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News : Analysts expect lower US gas prices, bearish market cues in 2024

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- Supply growth in 2023 is triple that of demand
- Winter 2023-2024 gas prices trading under $4/MMBtu

Bearish sentiment in the US gas market could well persist into 2024 as high storage levels, slow incremental demand growth and strong gas production keep domestic gas prices under pressure, according to ConocoPhillips' senior market analyst, Matthew Henderson.

Speaking from the Energy Innovations: Rockies & West LDC Gas Forum in Denver Aug. 17, Henderson offered a candid year-in-review of the US gas market detailing how mild winter weather and strong production in 2023 have conspired to sink NYMEX Henry Hub gas prices to an average of $2.56/MMBtu and lift US inventories to a surplus that remains close to 300 Bcf this summer.

In a forward-looking segment, Henderson also warned of downward price pressure prior to the startup of incremental LNG feedgas demand from Golden Pass and Plaquemines LNG, which could start up as soon as late 2024. Even before that, he still sees some factors that could fuel price volatility in the months ahead.

Henderson isn't alone in his less-than-rosy assessment of the US gas market.

In its latest Short-Term Energy Outlook, the US Energy Information Administration predicted US Henry Hub gas prices to average just $2.56/MMBtu this year and only $3.22/MMBtu in 2024. In a recent short-term forecast, analysts with S&P Global Commodity Insights drew similar conclusions, pointing to high storage levels and a slow but steady rise in domestic gas production over the balance of this year.

Fundamentals

In 2023, US gas production has averaged nearly 101.3 Bcf/d so far, rising nearly 4.9 Bcf/d, or about 5% compared with the same nearly eight-month period last year, S&P Global data shows. Despite recent cuts in the US gas-directed drilling rig count and a slowdown in new well starts and completions, output has continued apace this summer, trending near record highs at over 102 Bcf/d in July and August.

Demand growth, meanwhile, has trailed the gain in supply this year. Through mid-August, total US gas demand has averaged about 99.3 Bcf/d in 2023, up just 1.5 Bcf/d, or about 1.5 %, compared with the same time frame last year. While power burn demand has accounted for much of that gain -- climbing about 2.4 Bcf/d this year -- over two-thirds of the added demand has been offset by lower residential-commercial and industrial burns.

According to Henderson, LNG terminal maintenance and the outage at Freeport LNG are largely to blame for underperforming LNG feedgas demand this year, which is up just 750 MMcf/d compared with levels seen from January through mid-August 2022.

Volatility

As bearish fundamentals put a damper on the gas futures market -- keeping winter prices under $4/MMBtu -- Henderson pointed to at least two factors that could still drive price volatility over the next year. They are continued coal plant retirements and the failure to build new gas storage capacity in recent years. According to Henderson, both factors have made it more difficult for the US gas market to balance.

In the power generation market, coal-gas switching has long provided a balancing mechanism for the market, providing demand destruction when supply is tight and gas prices are high and incremental demand when the market is oversupplied and prices are low. As more coal plants retire, much of that capacity is also being replaced by non-dispatchable resources like wind and solar.

As LNG exports account for an ever-larger share of US gas demand, the absence of new storage capacity could also pose new challenges for the US gas market. While LNG exports typically remain rangebound throughout most of the calendar year, unscheduled outages and even maintenance can now thrust additional supply into the domestic market, similar to what was seen during the Freeport outage.