News : NYMEX gas futures jump as Chesapeake announces activity cuts

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- Company paring capital, production
- Oversupply makes cuts necessary: CEO
- Fewer TILs to drive declines

NYMEX prompt-month natural gas futures surged Feb. 21 as Chesapeake Energy announced a sizable slowdown in activity for 2024, which executives said was necessary to relieve oversupplied market conditions.

After settling Feb. 20 at $1.57/MMBtu, March 2024 Henry Hub futures jumped as high as $1.79 in morning trading before easing back to $1.77 to end the day, CME Group data showed. The gains reversed weeks of fairly steady declines, which drove the prompt contract to a 42-month low.

Chesapeake executives earlier in the morning detailed motivations in overseeing a roughly 20% reduction in capital spending in 2024, dropping also the company's production guidance by around 15% from its previous preliminary outlook.

"We can see very clearly that the market has more supply today than there is demand on an annualized basis, and so we think we should hold back our supply to better meet that demand in the future," CEO Nick Dell'Osso told analysts during a 2024-focused conference call Feb. 21.

2024 strategy

Executives emphasized that the US needs less supply right now to balance a market characterized by weak seasonal demand and a big surplus to the five-year storage average that's expected to grow even larger in the near term.

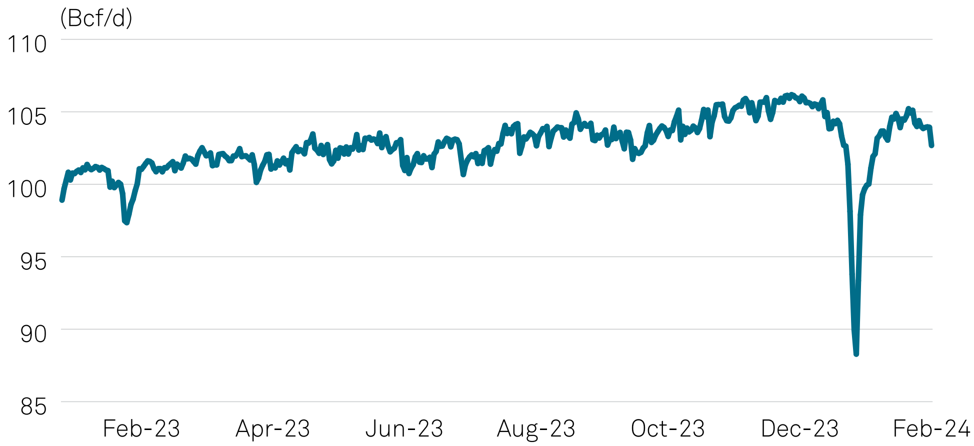
The company's planning includes building its inventory of drilled but uncompleted wells while deferring turn-in-lines and even stopping some in-progress TILs to drive production declines. TILs in 2024 will be limited to 30-40, with the majority having already taken place in January and February, Dell'Osso said.

By contrast, Chesapeake turned 40 Marcellus wells to sales within Q4 2023 alone, plus an additional 12 wells in the Haynesville during the quarter.

"The reason we're doing that [TIL deferrals] is that we see that the market is oversupplied right now," Dell'Osso said, adding that the answer is "to reduce production today."

Lower 48 gas production has tapered since reaching an all-time high of nearly 105.7 Bcf/d in December, but output remains strong, averaging 104.3 Bcf/d month to date, according to S&P Global Commodity Insights data.

Lower 48 modeled dry gas production



Includes January '24 freeze-offs
Source: S&P Global Commodity Insights

On the drilling activity front, Chesapeake plans to cut a rig each in each basin, bringing the Haynesville to four rigs beginning in March and the Marcellus to three rigs in the middle of the year.

The company's plans fall in line with the approach taken by a number of other publicly traded producers, including Comstock Resources, Seneca Resources and CNX Resources, which are cutting rig and completion activity this year in response to loose fundamentals and weak prices.

But Chesapeake is being a bit more aggressive than some peers to achieve production declines. Full-year 2024 production is expected to average about 2.7 Bcf/d, down from about 3.4 Bcf/d in 2023.

Prepping for 2025

The gas market outlook is seen as much improved in 2025 as new LNG feedgas demand arrives via Golden Pass LNG and Venture Global's Plaquemines LNG facility.

Executives said the company considered a more dramatic cut to 2024 capital spending but stressed that any such cut would have no impact to production for as much as 12 months and could therefore handicap the operator in 2025, when the demand outlook improves.

"We don't believe that's prudent given the fundamentals that we see today," Dell'Osso said of a steeper spending cut. "We expect there to still be a step change in demand in 2025 as incremental LNG capacity comes online."

S&P Global upstream analysts, considering the Haynesville the key basin for supplying new LNG facilities, project the basin could add as much as 3.3 Bcf/d of production through 2025 as feedgas demand increases.

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