News : As US gas production slows, analysts see long road ahead to balanced market

By J Robinson ,Jeremy Beaman
Published on - Wed, 20 Mar 2024 17:26:04 EST

- Domestic output down 3.3 Bcf/d, over 3%
- Storage surplus remains a drag on prices

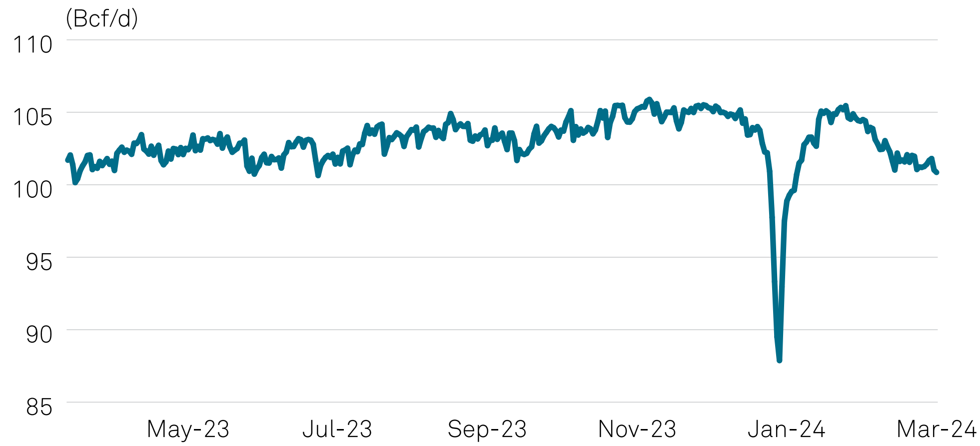
US natural gas producers are tapping the brakes on output this spring but it's unclear how quickly the recent slowdown can rebalance the oversupplied market and lift Henry Hub gas prices back above $2.

In recent earnings calls and investor presentations, some of North America's largest producers have promised to cut capital spending this year, slow drilling and hydraulic fracturing activity or defer well completions in response to oversupplied market conditions and jarringly low gas prices in the cash and futures markets.

Earlier this month, EQT announced one of the largest US gas production cuts to date by a single operator saying it would reduce gross output by 1 Bcf/d in response to low prices. The curtailment, which started in late February, is expected to lower annual production by at least 30-40 Bcf, according to the operator. EQT's announcement came just two weeks after Chesapeake Energy announced its own cut of a similar magnitude with a commitment to reduce capital spending by 20% and reduce 2024 output by 15%.

At least a handful of other large dry gas producers have promised a combination of various measures that should also help US production to ease off over the coming months including CNX Resources, Comstock Resources and Coterra Energy. In South Texas, even some oil-focused producers like SilverBow Resources and EOG Resources have announced plans to scale back dry gas activity this year.

US natural gas production



Source: S&P Global Commodity Insights

Production, prices

Just one month since the first activity cuts were announced, US gas production is already down by some 3.3 Bcf/d, or more than 3%, to an average 101.6 Bcf/d in March. As recently as first-half February, domestic output was trending just below record highs at nearly 105 Bcf/d, according to data from S&P Global Commodity Insights.

"The production losses we've seen over the last month are greater than many people expected in terms of their speed," said Eli Rubin, senior energy analyst, EBW AnalyticsGroup said by telephone March 20.

"The declines are likely to extend, albeit at a more moderate pace over the next two months before reaching bottom into early summer. We still have a way to go, but what we've seen is a really healthy step," he said.

According to Rubin, US production could drop by another 1-1.5 Bcf/d through June hitting bottom.

At least so far, the swift response by producers to oversupply and low gas prices seems to have been lost on the NYMEX prompt futures market. In March, the front-month contract has continued trend around $1.80/MMBtu – up from a record low settlement around $1.50/MMBtu last month, but still roughly flat to February's price average, data from S&P Global Commodity Insights showed.

Storage

According to Jim Ritterbusch, president of Ritterbusch & Associates, the US gas storage surplus has been a major drag on prices this winter and will remain so this spring. In a recent call, he said it would be difficult to sustain any meaningful gain in gas prices before cutting the inventory surplus at least 30%-40% – even if production continues to fall.

According to market analysts, the US Energy Information Administration's March 21 gas storage report will likely boost the domestic surplus for a seventh consecutive week to around 670 Bcf or more than 40% above the five-year average. According to Eli Rubin, the gas storage surplus in Canada, which currently stands at about 230 Bcf, actually adds to the oversupplied market conditions in the US – a fact that often goes underappreciated by many US market observers.

With a roughly 900 Bcf surplus now looming over the North American gas market this spring, low gas prices could be the cure for low gas prices, as the old gas-market adage goes. According to Rubin, US power generators have already stepped up gas demand amid historically cheap prices. Using a proprietary model that isolates the impact of numerous variables on power demand, he estimates that price-motivated fuel switching by generators has already added some 3 Bcf/d in incremental gas-fired power demand since December.

Pointing to the steep contango in the NYMEX gas futures market, Rubin said he confident that the added demand for gas-fired power and the sustained cuts to production will ultimately narrow the surplus.

“We think that a lot of the surplus reduction is only really going to start happening by the back-half of spring and really early summer and mid-summer. Low prices do help the market rebalance but it’s going to be a longer and slower process this spring I think than a lot of market participants have fully internalized,” he said