Extreme volatility continues in NYMEX gas futures

By Samer Mosis ,Jason Lord
Published on - Thu, 15 Nov 2018 16:26:52 EST

Major volatility has returned to the **US gas** futures market, in part because of extremely low **gas** storage levels, colder-than-expected temperature forecasts, and an increase in demand from **US gas** and **LNG** exports. The December contract soared $1.60/MMBtu during the first two weeks of November from $3.237/MMBtu on November 1 to a settlement of $4.837/MMBtu on November 14.

During trading Monday through Wednesday, the **NYMEX** December natural **gas** contract gained $1.05/MMBtu, to trade at $4.837/MMBtu, its highest level since late February 2014.

The record-setting rally comes as analysts and market participants alike have repeatedly found themselves debating the importance of the large storage deficit present across the **United States** given the enormous production growth seen this year.

November to date, dry natural **gas** production across the **United States** has averaged 84.7 Bcf/d, a whopping 8.5% stronger year on year, while **US** storage levels have hovered around 16% below historical norms throughout October.

It appears the factor driving the market into steep upward frenzy was the appearance of colder-than-expected temperatures earlier this week, and the potential for more around the corner.

On Wednesday, domestic demand, excluding exports and **LNG feedgas** , exceeded 102 Bcf/d, the highest November level since 2014, S&P Global Platts Analytics data shows.

When taking exports to **Mexico** and **LNG feedgas** into consideration, demand reached an all-time November high of 111 Bcf/d.

These strong demand levels are only set to continue, with demand across the **US** during the back half of November now expected to average more than 87 Bcf/d, about 5% stronger than projections made just a week prior, S&P Global Platts Analytics data shows. If realized, these levels will be 13% stronger than demand seen during the latter half of last November.

With all these bullish factors at play, a double-whammy effectively took place across natural **gas** markets; cash markets rallied on the need to meet demand immediately, and futures did just the same on the perception that cold weather now would mean significantly tighter markets around the corner. All this buying led to the only thing that could happen – **prices** going up.

Prices retreat

To many, though, the record-setting rally was unsustainable, and on Thursday this played out to be true as the prompt month contract saw the greatest day-on-day loss since July 17, 2008, sliding nearly 80 cents/MMBtu to settle at $4.038/MMBtu.

These large **price** swings are a function of markets testing support and resistance levels after rallies of this nature.

This volatility was also a key factor in building record market activity, as a press release from **CME** group, released Wednesday, depicted, announcing that on November 14 **CME** "reached a daily trading volume record of 1,232,635 contracts for **Henry Hub** Natural **Gas** futures on Tuesday, Nov. 13, 2018, surpassing the previous record of 1,022,858 contracts set on Jan. 12, 2018."

The market may be in fear this winter with this week's return to volatility. Weather will be the main driver. Movements as seen Thursday may continue to be irrational through the peak of winter natural **gas** demand.