



THE  
**OVER  BARREL**

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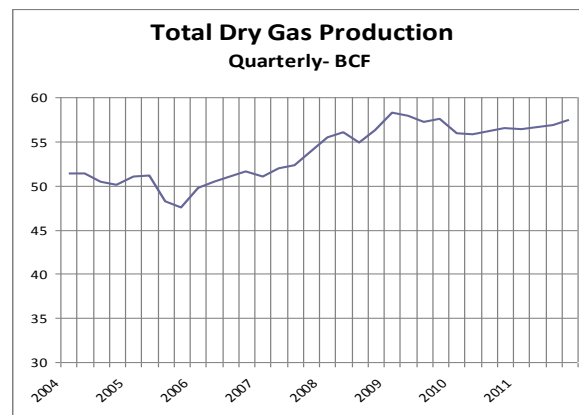
## **Focus Natural Gas: A Supply-Demand Perspective**

*March 1, 2010*

The natural gas market has been torn by conflicting forces. Although these factors have contributed to a weak price environment now, the structure provides a base from which demand can grow and compete effectively with other sources of energy in the future. How quickly the adjustment develops will be contingent upon forces that impact the underlying supply and demand. Over the next few weeks we will be reviewing these price forces.

### **Supply Outlook**

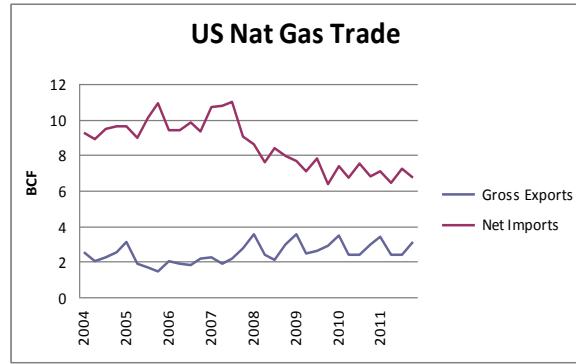
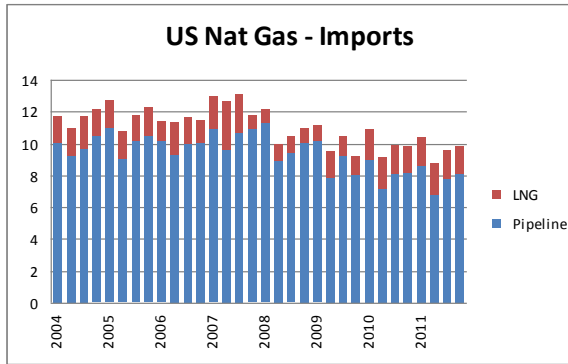
The weak price environment and tight credit conditions have had a pronounced impact on the domestic production of natural gas. In the first quarter of 2010, dry gas production is forecast by the EIA to total 55.97 bcf/d compared to the record high level of 58.3 bcf/d in the first quarter of 2009. Although new shale production is poised to increase, the retirement of older wells, lower efficiency and the lack of growth in deep water



production from the Gulf of Mexico should keep the overall gains in dry gas production modest. For 2011, production is forecast by the EIA to total 56.42 bcf/d in the first quarter and an average of 56.82 bcf/d for the year compared to 57.73 bcf/d in 2009.

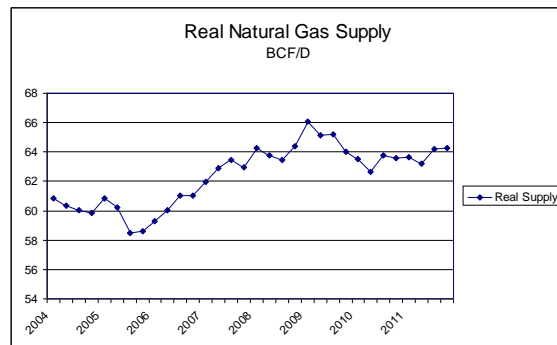
Net imports account for just over 11 percent of total real supply excluding inventory changes in a given year. The bulk of net imports are attributed to cross border pipeline shipments from Canada. These imports have been steadily declining due to

the absorption by Canada of greater quantities of gas due to a relatively strong economy along with increased usage in the processing of oil sands.



On the other hand, the expansion in US LNG offloading facilities has helped lead to an expansion of LNG imports. Offsetting this increase has been a modest expansion in exports of natural gas to Mexico. The strength to their economy should continue to lead to an expansion as pipeline capacity expands. Overall net imports of natural gas in the first quarter should total 7.38 bcf/d, well below the 7.63 bcf of net imports seen last year, even when one assumes a 1 bcf/d increase in LNG imports to 1.91 bcf/d.

Total real supply, which excludes net inventory withdrawals or injections but includes dry gas marketed production and net imports, is expected to total only 63.5 bcf/d compared to 66.1 bcf/d in the comparable quarter last year.



Although recent price weakness has been traced to the prospective surge in both new shale production and LNG imports, the impact on actual supplies as forecast by EIA through 2011 is expected to be negligible. In essence, the market weakness appears to be pricing in an ample supply situation which so far has yet to develop. How well supplies meet expanding growth in demand will be contingent on:

- The continued expansion in new shale production to levels that offset the depletion of natural gas reserves. The cautious investment environment will inevitably have consequences as fresh capital investment is constrained by tight credit conditions.
- Increased levels of LNG imports amid heightened competition from the emerging markets and Europe for supplies. Higher economic growth overseas will likely lead to higher demand and marginal arbitrage opportunities to the US market.

Next week, Over the Barrel will focus on the demand side and where it stands relative to existing supplies for Natural Gas.

Once again the EIA conference takes place on April 6-7, 2010 in Washington, DC. Let us know if you plan on being in town.

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