News : US shale gas drillers cut some rigs, but Wall Street wants more to drop

By Bill Holland
Published on - Tue, 14 Mar 2023 16:23:00 EST

- Haynesville drillers drop rigs
- Freeport **LNG** return normalizes inventories

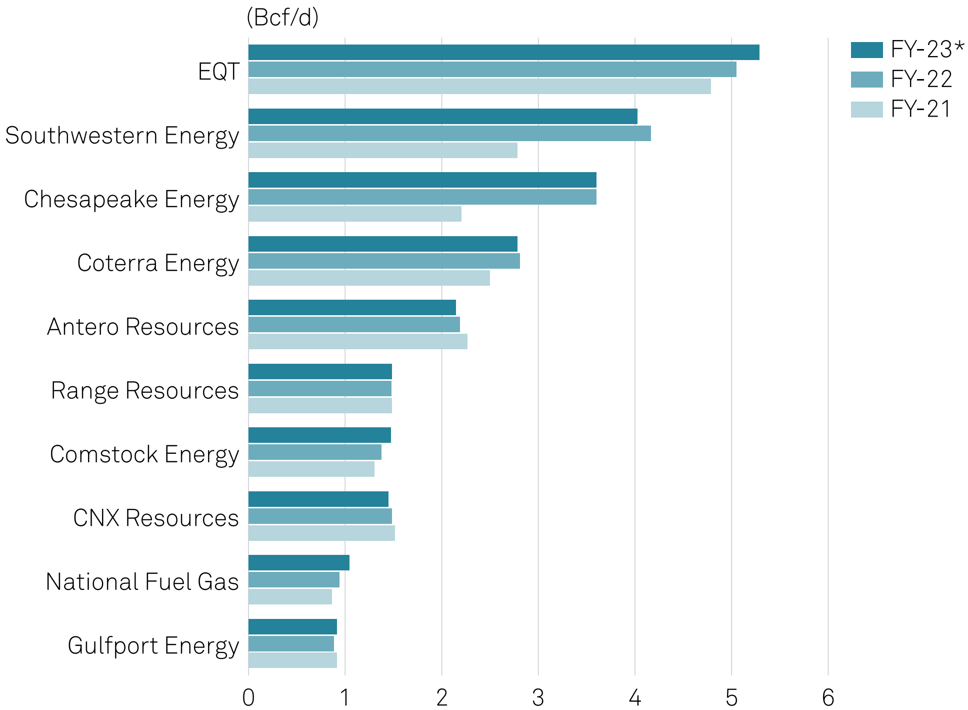
Rig count data showed that America's **shale** producers shook off a call from Wall Street to cut natural **gas** production in 2023 as a way to bolster battered commodity prices.

Shale gas drillers, particularly those in the **Haynesville Shale** on the **Texas** -**Louisiana** border, are ignoring the current oversupplied market by sticking with flat production plans, banking on the startup in 2024 and 2025 of more **Gulf Coast** liquefied natural **gas** export terminals that would boost demand, analysts said.

"Operators are more focused on **LNG** exports in two to three years than excesses today," Benchmark Co. oil and **gas** analyst Subash Chandra said in a March 13 note. "Yet the final investment decision of the various **LNG** projects in the pipeline is not a condition for growth."

Chandra said the scheduled terminal starts can already be supplied with current **gas** volumes, and export terminals in a potential second wave have yet to receive final investment decisions.

Shale drillers are expected to produce 1% more in 2023



*As of March 13, 2023
Source: S&P Global Commodity Insights, company filings

More Haynesville rigs need to drop

During earnings calls covering the fourth quarter of 2022, **Southwestern Energy** , Comstock Resources and **Chesapeake Energy** each said they would drop two rigs in the **Haynesville Shale** . Those three companies are the largest public exploration and production firms in the Haynesville, which has the easiest access to the **Gulf Coast** 's **LNG** export terminals.

The **Haynesville Shale** was expected to see a 12% increase in **gas** volumes over last April, with a 3% increase already this year, according to the **US** Energy Information Administration's March 13 Drilling Productivity Report. In the large Appalachian **shales** , the Utica and the Marcellus, the **EIA** is forecasting a 1.6% year-over-year increase in April, with a 2.9% increase year to date.

Goldman Sachs oil and **gas** analyst Umang Choudhary said more rigs need to be pulled from production, which would cut the amount of **gas** going to market, particularly in the Haynesville. "**We** need supply response from **gas** producers to balance the market headed for oversupply, given less robust secular demand in the near term, and strong production growth from oily **shale** basins," Choudhary wrote in a March 10 note.

Goldman analysts estimated the **US** market only needs 1.2 Bcf/d more of **gas** production this year. The **EIA** expected that by April, nearly half that number, 420 MMcf/d, will be produced. Goldman said there is a three- to four-month lag built into producers' reaction to commodity prices, but rig counts need to be reduced.

"**We** believe further activity cuts would be needed, especially Haynesville activity, which needs to be reduced to ~50 rigs ... with associated cuts in completion activity to solve for a flat production profile from the Haynesville," Goldman said in the recent note.

Rig data from Enverus, an energy market data and software firm, showed 66 rigs operating in the Haynesville on March 1, a 10% increase over March 2022, with private drillers accounting for 36 of those rigs. Enverus showed a 9% increase in Appalachian rig count, driven primarily by public and private operators increasing Utica rigs.

Fund manager: Buy the dip

Leaving aside the wild card of weather, the commodities and natural resources fund managers at Goehring & Rozencwajg Associates said the 2023 **gas** market is already balanced with the return of Freeport **LNG** 's **Texas** terminal after a June fire.

"With Freeport back online, inventories should normalize given production is mostly flat," managing partner and portfolio manager Adam Rozencwajg said in a March 13 email. "As 2023 goes on, new **LNG** export terminals will come online. As a result, **we** shouldn't need production cuts to move the market into deficit."

The Goehring & Rozencwajg team said now is the time to buy **shale gas** stocks, which they see as undervalued in light of future global **LNG** demand and the flat spending profiles of **US** E&Ps.

"When the global markets swung from 'structural surplus' to 'structural deficit' [in previous periods], international **gas** prices surged tenfold ... in just over 12 months," the fund manager said in a Feb. 28 analysis of fourth-quarter 2022 earnings results and 2023 guidance. "A high probability exists that a move of similar magnitude could happen in the **North American gas** market in the next 12 months."

S&P Global Commodity Insights reporter Bill ***Holland*** *produces content for distribution on Capital IQ Pro.*