

News : Appalachian gas prices falter amid incremental, yet crushing rise in production

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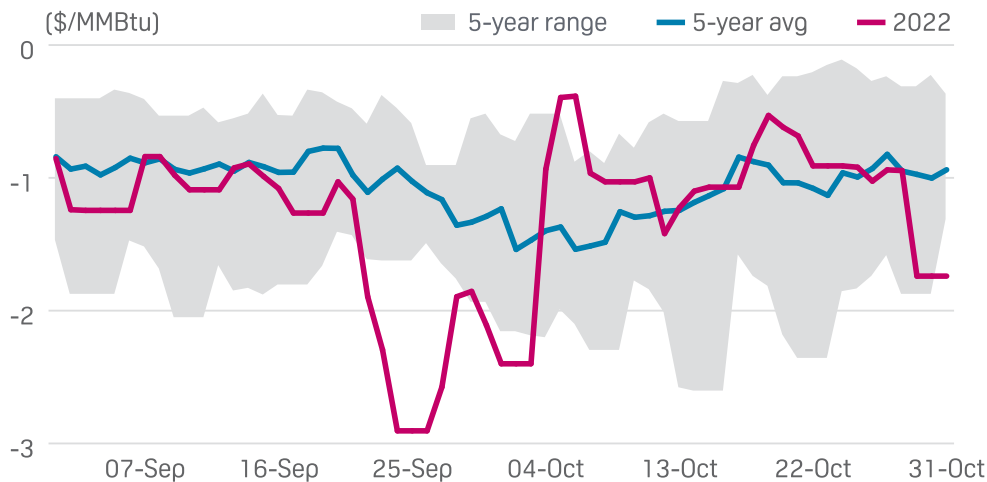
- Output averages record-high 34.2 Bcf/d in October
- Eastern Gas falls to \$2.18/MMBtu discount to Henry
- Northeast weather forecast to warm into November

Basis discounts at upstream natural gas hubs in Appalachia are trending at their lowest in five years this fall with record production and mild weather promising to keep the pressure on, well into November.

From Sept. 1 to date, cash prices at Eastern Gas South, Appalachia’s benchmark upstream hub, have traded at an average \$1.30/MMBtu discount to Henry Hub, marking the location’s widest basis differential since autumn 2017, data from S&P Global Commodity Insights shows.

Discounted gas prices in Appalachia this season are reminiscent of those seen in October 2017, prior to the startup of commercial service on Rover Pipeline. Upon its full completion in May 2018, the critical 3.25 Bcf/d interstate transmission project helped to relieve basis pressure at Appalachia’s upstream hubs, simultaneously serving to bottleneck production there.

EASTERN GAS SOUTH CASH BASIS



Source: S&P Global Commodity Insights

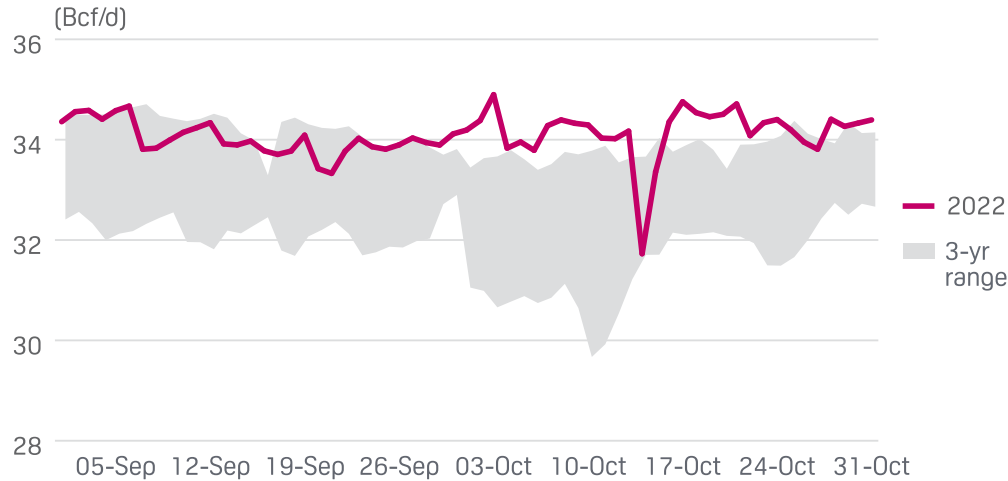
This fall, growing price pressure in Appalachia comes as producers there find themselves in a similar set of circumstances. With production now increasingly constrained by midstream capacity, output levels approaching 35 Bcf/d appear almost directly correlated with downward price movements there. At Eastern Gas South, cash basis prices have cratered this fall with downward pressure likely exacerbated by comparatively weaker shoulder-season demand.

Production

In October, gas production from the Marcellus and Utica has trended at a record-high 34.2 Bcf/d, narrowly outpacing its year-ago average at 33.8 Bcf/d, data from S&P Global shows. On multiple days over the past month, Appalachian production has tested record highs near 35 Bcf/d, often triggering sharp downward price movements or increased volatility.

During the final days of October, prices at Eastern Gas South have come under renewed pressure, falling to discounts of nearly \$2/MMBtu or more. On Oct. 31, the cash market sank to just \$2.90, equating to a basis price differential of \$2.20 below Henry Hub, preliminary settlement data from Platts showed.

APPALACHIAN BASIN GAS PRODUCTION



Source: S&P Global Commodity Insights

Weather, demand

Price pressure at **Appalachia** 's upstream hubs appears to correlate most closely with changes in production over the past month.

While not clearly apparent, weather has likely also been a factor. Historically, prices at Eastern **Gas** South and other locations fall to annual lows in October due in large part to mild weather. This October, though, relatively colder weather and stronger demand may actually have been a mitigating factor – meaning the price pressure could have been worse.

In October, population-weighted temperatures in the Northeast have averaged just 55.6 degrees Fahrenheit, or their coldest in five years or more. Over the same period, **gas** demand in the Northeast has averaged nearly 16.9 Bcf/d to trend at its highest since 2018. The recent trend toward colder weather, though, is forecast to reverse from early to mid-November.

Short-term weather forecasts published by the National Weather Service now show most states across the Northeast at risk for warmer-than-average temperatures through mid-November. Over the next 14 days, population-weighted temperatures are expected to average 57.5 F, or about 2 degrees above the October average, forecast data from S&P Global shows.

The forward markets already appear keyed-in on the looming risk to **gas** prices.

At Eastern **Gas** South, the November contract has tumbled in recent trading. In late October, the November full-month contract expired at discount of nearly \$1.40/MMBtu after trading closer to \$1 behind **Henry Hub** this summer. Prices for November – now trading as the balance of month contract – settled most recently at \$1.64/MMBtu discount to the benchmark, or their weakest yet this year, Platts M2MS forwards data shows.

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