

IMGA gas NEWS

Interstate Municipal Gas Agency

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What's the Warm Winter Doing to Natural Gas Prices?

By Scott Bauer

AT A GLANCE

Between January and February, natural gas prices declined by \$1.732 per thousand cubic feet amidst decreased demand in the U.S. and Europe.

Average daily volume in Natural Gas futures and options spiked to all time highs, with the CVOL Index indicating an equal bias around potential price increases or decreases.

Perhaps no other commodity, especially in the energy sector, has been as volatile as natural gas since the beginning of the year.

While Henry Hub Natural Gas futures prices did not have a 2-to-1 split, its value declined from a high of \$3.313 per thousand cubic feet on January 12 to a low of \$1.581 per thousand cubic feet on February 15. Seasonally warm weather, along with global unrest, have contributed to one of the quickest declines on record, with prices sinking to their lowest levels in nearly three decades.

Supply and Demand

The age-old principle of supply and demand has been hard at work over the last few months. One of the warmest winters on record in the United States has created a natural gas glut. An extremely mild winter has caused demand for natural gas for electricity and space heating to plummet. At the same time, inventories have climbed to much higher than normal levels.

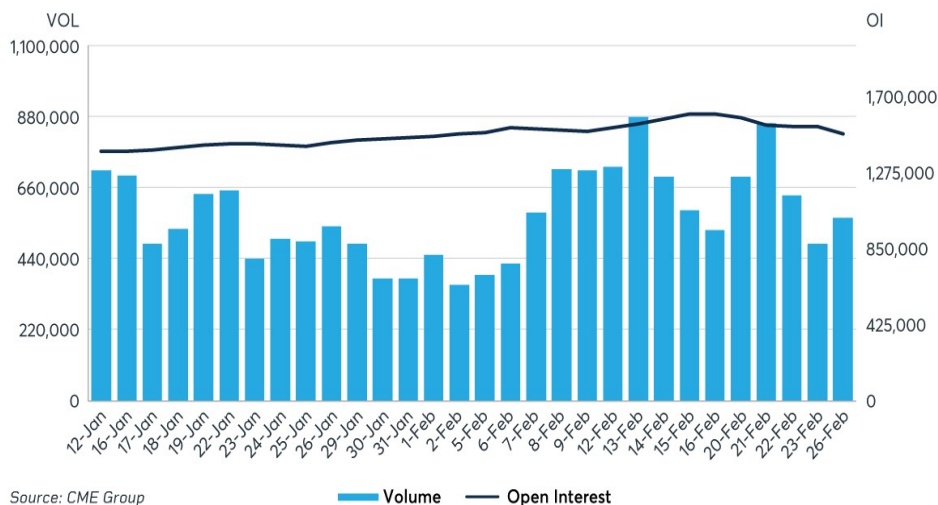
This demand destruction is also present outside of the U.S. In the two years since Russia launched its invasion of Ukraine, European demand for natural gas has dropped by

20% – the lowest it's been in a decade, according to the Institute for Energy Economics and Financial Analysis.

Rising Volatility and Volume

As prices have dropped, volatility and volume in futures and options have risen. In 2023, CME Group reached a record annual average daily volume (ADV) of Natural Gas options of over 150,000 contracts. Natural Gas futures ADV also increased 42% to 495,000 contracts in December. In 2024, volume growth continues to be significant. Average daily trading volume (ADV) for January Natural Gas futures and options spiked to a record 300,000 contracts and further increased to 400,000 ADV in February.

Henry Hub Natural Gas Futures - Volume & Open Interest



Source: CME Group

Has the U.S. Natural Gas Market Found a Floor?

After spiraling downward for months, natural gas had its biggest single-day gain in more than 18 months in late February. This came after one of the largest domestic producers, Chesapeake Energy Corp., said it was cutting its production by 30% in response to recent price drops. However, that rally lasted a mere 48 hours as withdrawals from underground gas storage have been lower than usual, leaving stocks at much higher than average levels for this time of year.

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IMGA Eligible Utility

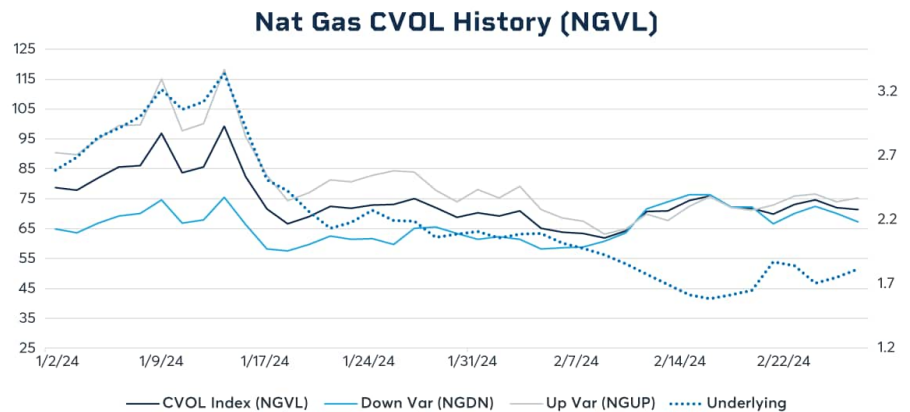
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Natural Gas Risk Management

According to the CME Group Natural Gas CVOL volatility index (NGVL), the call skew – or difference in implied volatility between puts and calls – has flattened considerably since early January when upside call options were priced much more expensively than downside put options. With natural gas prices at multi-decade lows, the option paper is suggesting that participants have an equal bias whether prices are going up or down.



2024 IMGA ANNUAL MEETING

The 2024 IMGA Annual Meeting was held in Springfield, IL on March 26th at the Northfield Inn and Conference Center.

A tasty breakfast buffet was sponsored by BP. Panhandle sponsored a delicious prime rib and shrimp lunch.



Afterwards, the IMGA Board of Directors held their business meeting. The fiscal year audit ending 4-30-2023 was presented and approved. Contracts were approved including Truman Flatt and Sons and Western Illinois University. The slate of officers for 2024-2025 was approved and will be: Craig Robinson (Pleasant Hill, IL), Darrell Dunlap (Fulton, MO), Robert Wilson (Pittsfield, IL), Brent Buerck (Perryville, MO), Tom Rader (Riverton, IL), and Paul Turpin (Franklin, IL).

Speakers were Lindsey Eby and Paul Miller from BP on Gas Fundamentals and Carbon Solutions; and Charles “Eddie” Lynch, AEGIS spoke on the aging workforce and gas market stress from electric regulations.



Next year’s meeting date will be announced at a later time, we hope you are able to join us.

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