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Natural Gas Price Touches 14-Year High

U.S. futures more than double from last year on a planned Russian closure, hot weather

BY RYAN DEZEMBER

U.S. natural-gas futures reached a 14-year intraday high Tuesday, before falling at the close, a sign of the unceasing demand for U.S. shale gas across the Atlantic and likely pointing to rising prices and market volatility ahead.

The latest price surge came in response to Russia's plans to shut down one of Europe's main fuel arteries for a few days at the end of the month. The closure announced Friday is either the latest episode of unplanned maintenance along the vital Nord Stream gas pipeline or an act of economic warfare on Russia's part in retaliation for Western Europe's support for Ukraine.

Prices were climbing again Tuesday before a major U.S. gas exporter said that its fire-damaged plant in Texas would restart later than expected and leave a lot of gas in the domestic market that would otherwise be sold overseas.

Futures for September delivery dropped from a fresh high of $10.028 per million British thermal units to end at $9.193, more than twice the price a year ago. Futures for delivery this winter are even more expensive.

The run-up in natural-gas prices comes as global business activity downshifted in higher price levels," trading firm Ritterbusch & Associates told clients, predicting near-term prices could climb to as high as $11.90.

The last time natural-gas prices were so high was back before the shale-drilling boom flooded the domestic market with cheap gas and the U.S. flipped from importing the power-plant fuel to becoming the world's leading exporter.

Normally this time of year, prices ease into the mild weather of autumn, encouraging producers and traders to store gas in underground caverns until winter, when demand and prices are usually at their highest.

This year, though, brisk exports, the electricity demand associated with hot weather and sluggish production growth have kept U.S. natural-gas supplies from swelling into heating season.

The U.S. Energy Information Administration reported last week an unseasonably meager injection into storage facilities that widened to 12.7% the deficit to typical inventory levels for this time of year.

"We are beginning to see a lag in storage builds that could lead to a precarious situation during the draw season in the event of a harsher-than-expected winter," said Neal Dingmann, an energy equities analyst at Truist Securities. "There is potential for a winter U.S. superspike."

Brisk exports of natural gas, which is liquefied and shipped via tankers like this one, are leading to lower U.S. supplies. MARK FELIX/ BLOOMBERG NEWS

That is about enough gas to power 50,000 homes for a year and became available to domestic buyers this summer, helping to keep prices down at home. Freeport said Tuesday that it now expects to restart LNG production in November and resume full operating capacity in March, revising an earlier timeline that called for an October restart.

The S& P Global survey of business activity found a sharp drop in the U.S. this month, led by services companies, though manufacturing slowed as well. High inflation, material shortages, delivery delays and interest-rate rises all weighed on business activity, the survey said.

The composite purchasing managers index for the U.S. economy—which measures activity in both the manufacturing and services sectors—was 45.0 in August, down from 47.7 in July. That marked the second consecutive month with a decline and was the lowest reading since May 2020.

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August, with surveys of purchasing managers in the U.S., Europe and Japan pointing to a sharp slowdown in global economic growth. As inflation weakens consumer demand, threatening recession in some parts of the world, the war in Ukraine continues to scramble supply chains and looms as a point of pressure for natural-gas supplies.

Surging prices in Europe, weather that remains hotter than normal in much of the U.S. and the heart of hurricane season, when storms can knock out production platforms in the Gulf of Mexico, threaten to send natural-gas prices higher, analysts and traders said.

“Virtually all of our fundamental and technical indicators continue to flash green lights toward

Monthly domestic production reached its highest level since the pandemic in May, though it remained short of the output record set in December 2019, EIA data show. Analysts said output has decreased lately. Domestic demand is rising, though. Coal prices that have risen more sharply than those for gas and scarce supplies have limited power producers’ options for generating electricity, which has been in high demand to run air conditioners this summer. Government energy forecasters expect average daily U.S. gas consumption this year to be 3% higher. They expect year-over-year production gains at about the same rate.

Meanwhile, exports are set to rise this fall when one of the U.S.’s biggest liquefied-natural gas, or LNG, terminals resumes operations. Freeport LNG’s facility on a Texas barrier island has been shut down since a fire in early June, reducing U.S. export capacity by about one-sixth, or about 2 billion cubic feet a day.

S& P Global said its composite purchasing managers index for the eurozone fell to 49.2 in August from 49.9 in July, reaching an 18-month low. Manufacturing output fell for a third straight month, while the services sector narrowly avoided a contraction. —*Paul Hannon and Gabriel T. Rubin contributed to this article.*

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