

News : US EIA makes deeper cuts to short-term gas output, consumption estimates

By Maya Weber

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- Q3 **gas** marketed production lowered 4.76 Bcf/d to 97.78 Bcf/d
- Q3 **gas** demand forecast down 3.02 Bcf/d to 74.76 Bcf/d
- **EIA** lowers Q2 **Henry Hub** spot price forecast 19 cents to \$1.72/MMBtu

Factoring in further impacts of the coronavirus pandemic and the global **crude oil** price standoff, the **US Energy Information Administration** Tuesday shaved its estimates for **US natural gas** production and consumption in the second and third quarters of 2020.

The agency, in its April Short-Term Energy Outlook, also expected a slowing economy and stay-at-home orders would affect **electricity** consumption and generation in 2020.

EIA lowered by 4.76 Bcf/d to 97.78 Bcf/d its **natural gas** marketed production estimate for the **US** in Q3 2020. The Q2 production forecast also was cut by 2.86 Bcf/d to 100.47 Bcf/d.

The agency noted its model for the Lower-48 states reduces the forecast when **WTI** falls below \$45/b or **Henry Hub** prices dip below \$2/MMBtu. In addition, **EIA** assumed a further 15% cut in Q2 and 12% in Q3 production "to account for the unprecedented effects of COVID-19 on the level or drilling activity as many producers have already announced plans to reduce capital spending and drilling levels." Dry production declines were expected mostly in the Appalachian and Permian regions, with increases in the second half of 2021 in response to rising prices.

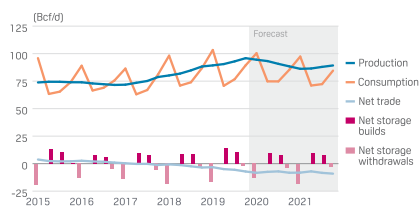
Gas demand

As for demand, **EIA** lowered its **natural gas** consumption estimates 3.02 Bcf/d to 74.76 Bcf/d for Q3, and by 2.68 Bcf/d to 74.79 Bcf/d for Q2.

"As a result of the warmer weather and a weaker economic outlook, **we** expect residential and commercial consumption of **natural gas** in 2020 to fall 6% and 7%, respectively, from 2019," said **EIA** Administrator Linda Capuano, a statement accompanying the report's release.

The outlook assumes minor shifts in space heating demand given higher residential **gas** use as more people work from home, and commercial demand declines. Weighed down by a weaker economic outlook, industrial demand is estimated to average 22.91 Bcf/d in 2020, down from 22.98 in 2019, before rising again to 23.48 in 2021, according to the outlook.

US NATURAL GAS SUPPLY AND DEMAND



Source: EIA's Short-Term Energy Outlook

Exports are also dampened. The forecast also assumed lower **gas** demand and unfavorable **LNG** pricing will lower **US LNG** exports, particularly in the third quarter.

Still, **EIA** noted that April's outlook is subject to "heightened levels of uncertainty because of the evolving impacts of the novel coronavirus outbreak." The forecast assumes no re-implementation of an **OPEC +** agreement.

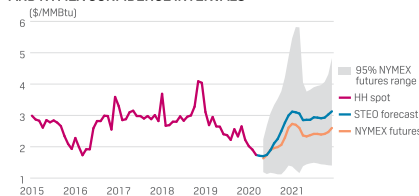
As for prices, **EIA** also lowered its forecast for Q2 **Henry Hub natural gas** spot prices by 19 cents to \$1.72/MMBtu. The Q3 forecast also fell 13 cents from the previous month's estimates to \$2.09/MMBtu.

"Warmer-than-normal March [weather] reduced demand for space heating in the **United States**, keeping **natural gas** prices at historically low levels," Capuano said. "**We** expect prices to rise in the second quarter of 2020.

The agency projected **Henry Hub natural gas** prices would average \$2.11/MMBtu for full-year 2020, level with the prior month's forecast, while it raised the 2021 estimate 0.47 cent to \$2.98/MMBtu.

As for storage inventories, Capuano said **EIA** estimates that **US** working **natural gas** storage ended March 17% higher than the previous five-year average."

HENRY HUB NATURAL GAS PRICE AND NYMEX CONFIDENCE INTERVALS



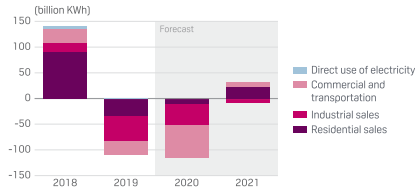
Source: EIA's Short-Term Energy Outlook, CME Group

Electricity generation

The agency also saw broad impacts on the **electricity** sector, with **US** generation estimated to decline by 3% in 2020, and lower wholesale power prices expected in 2020 across the country.

“The economic slowdown and stay-at-home orders will likely affect **US electricity** consumption over the next few months, with the largest impact occurring in the commercial sector because of business closures,” said Capuano. “**We** also estimate that sales of **electricity** to industry will fall as factories cut back production.” On the residential side, reduced power use due to milder winter and summer weather is seen offsetting increased household consumption.

US ELECTRICITY CONSUMPTION, ANNUAL CHANGE



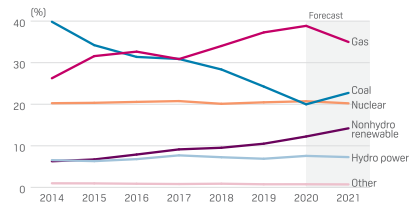
Source: EIA's Short-Term Energy Outlook

While **renewable** generation is expected to account for most new capacity in 2020, with **renewable** generation growing 11%, the sector is still seen held back by the economic slowdown.

“**We** have lowered our 2020 estimates for annual **wind** and **solar** capacity additions by 5% and 10%, respectively, from last month's forecast,” Capuano said. The report assumes half of the capacity previously slated to enter service in the second quarter would be postponed beyond the forecast period, along with a quarter of the capacity slated for Q3.

In a possible **silver lining**, **EIA** forecasts a 7.5% decline in energy-related **CO2 emissions** in 2020 resulting from the slower economy and social-distancing restrictions.

US ELECTRICITY GENERATION BY FUEL SOURCE



Source: EIA's Short-Term Energy Outlook

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