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Analysis : Fading US demand outlook leads NYMEX January gas to nine-month low

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Published on - Mon, 05 Dec 2022 16:53:38 EST | Modified on - Mon, 05 Dec 2022 17:26:59 EST

- **NYMEX** January 2023 contract settles at $5.58/MMBtu
- Uncertainty over **Freeport LNG** weighs on sentiment
- Early to mid-December weather looking milder now

The **NYMEX Henry Hub** January futures contract fell below $6/MMBtu on Dec. 5, to trade at its lowest since March as the market takes stock of another restart delay at the **Freeport LNG** terminal and shifting weather forecasts pointing to a milder start to December than previously anticipated.

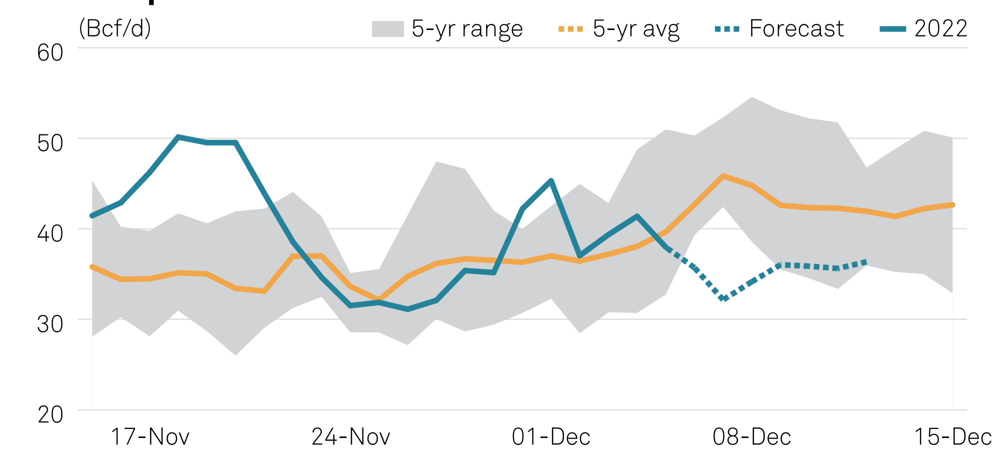
After trading into the upper-$7s in late November, futures prices for January have fallen more than $2, or almost 30%, as the bullish short-term outlook for **US gas** supply and demand loses luster.

On Dec. 1, **Freeport LNG** confirmed news of another delay to its restart timing, saying that it was working with **US** regulators to secure all approvals required to resume production, likely by year-end.

The latest news from **Freeport LNG** represents at least the third delay to its restart timing, keeping the terminal's roughly 2 Bcf/d in **feedgas** demand since June when the facility was was rocked by a fire and subsequent explosion that immediately halted output.

For the **US gas** market, Freeport's closure has kept about 15% of domestic **LNG** export capacity idled. While previous delays to the terminal's restart have also put downward pressure on futures prices, the latest comes just as other supply-and-demand factors weigh on market sentiment.

US residential-commercial gas demand forecast to underperform over next week



Source: S&P Global Commodity Insights

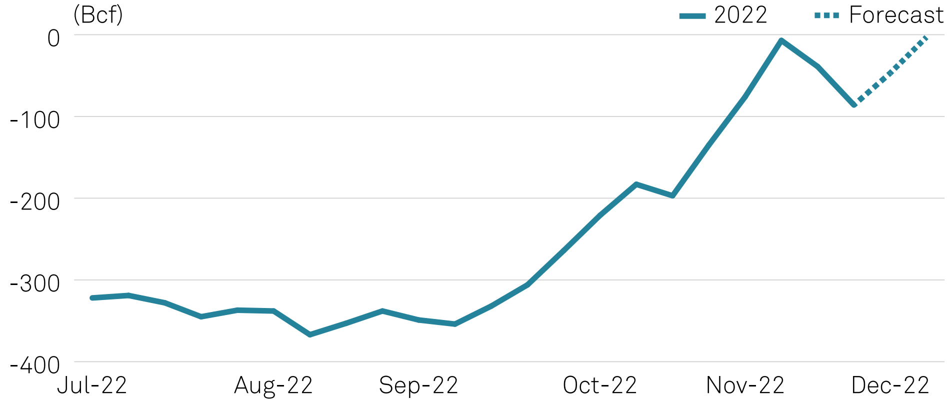
Weather forecast

In its latest six- to 10-day outlook, the **US** National Weather Service said that it now expects above-average temperatures to prevail from Dec. 10-14 in states east of the Rocky Mountains where the vast majority of **US** heating demand is concentrated.

While the agency's longer-range outlook for Dec. 12-18 predicts closer-to-normal mid-December temperatures in most states east of the Rockies, the forecast still points to unseasonably warm weather in the upper Northeast and **New England** . Milder weather in the Midwest and the Northeast could depress residential-commercial in two key regions where heating demand often has an outsized impact on **US gas** market fundamentals in winter.

Over the next seven days, the **US gas** market is already projected to see below-average demand for **gas** -fired heating. From Dec. 6-12, **US** res-comm demand is projected to average just 35.1 Bcf/d, undershooting the prior five-year average by over 8 Bcf/d, or about 19%, according to a forecast from S&P Global Commodity Insights.

US gas storage deficit forecast to narrow through early December



Source: US Energy Information Administration, S&P Global Commodity Insights

Storage

In addition to weaker demand, the outlook for **US gas** storage has already turned less-than-bullish recently. For the seven days ended Dec. 2, most analysts expect a sharp drop in storage withdrawals compared to the week prior, thanks to milder weather and lower demand in late November.

According to S&P Global Commodity Insights' latest storage and supply-demand model forecasts, total **US** inventories could fall by just 10-13 Bcf for the week ended Dec. 2. If accurate, a drawdown within that range would dramatically undershoot the five-year average storage pull of 49 Bcf and the year-ago drawdown of 59 Bcf in the corresponding week, **EIA** data shows.

Following a bullish start to the **US** heating season in November, **US** inventory levels fell to an 86 Bcf deficit to the five-year average late last month. Over the next two reporting weeks, S&P Global forecasts show that inventory shortfall being all but completely erased as comparatively small withdrawals allow **US** stock levels to catch up with historical estimates recorded in the corresponding week.