IMGA gasNEWS
Interstate Municipal Gas Agency
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Soft Natural Gas Prices Disappoint Bulls but Buoy Consumers, Tame U.S. Inflation

Weak weather-driven demand and robust production intersected this winter to depress natural gas prices, deflating market bulls. But lower heating costs contributed to falling inflation levels, saving consumers money and supporting expectations for continued economic growth in 2024.

The U.S. Department of Labor said Tuesday Feb 13 that its Consumer Price Index (CPI) increased at a rate of 3.1% in the 12-month period through January. That was down from 3.4% the prior month and 6.5% at the end of 2022.

Inflation surged to a 40-year peak of 9.1% in mid-2022, in part because of lofty natural gas and other energy costs in the wake of Russia's invasion of Ukraine early that year. The war – and Western opposition to it – led to both sanctions against the Kremlin and Russian retaliation. The result: Flows of Russian gas to Europe dramatically decreased, and the continent turned to exports of LNG from the United States and other countries to fill the void.

This sudden burst of demand helped to send Henry Hub futures into the double digits in 2022 and to this decade's peak levels. Elevated natural gas demand – and prices – played outsized roles in driving up consumer energy costs and, by extension, the government's readings on overall inflation.

However, Europe had ahead of the current winter successfully stocked up on liquefied natural gas. At the same time, U.S. gas producers boosted output to record levels above 106 Bcf/d – and again exceeded that threshold this year – while weather during the present heating season proved mild. U.S. gas supplies in storage finished January nearly 11% plumper than the five-year average.

"Weak fundamentals have prevailed, with above-normal winter weather taking center stage to limit demand in an oversupplied market," analyst Jack Weixel of East Daley Analytics said.

A blast of frigid Arctic air in mid-January briefly fueled a price rally, with futures rising 15% in the second week of January and cash prices following suit as the worst of the cold arrived. At its high point last month, NGI's Spot Gas National Avg. reached $16.77/MMBtu.

However, the cold snap-driven rally proved a brief bout and was sandwiched between a benign start to winter in December and equally unimpressive weather in late January and early February in both the Lower 48 and Europe. Meanwhile, production remains elevated.

Crude prices also are lower this year. U.S. crude production hit a weekly record of 13.2 million b/d during the fall of 2023, according to the Energy Information Administration (EIA). That was nearly 1.0 million b/d more than late 2022.

The price backdrop creates near-term reason for worry for oil and gas producers, though longer term, market participants widely expect growing global demand for U.S. crude and LNG to support strong American production levels and prices. In addition to Europe's future needs, countries across Asia are growing and looking to natural gas, especially, to meet increasing energy demands as they shift away from coal.

Price Drivers

In the meantime, weaker energy costs – and natural gas prices in particular – have helped to curb inflation. The overall energy index declined 4.6% in the 12-month period through January, while the energy commodity index dropped 6.9%.

The natural gas index in January increased 2% from the prior month – reflecting the mid-month freeze – but declined 17.8% for the 12-month period, according to the CPI.

Over the past 12 months, gasoline prices were down 6.4%, while fuel oil costs were down 14.2%.

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2024 IMGA ANNUAL MEETING

The IMGA Annual Meeting will be held on Tuesday, March 26, 2024 at Northfield Center in Springfield, IL.

Come and talk to other municipal and university leaders. Share solutions and problems for natural gas within your community and university spheres.

Listen to knowledgeable speakers on today's natural gas topics

Enjoy a great breakfast buffet and a delicious prime rib and shrimp buffet for lunch.

Watch for coming information with a detailed agenda.

Registration is required, so please provide the following information by phone 217-438-IMGA or email brubenacker@imga.org.

Name of attendees

Name of City, Village, or University

Phone and Email

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The declines in energy costs contributed to consumer resilience and continued strong spending levels that powered U.S. economic growth through 2024. An early-February forecast from Federal Reserve (Fed) officials called for the economy to expand at a 4.2% rate in the first quarter of this year.

The lower energy bills in January largely offset continued increases across other consumer price categories, including food and housing.

Because of high costs, Fed policymakers aggressively pushed up interest rates in recent years to slow spending and tame inflation. Given the declines in overall inflation readings, however, market participants increasingly expect the Fed to reverse course and begin to cut interest rates in 2024 to provide support for continued economic advances.

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