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NATURAL GAS'S UPSIDE POTENTIAL IS LIMITED

- Natural gas futures for the September month expiry are currently trading at \$4.061, up slightly from yesterday's low of \$3.979 and sharply lower than the recent high of \$4.205 set on August 4. Natural gas prices have been pushed down by a change in the weather forecast for the coming weeks, which is expected to lower gas demand for electricity generation. The Global Forecast System weather model has shifted cooler for the Mid-Atlantic and Southwest for August 16-20, according to a Maxar report. From August 21 to 25, the weather model turned cooler for the Northeast and Southwest.
- The net short positions of natural gas futures fell by 1513 contracts to 136 245 contracts during the week, according to the CFTC Commitments of Traders report for the week ended August 3. The speculative long position fell by 1228 contracts, while the speculative short position fell by 2741 contracts.
- The number of active US natural gas drilling rigs was unch at 103 rigs in the week ended August 6, just below the 1-1/4 year high of 104 rigs set on July 23, and well above the record low of 68 rigs set in July 2020, according to Baker Hughes.
- According to Bloomberg, gas flows to US LNG export terminals were 10.3 bcf unch w/w on Wednesday. The Edison Electric Institute reported on Wednesday that total U.S. electricity output in the week ended August 7 was unchanged year over year at 86,013 GWh. Domestic demand in the United States, on the other hand, is likely to keep pressure on gas prices. Domestic gas consumption in the United States was 72 billion cubic feet on Wednesday, down 3.5 percent year over year. Additionally, US gas production was 91.865 bcf on Wednesday, up 2.1 percent year over year.
- According to the EIA's August Short-Term Energy Outlook (STEO), natural gas consumption in the United States will average 82.5 billion cubic feet per day (Bcf/d) in 2021, down 1.0 percent from 2020. Because of rising natural gas prices, electric power generators are switching to coal instead of natural gas, which reduces natural gas consumption in the United States. It estimates that natural gas inventories in the United States ended July 2021 at nearly 2.8 trillion cubic feet (Tcf), down 6% from the five-year (2016–20) average for this time of year. Furthermore, it forecasts that dry natural gas production in the United States will average 92.9 Bcf/d in 2H21, up from 91.4 Bcf/d in 1H21, before rising to 94.9 Bcf/d in 2022. The EIA cut its 2021 U.S. nat-gas production estimate by -0.4 percent to 92.15 bcf/day from a previous estimate of 92.55 bcf/day in its monthly Short-Term Energy Outlook on Tuesday, a supportive factor for nat-gas prices.
- The weekly inventory report is expected to give natural gas prices more direction later today. Weekly EIA natural gas inventories are expected to rise by +48 bcf, according to consensus. The weekly EIA report released last Thursday showed a +13 bcf increase in US natural gas inventories to 2,727 bcf in the week ended July 30, down -16.7 percent year over year and -6.4 percent below their 5-year average.

Outlook

- Due to a change in the weather forecast and weakening domestic and export demand, natural gas' upside is limited. It is likely to encounter stiff resistance near \$4.20, while immediate support can be found near \$3.98-\$3.92.

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