NATURAL GAS MARKET UPDATE
OCTOBER 2021

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MARKET SUMMARY

BIGGEST FACTORS: MULTIPLE

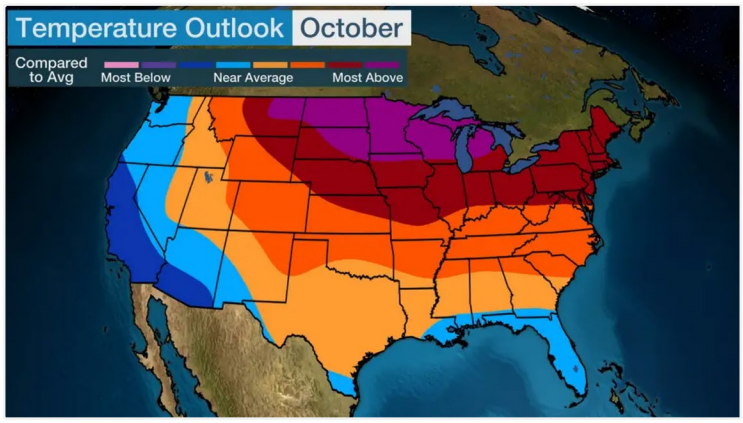
Most fundamentals for natural gas pricing are bullish. There is little keeping natural gas bearish for the future unless massive increases in production and reduced electricity demand are realized.

PROCUREMENT TAKEAWAY

Prices remain well above historical averages throughout the western region and are expected to remain or increase through February 2022. Anyone looking to limit winter exposure should lock in prices now.

WEATHER (BULLISH)

TAKEAWAY - Weather patterns in the coming 15 days remain bearish. Nonethless, the southwest is particularly weather-sensitive; the El Paso Natural Gas Pipeline has been delivering limited supplies following a deadly explosion along one of the company's transmission pipelines.



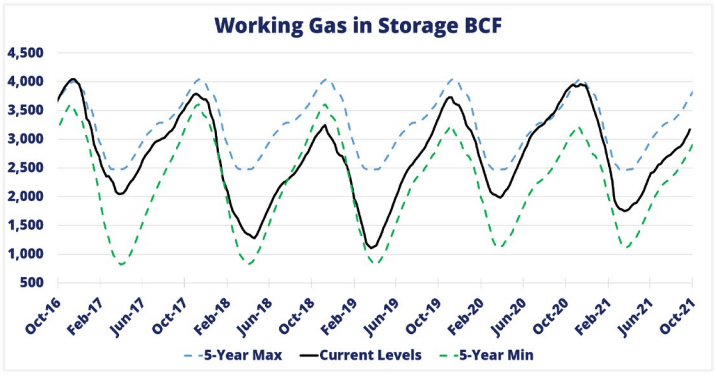
Source: The Weather Company

La Niña is likely to emerge. It's the periodic cooling of the equatorial Pacific Ocean waters, which, depending on its strength, can influence weather patterns across the globe, including in the U.S.

This winter is expected to be colder than normal. While temperatures were around average last year, winter 2021-2022 is likely to average 1 to 3 degrees below normal.

STORAGE (NEUTRAL)

TAKEAWAY - U.S. supplies have been increasingly bearish over the past month as weekly storage injections are larger than expected, including what's likely to be a string of six straight weekly storage builds.



Source: EIA

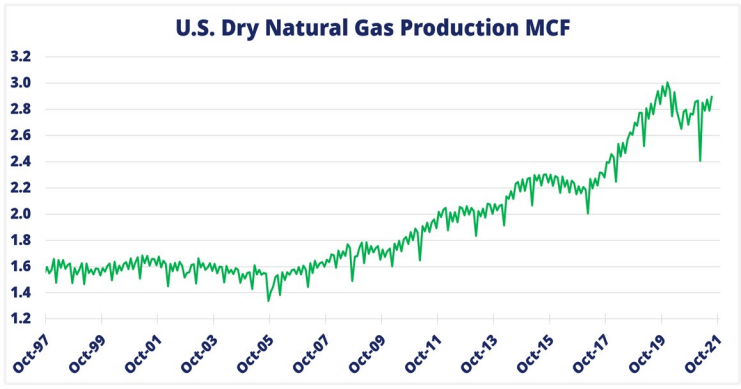
STORAGE (CONTINUED)

The California Public Utilities Commission will weigh two proposals to beef up the amount of natural gas stored at its Aliso Canyon field.

At 3,170 Bcf, total working gas is within the five-year historical range.

PRODUCTION (BULLISH)

TAKEAWAY - Natural gas demand and production has been largely flat, but exports have been climbing and are a main driver of higher prices as the country heads into winter.

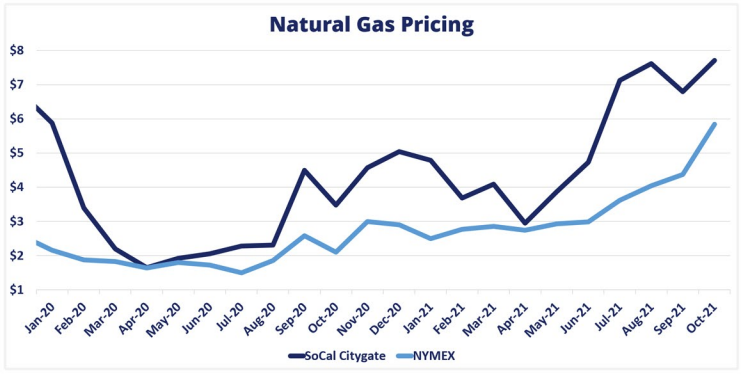


Source: EIA

Industrial sector natural gas consumption is expected to rise throughout 2021 and to exceed pre-pandemic 2019 levels.

For most of the past 18 months, there have been fewer than 100 gas rigs operating. That's the fewest since 2016 and just 33% of the 2014 total.

PRICING



Source: EIA

IN THE NEWS

Natural gas contracts have hit new highs in Europe, as soaring prices continue to put pressure on the region's energy sector ahead of the winter period.

November contracts at the Dutch TTF hub - a European benchmark for natural gas - were seen trading at around 118 euros per megawatt hour in London. The front-month contract was up almost 19% on the day, setting a new record high, and has risen almost 400% since the start of the year.

In the U.K. - which has been hit particularly hard by the surging cost of wholesale natural gas - prices for November rose 14% to £2.79 per therm. Meanwhile, British wholesale gas for immediate delivery rose by 23% to £2.50 per therm.

Soaring wholesale prices have partially been caused by a surge in demand, particularly from Asia, as economies emerge from COVID-19 induced lockdowns. A cold European winter and spring also meant supplies had already been heavily depleted by the summer.

Meanwhile, falling domestic production, adverse U.S. weather conditions and essential maintenance works have created a tight gas market and made restocking gas supplies ahead of the coming winter difficult across the region.

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16 utilities received $1.25 billion in tax benefits from the government's COVID-19 economic relief package, the CARES Act, while also shutting off customer power almost 1 million times from July 2020 to June 2021, according to a new report. The utility sector blasted the report as "misleading" and "disingenuous," but other advocates say its conclusions are worth highlighting.

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Global electrolyzer capacity for producing hydrogen could reach up to 89 GW by 2030 thanks in part to $37 billion in government spending and $300 billion in private sector investments, according to a report released by the International Energy Agency.

However, this falls well short of the $1.2 trillion in spending the IEA anticipates will be needed for the hydrogen industry to grow at the rate required for the world to achieve net zero emissions by 2050.

Hydrogen requires investment in new infrastructure beyond what's required to deploy wind or solar energy. Greater government attention - which appears to be happening - is needed to accelerate industry growth.