

---

# Strong Start to Winter in November

## U.S. Power and Gas Weekly

---

### Morningstar Commodities Research

5 December 2018

---

Dan Grunwald  
Associate, Power and Gas  
+1 312 244-7135  
daniel.grunwald@morningstar.com

---

### Data Sources Used in This Publication

ICE  
EIA  
NOAA

To discover more about the data sources used, [click here](#).

---

### November Moves

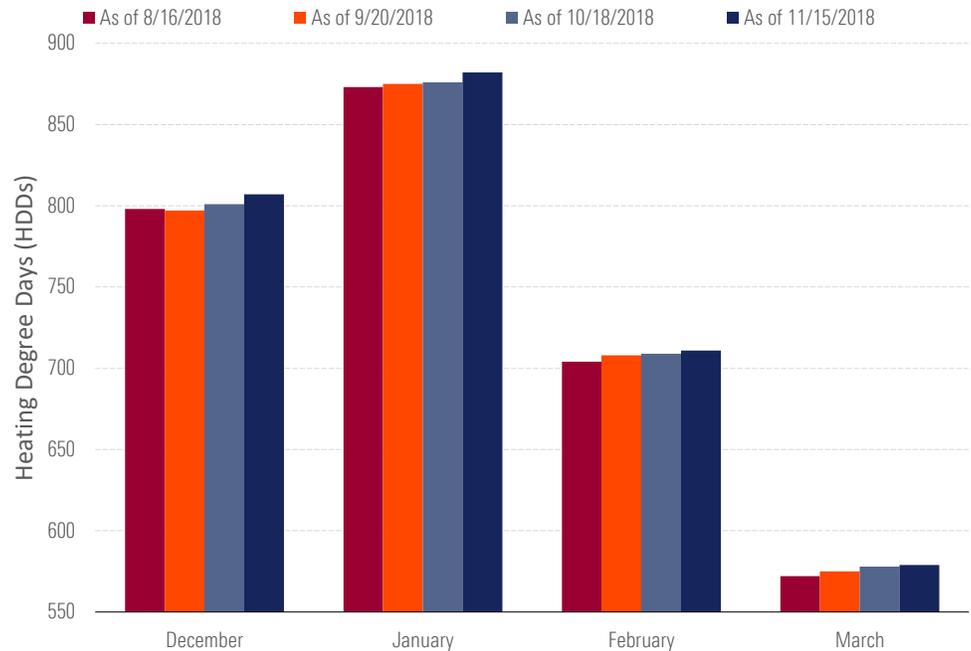
Market talk has centered on winter coming early this year, and while it did come in roaring, its start date is only early relative to expectations of a late start. November is when winter typically starts with added heating degree days, or HDDs, and natural gas withdrawals. Weekly storage withdrawals have started strong in the triple digits, with a 134 Bcf draw for the week ended Nov. 16. This week we look at how near-term factors have been driving shifts in the natural gas forward curve this winter.

### Supply and Demand

Dry gas production has grown significantly since last November—up 8 Bcf/d to around 92 Bcf/d. Demand has increased even further—up around 10.5 Bcf/d over November 2017. Power burn and LNG exports have added a little over 1 Bcf/d, with both seeing steady underlying growth over the past couple of years. However, the big change this year came from the residential and commercial sector, which was up over 6 Bcf/d from 27 Bcf/d to over 33 Bcf/d. As a result, the strong start to winter has soaked up much of the new supply growth this year.

### Weather Shifts

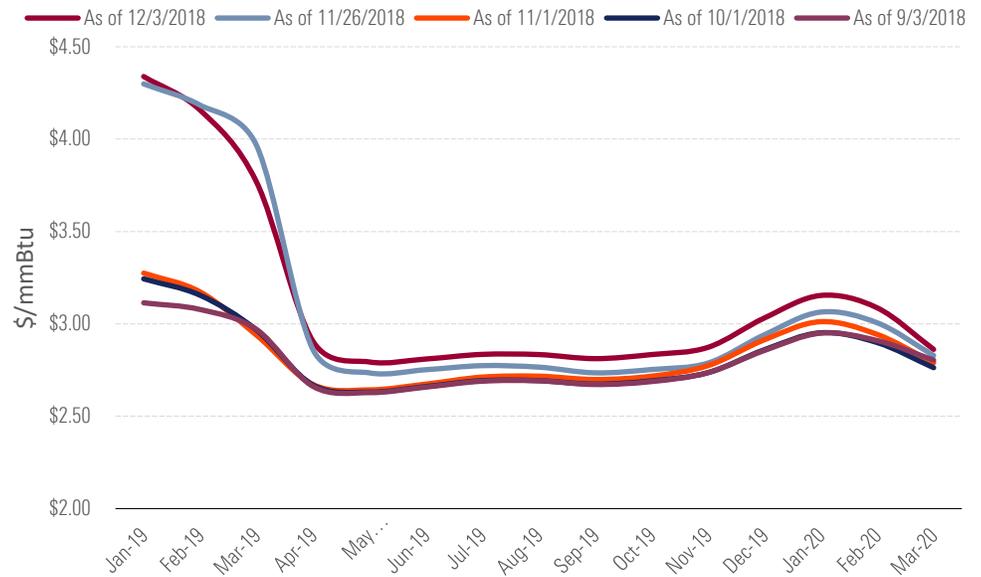
Winter forecasts have so far trended colder this year. This is true for both the short and longer term. Although winter had a strong start, the latest NOAA longer-term forecasts have still been predicting nearly average HDD levels through March (Exhibit 1). Overall, the latest forecast level for December through March stands at 2,947 HDDs, which is just 10 HDDs above the 2,937 average for the 37 years between 1981 and 2017.

**Exhibit 1** Heating Degree Day Winter Forecast

Source: NOAA

**Moving-Forward Curve**

While values for the remainder of the current winter are still jumping up and down at any little bit of news, the strip has increased by \$0.96/mmbtu from the beginning of November, from \$3.13/mmbtu to \$4.09/mmbtu. The remainder of this winter still looks to be in for a wild ride with the March–April spread sitting at \$0.99/mmbtu as of Tuesday. The remaining winter strip has already witnessed a trading range between \$3.13/mmbtu and \$4.71/mmbtu. The forward natural gas curve has also shifted in the last month. The calendar 2019 strip is up \$0.34/mmbtu from \$2.83/mmbtu to \$3.17/mmbtu since the beginning of November. The winter 2019–20 strip rose \$0.12/mmbtu from \$2.88/mmbtu to \$3.00/mmbtu. Longer term, the market appears to be pricing in lower end of season storage numbers since next summer and winter are also rising (Exhibit 2). That forward curve shift reflects storage becoming a longer-term concern during the past month and is now being priced into next year and next winter.

**Exhibit 2** ICE Henry Hub Forward Curves

Source: ICE

**Longer-Term Concern**

Steady growth in demand, coming from additional LNG exports and the power sector, has created additional outlets for increased supply. This new supply/demand balance has placed additional stress on natural gas inventory, pushing storage lower as the withdrawal season started. Concern for the long-term impacts of this strong start to winter has begun to sneak into the market with both the calendar 2019 and winter 2019–20 strips moving up during the last month. Stark differences in the short- and long-term forecasts mean the back end of the winter strip will keep whipsawing around in response to changes in the daily short-term forecast for some time. ■■

### **About Morningstar® Commodities Research**

Morningstar Commodities Research provides independent, fundamental research differentiated by a consistent focus on the competitive dynamics in worldwide commodities markets. This joint effort between Morningstar's Research and Commodities & Energy groups leverages the expertise of Morningstar's 23 energy, utilities, basic materials, and commodities analysts as well as Morningstar's extensive data platform. Morningstar Commodities Research initially will focus on North American power and natural gas markets with plans to expand coverage of other markets worldwide.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individuals, financial advisors, and institutions. Morningstar's Commodities & Energy group provides superior quality market data and analytical products for energy data management systems, financial and agricultural data management, historical analysis, trading, risk management, and forecasting.

For More Information

+1 800 546-9646 North America  
+44 20 3194 1455 Europe  
[commoditydata-sales@morningstar.com](mailto:commoditydata-sales@morningstar.com)



22 West Washington Street  
Chicago, IL 60602 USA

© Morningstar 2018. All Rights Reserved. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869.