 24, and had an emissions rate of more than 200 tons of methane an hour. That amount of the super-warming greenhouse gas would have roughly the same short-term climate warming impact as the annual emissions of 10,000 cars in the UK.