NATURAL GAS MARKET UPDATE
JUNE 2022

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MARKET SUMMARY

BIGGEST FACTORS: WEATHER & GEOPOLITICAL EVENTS

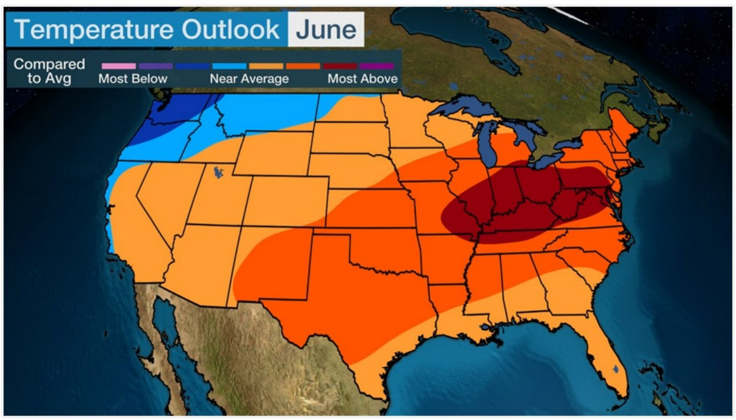
Natural gas fundamentals remain bullish. Strong international demand for U.S. LNG has been coupled with demand from gas-fired power plants due to warm weather. Low storage inventories are also adding pressure.

PROCUREMENT TAKEAWAY

Double-digit summertime pricing has materialized. Risk can be mitigated with a diversified buying strategy. Many facilities are avoiding supplier premiums by relying on index-heavy strategies.

WEATHER (BULLISH)

TAKEAWAY - A hot summer forecast coupled with low hydrogeneration capacity means increased natural gas demand for cooling loads.



Source: The Weather Company

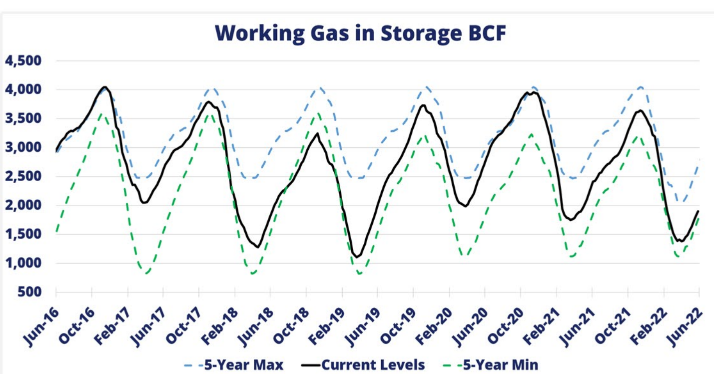
May was 42.2% warmer than normal and 26.9% warmer than 2021. High springtime heat was also a driver for high prices.

The western half of the U.S. is in severe drought. Coupled with a weak La Niña, conditions continue to signal a hot summer ahead.

There is significant upside pricing potential over the next 30-45 days.

STORAGE (BULLISH)

TAKEAWAY - Record U.S. natural gas demand this winter led to the largest storage withdrawal in four years - leaving inventories low.



Source: EIA

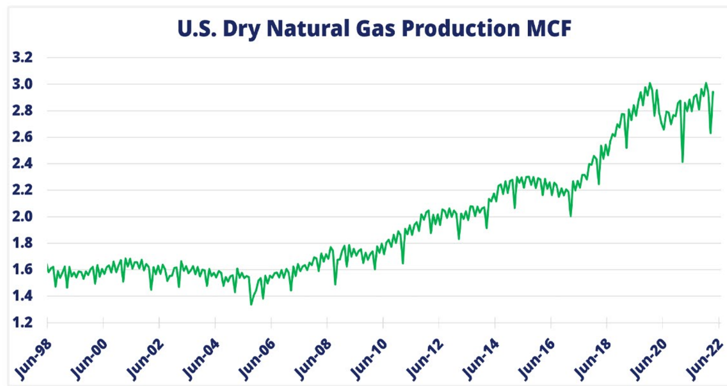
During the first four months of 2021, the U.S. sent about 34% of its LNG to Europe. That rose to 74% in the first four months of 2022. In 2020 and 2021, Asia had accounted for nearly half of U.S. LNG exports.

STORAGE (CONTINUED)

As repored on June 2, natural gas stocks totaled 1,902 Bcf, which is 17% lower than the year-ago level and 15% lower than the five-year average.

PRODUCTION (BULLISH)

TAKEAWAY - Flat production and expectations of summer cooling demand are key lynchpins in the natural gas market.

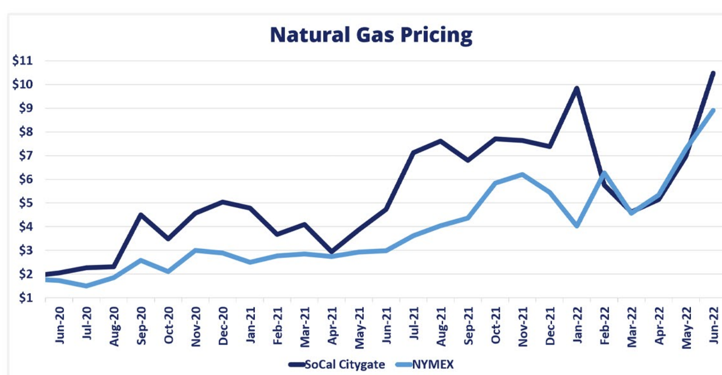


Source: EIA

Shale drillers have been hamstrung by pipeline constraints, rising prices for oil-field supplies, and shortages of roughnecks and rigs. Additionally, executive compensation is no longer tied to output. Thus, rather than increase production, many suppliers have increased dividend payments.

To end May, U.S. energy firms cut oil and natural gas rigs for the first time in 31 weeks.

PRICING



Source: EIA

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IN THE NEWS

As lagging storage inventories and robust demand pressure prices higher, Henry Hub natural gas spot prices will average $8.69/MMBtu in the third quarter, updated Energy Information Administration (EIA) projections show.

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The EIA's June 2022 Short Term Energy Outlook (STEO) forecasts that U.S. LNG exports will average 11.7 Bcf per day during Q2 and Q3 and 11.9 Bcf per day for all of 2022, a 22% increase from 2021.

Since the end of 2021, the EU and the UK imported record-high LNG volumes because of low natural gas inventories. Europe has become the main destination for U.S. LNG exports and accounted for 74% of total U.S. LNG exports during the first four months of 2022. EIA expects growth in LNG exports in 2023 will result from LNG export terminals that come online in 2022.

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The U.S. Department of Energy aims to build up domestic production of solar panels, electric transformers, heat pumps, insulation, and hydrogen-related equipment under the Defense Production Act.

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Although EIA expects annual U.S. natural gas fuel costs for electricity generators will increase 59% in 2022, they do not expect a significant decline in generation from natural gas-fired power plants because of the limited ability of coal power plants to act as an alternative source of generation.

EIA forecasts the U.S. natural gas generation share will average 37% in 2022, about the same as last year. The forecast natural gas share averages 36% in 2023 as the share of generation from renewable sources increases.

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Energy-related carbon dioxide (CO2) emissions in the U.S. are expected to increase 1.3% in 2022 and fall by 0.7% in 2023. Forecast emissions increases in 2022 primarily reflect growth in transportation demand.