NATURAL GAS MARKET UPDATE
JANUARY 2021

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MARKET SUMMARY

BIGGEST FACTOR: PRODUCTION

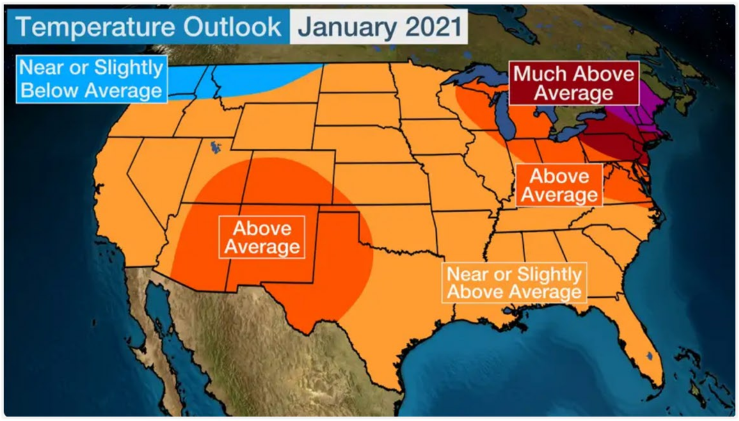
Increased domestic industrial energy use, coupled with strong and ongoing demand for U.S. exports, could drive natural gas prices higher in 2021.

PROCUREMENT TAKEAWAY

As the world rebounds from COVID-19 and demand outpaces production, prices are expected to increase. Is your facility hedged? Consider reassessing your risk tolerance before 2021 unfolds.

WEATHER (NEUTRAL)

TAKEAWAY - A mild start to the month is one of the reasons January might be warmer than average in many areas. However, the door might swing open for arctic air to invade the central U.S. later in the month.



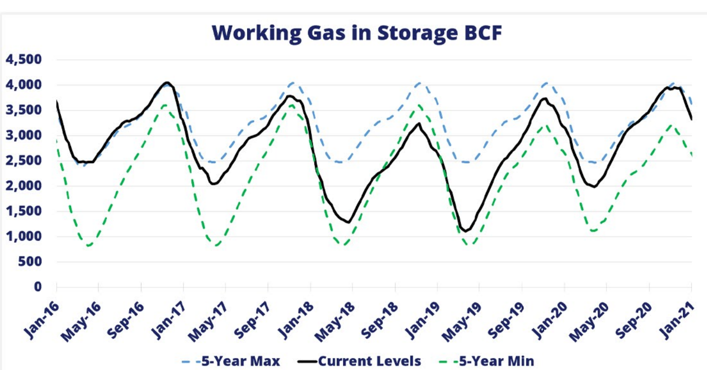
Source: The Weather Company

February prices jumped 3.5% in early January due to colder weather trends and increased heating demand in the New Year.

In Q1 2021, above-average temperatures are expected across most of the Lower 48. Temperatures will likely be the most above average from eastern Utah southeastward into northwestern Texas.

STORAGE (BEARISH)

TAKEAWAY - U.S. stockpiles should dwindle in Q2 and Q3 as stronger LNG utilization pushes the market into undersupply.

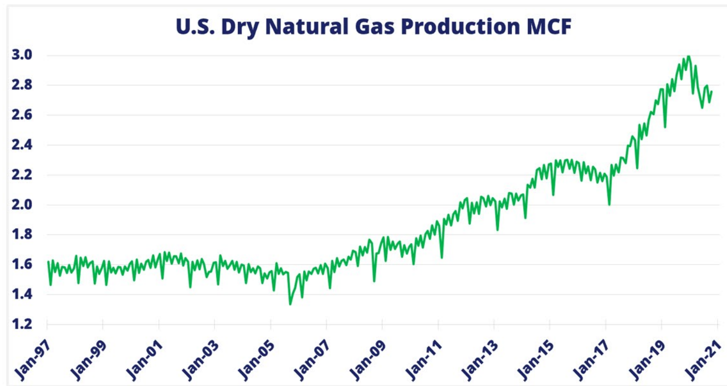


Source: EIA

As of January 1, 2021, stocks were 138 Bcf higher than last year at this time and 201 Bcf above the five-year average of 3,129 Bcf. At 3,330 Bcf, total working gas is within the five-year historical range.

PRODUCTION (BULLISH)

TAKEAWAY - The transition to a relatively normal demand environment, paired with significant expected production declines are set to drive prices higher in 2021.

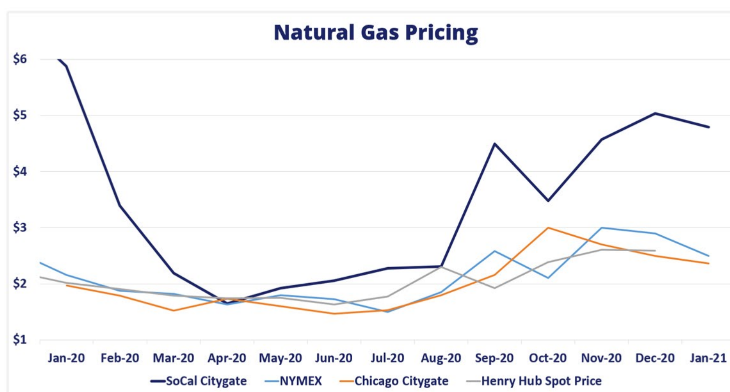


Source: EIA

Natural gas spot prices at the benchmark Henry Hub averaged $2.05 in 2020, the lowest level of the past decade.

U.S. exports of liquefied natural gas (LNG) set a new record in December after a record-breaking November 2020, averaging 9.8 Bcf/d.

PRICING



Source: EIA

IN THE NEWS

While residential demand held up last year amid the elevated work-from-home levels imposed in response to virus outbreaks, commercial and industrial demand declined during the initial depths of the pandemic. Energy use from those sectors is expected to mount as vaccines get widely distributed, the pandemic fades, and economic activity picks up.

Several factors have contributed to higher levels of U.S. LNG exports in recent months. LNG demand increased due to colder-than-normal winter temperatures in key Asian LNG-consuming markets. Moreover, supplies of LNG decreased because of unplanned outages at critical LNG export facilities globally. Reduction in LNG supply led to higher international natural gas and LNG prices in Asia and Europe, attracting higher volumes of flexible LNG supplies from the United States.

Natural gas-fired generation has generally increased in most U.S. regions since 2015. Annual electricity generation from natural gas power plants in the U.S. increased by 31% in the Northeast region, by 20% in the Central region, and by 17% in the South region between 2015 and 2019.

Renewable natural gas (RNG) volumes and production sites increased significantly over the past two years in the U.S. Recent reports show there were 312 production sites nationwide at the end of 2020 with 157 facilities in operation, or 78% more than in 2019. There also were 76 projects under construction, and 79 set to begin construction by the end of 2020.