GELBER & ASSOCIATES

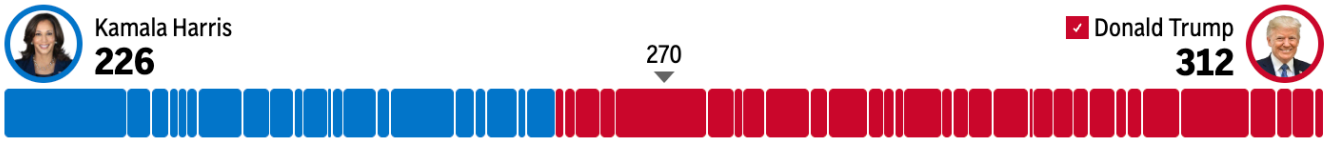
GELBER MONTHLY JOURNAL
November 2024

Published November 11, 2024

MARKET SUMMARY

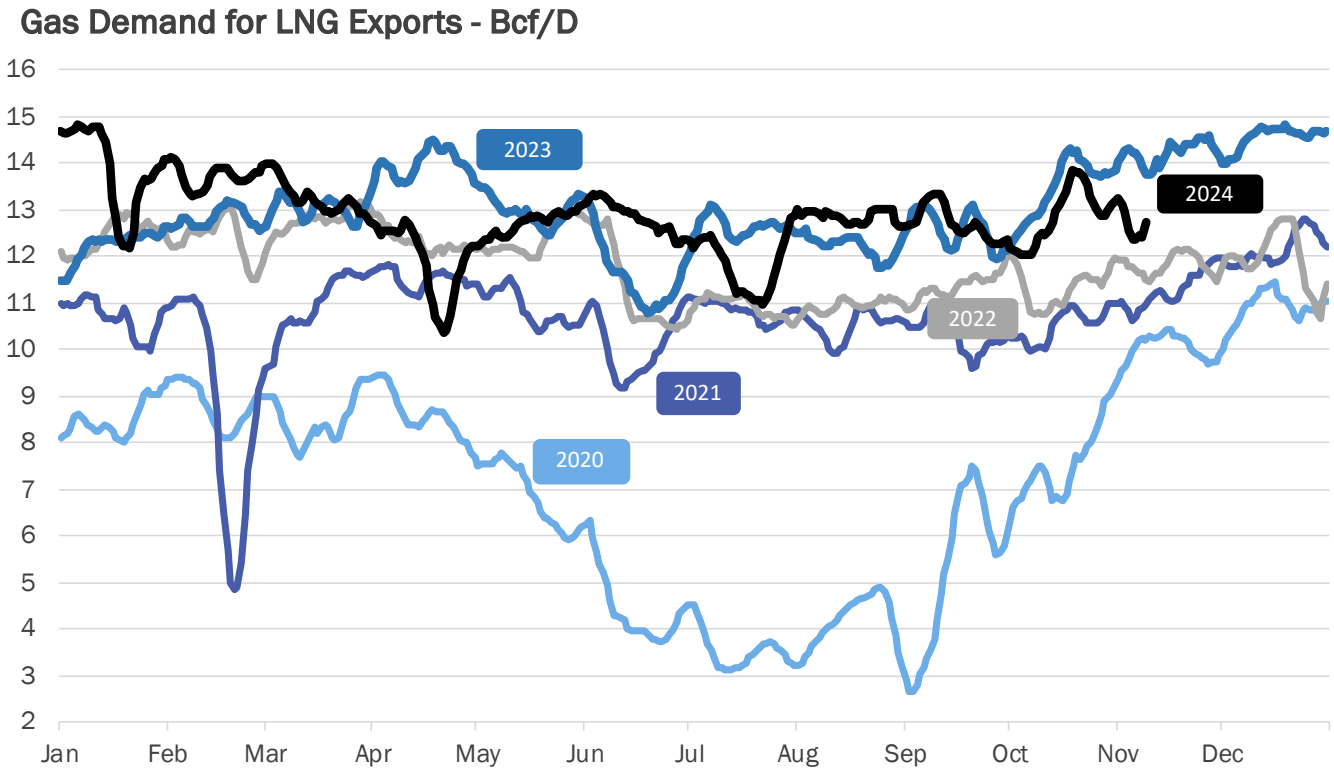
Since early October, natural gas prices have exhibited heightened volatility, with front-month prices dropping from $3.01/Mmbtu to $2.21/Mmbtu on October 21st, followed by a brief rally driven largely by short-covering as noted in CFTC reports. This rally has since cooled, with December contracts declining to $2.66/Mmbtu. Production remains robust, hovering around 102 Bcf/d, with a slight increase anticipated in November. On the LNG export side, Freeport's return to full capacity and Plaquemines LNG's impending FERC approvals could add about 1 Bcf/d of feedgas demand later this month or in early December. Meanwhile, Trump's recent election victory is expected to shape the long-term outlook for natural gas, with his proposed lifting of LNG export permit pauses and streamlining of pipeline approvals likely to drive capacity expansion. Storage injections have realigned inventories with the five-year average after an 80 Bcf injection in mid-October, and with forecasts calling for below-normal temperatures over the next four weeks, expectations are for softened heating demand to maintain stable prices as we approach winter.

Implications of Trump Presidency Key for LNG and Natural Gas into 2025



Drawing from historical precedent and documented policy positions, a second Trump presidency could bring substantial changes to U.S. natural gas markets through specific regulatory and policy shifts. Analysis of Trump's first term actions and current campaign promises points to several concrete changes that would affect both domestic and international gas markets.

Based on official campaign statements and policy documents, the most immediate impact would come from lifting the current LNG export permit pause, a move Trump has explicitly promised as a "day one" priority. This change, combined with his stated intention to streamline pipeline approvals, would directly affect current projects awaiting regulatory clearance. Market analysis of current LNG export capacity, which stands at approximately 14 Bcf/d, suggests room for significant expansion. The regulatory streamlining promised by Trump could accelerate the development of already-approved projects, as well as increase the attractiveness of investment into the sector.

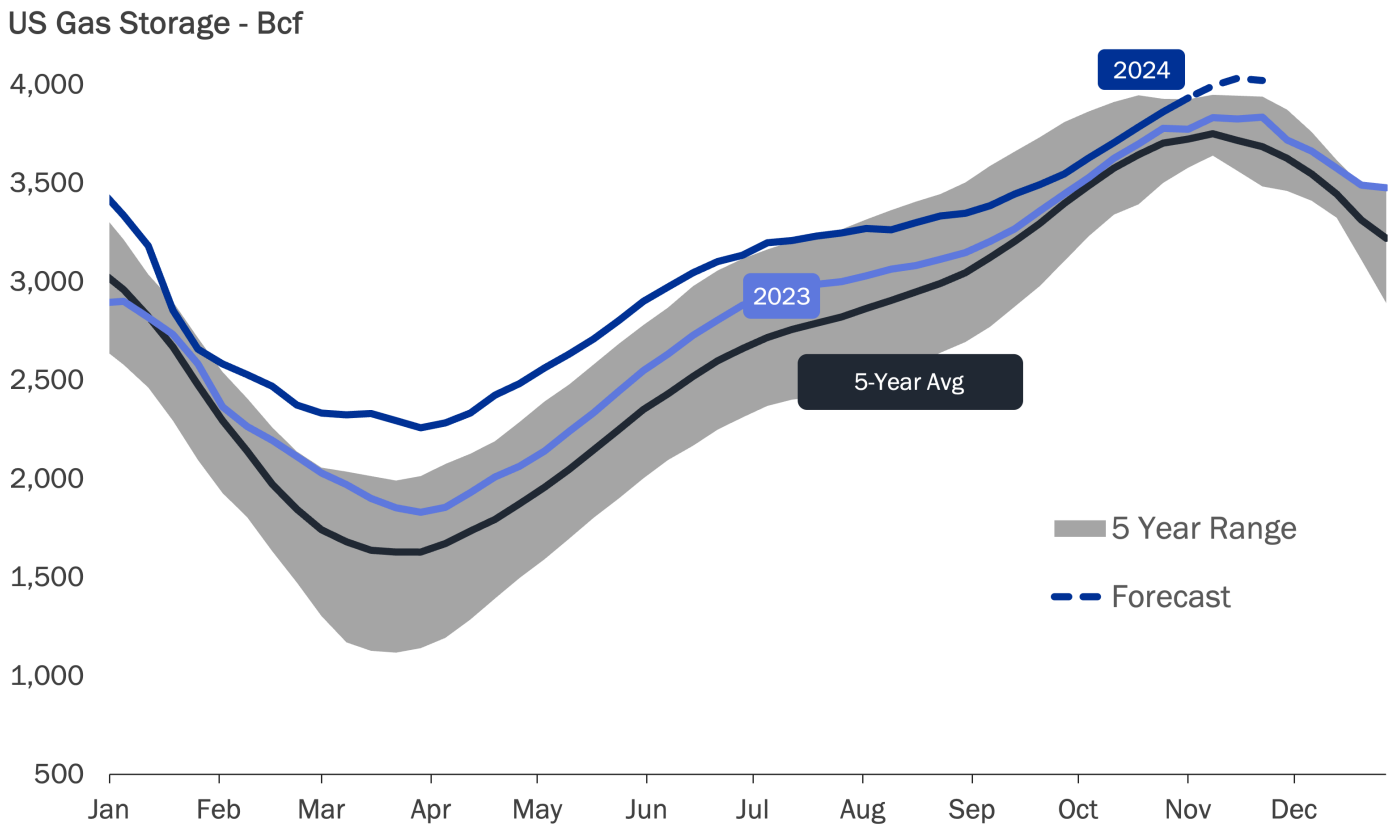


The proposed relaxation of methane regulations, similar to those implemented during Trump's first term, could also lower production costs. During his previous administration, when similar policies were in place, natural gas production increased notably, though this growth was driven to some extent by market forces rather than regulatory changes alone.

Trade policy adds its own layer of complexity. While tariffs often result in increased prices domestically, that doesn't mean this is their only implication. Trump's proposed tariff hikes, particularly the announced 60% tariff on Chinese goods, could significantly disrupt established trade flows. During his previous term, LNG exports to China dropped sharply due to trade tensions. This serves as a recent reminder that any shifts in trade policy can come with ripple effects, because they can trigger broader renegotiations of trade relationships between countries. So while tariffs directly affect just U.S. imports, LNG exports may potentially become a negotiation point.

From a price perspective, a lighter regulatory burden under Trump is a double-edged sword. While it is partially bullish in that it encourages progress for LNG, it also allows for cheaper production of oil & gas. One implication on the bearish side that could be especially potent is that because Trump has directly advocated for more domestic production of crude oil, the crude-focused Permian Basin should bring plentiful associated gas into the nation's natural gas supply. During Trump's previous term, Henry Hub prices went as high as $5/MMBtu and hit a floor of $1.50/MMBtu, influenced arguably more by market factors than policy decisions. But beyond the market environment, similarly to the beginning of Trump's first term, the Republican party now controls the Senate and the Supreme Court is majority conservative. At the time of publication, Republicans are also set to win a majority of the seats in the House of Representatives. So while state-level regulation is still a factor, Trump's energy policy proposals are unlikely to meet much resistance from Democrats–making his stances likely to become reality for markets.

Final Injections of the Season

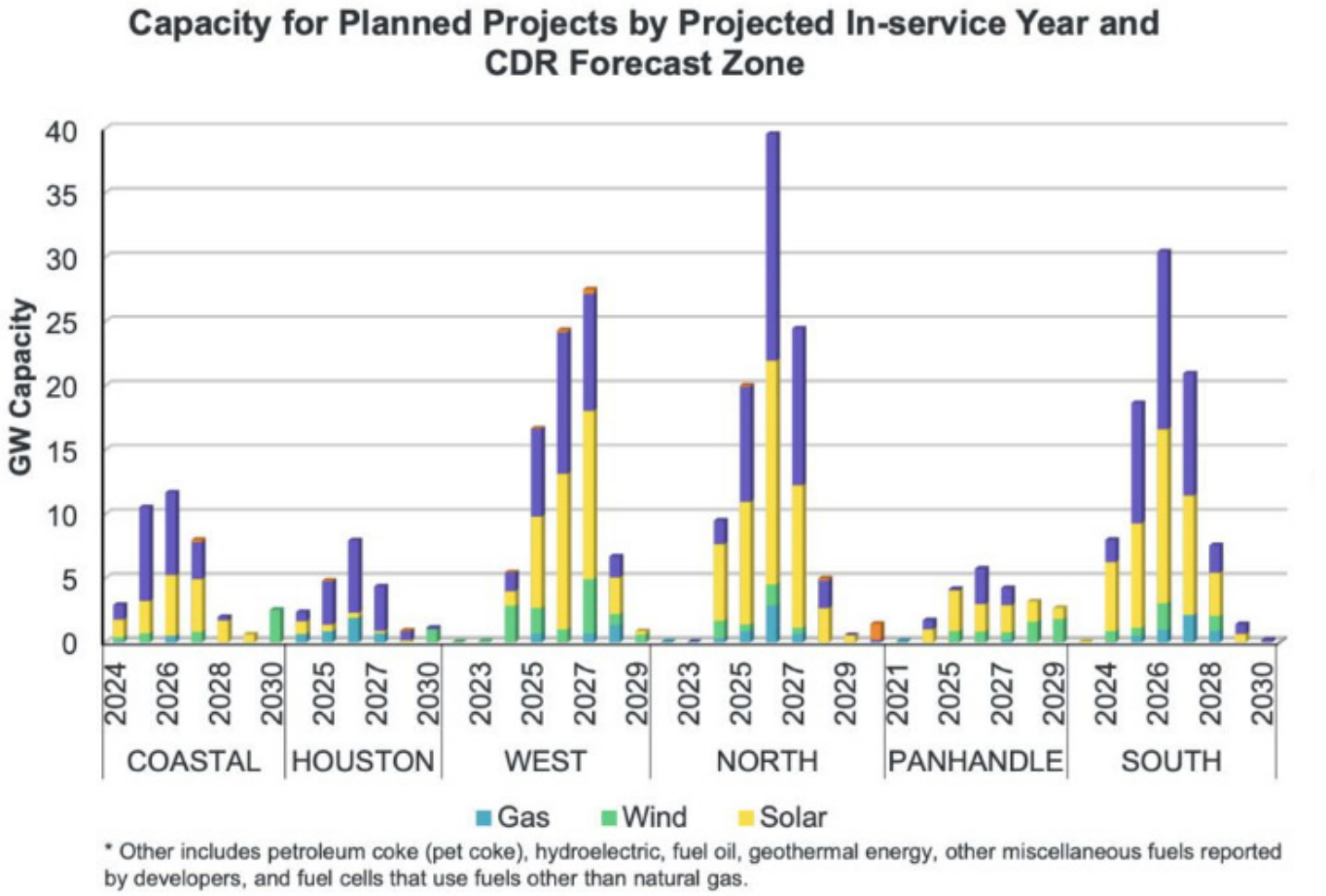


Storage levels have surged to 3.932 Tcf in early November, marking one of the earliest times in recent years that inventories have approached the 4 Tcf threshold. This represents a substantial surplus of 157 Bcf above last year's levels and 215 Bcf over the five-year average. Recent heavy injections, including a 69 Bcf addition last week—well above the five-year average increase of 32 Bcf—are driving this growth. Projections now suggest that storage could surpass 4 Tcf by mid-November, potentially challenging the record high of 4.047 Tcf set in November 2016.

Despite production remaining near 100 Bcf/d and a brief dip due to Hurricane Rafael's approach, overall demand has been subdued due to Hurricane Milton and mild autumn temperatures across the Midwest and East. Natural gas futures have reflected this tepid demand, with the December Nymex contract settling at $2.69/MMBtu. While some forecasts hint at colder air pushing south from Canada later in the month, the market appears to have already priced in robust late-season injections. Unless a sustained cold snap materializes to boost demand, storage levels are poised to continue their ascent, keeping prices under pressure.

Powering Up Texas: The $10 Billion Texas Energy Fund (TEF)

In an "energy-only" market, like the one ERCOT operates in Texas, power generators are paid only for the actual electricity they produce and deliver to the grid. This differs from a "capacity market," where power generators are also paid to have electricity capacity available, even if it isn't used. As Texas grapples with the demands of this unique energy-only market and the independent ERCOT grid, state leaders are taking significant steps to ensure more reliable power generation during peak periods. Following the severe outages during Winter Storm Uri and record-setting demand of summer 2022, Texas lawmakers created the Texas Energy Fund (TEF), a $10 billion fund to drive the development of gas-fired generation and other critical infrastructure projects. Following another record-breaking summer in 2023, the TEF was approved late last year, marking a shift for Texas, which has previously relied on market driven electricity generation.



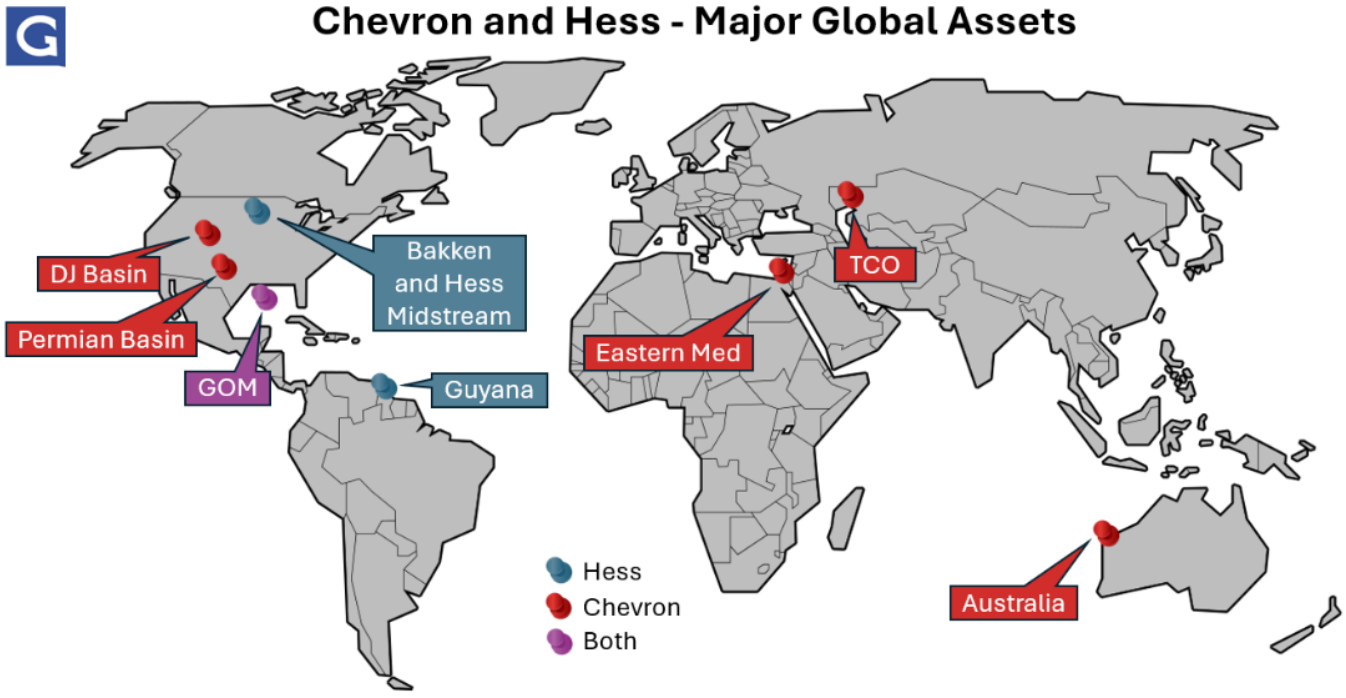
The TEF has allocated $7.2 billion specifically for new gas-fired generation projects, sparking strong interest across the energy sector. Over 150 Notices of Intent for TEF funding poured in by August 2024, totaling nearly $48 billion in proposed projects—more than five times the fund's available capital. In August 2024, the Public Utility Commission of Texas (PUCT) shortlisted 17 projects to receive $5.38 billion in loans, collectively adding around 9,781 MW of new generation capacity. Notable submissions include a 3,450-MW facility by FGE Power in East Texas and a trio of gas-fired plants from NRG near Houston. Projects selected for TEF funding will benefit from low-interest loans to expedite construction, with an expected operational deadline of 2029. This fund is also set to invest in backup power facilities and small, localized power grids that can operate independently (referred to as microgrids) for critical infrastructure across the state.

While the state's commitment to renewable energy sources, such as wind and solar, remains high, Texas is addressing the limitations of intermittent power generation with increased dispatchable capacity. TEF projects focus on "dispatchable" plants that can be activated on demand, providing stability during periods of extreme weather. In an energy-only market like ERCOT's, these gas-fired plants are expected to bolster grid reliability without the need for federal capacity payments. The fund's goal is clear: to ensure that Texas has the power it needs to meet demand safely and independently.

The Upstream Consolidation Wave Continues

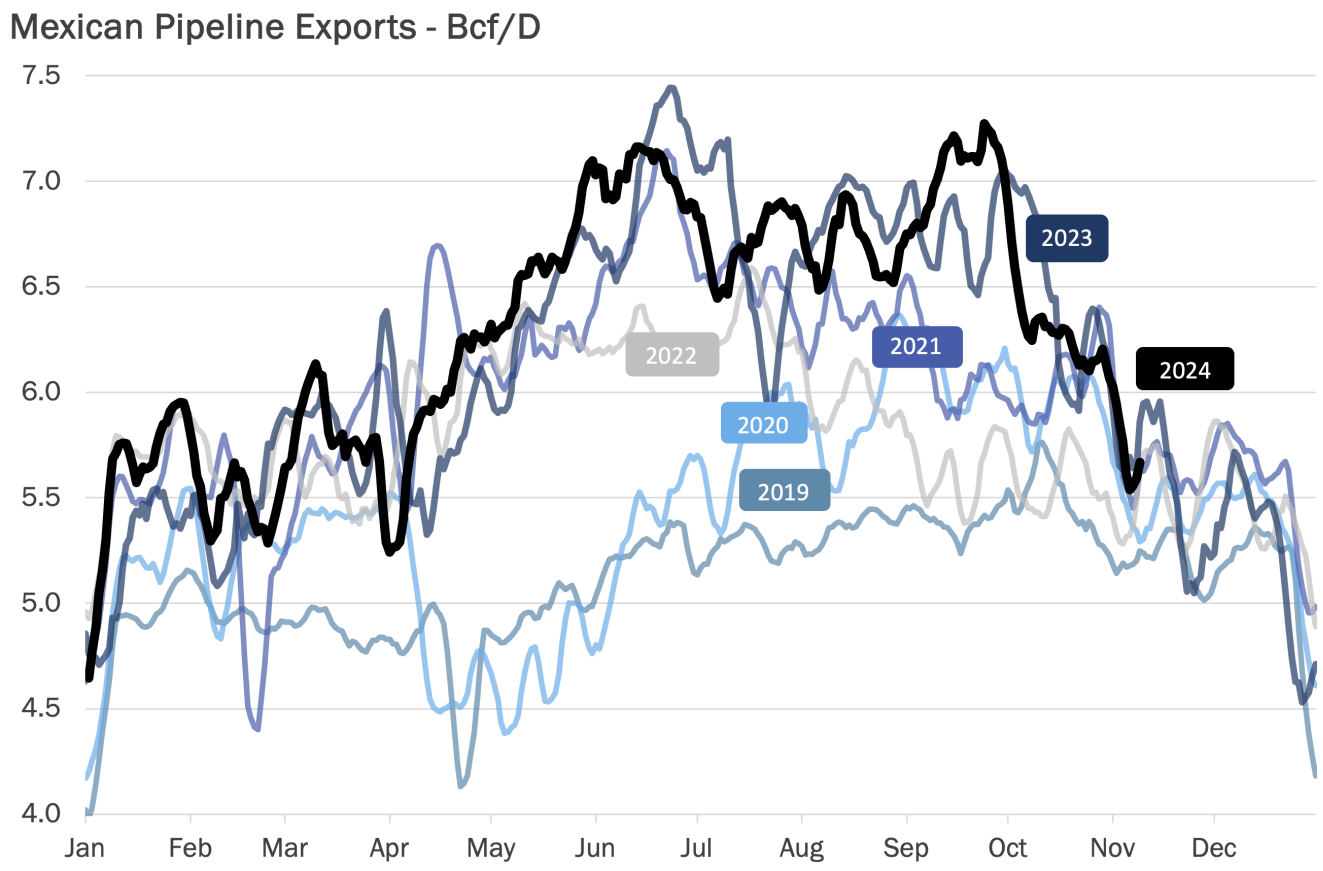
Chevron's $53 billion acquisition of Hess Corporation marks a powerful move in the ongoing wave of massive mergers in the oil and gas industry. Following Exxon Mobil's recent $60 billion purchase of Pioneer Natural Resources, this acquisition underscores a drive among the big upstream players to secure premier assets and expand their reserves. Chevron's acquisition will broaden its portfolio both domestically and internationally, with a total enterprise value of $60 billion when factoring in Hess's net debt. This merger boosts Chevron's growth outlook, significantly enhancing its production and cash flow potential well into the 2030s.

One of the largest drivers behind the acquisition are Hess's monumental assets in Guyana and North Dakota's Bakken Shale (See Below). The Stabroek block in Guyana, where Hess holds a 30% interest, is offering more than 11 Bboe with high cash margins and expected production growth. This asset alone accounts for roughly 80% of the deal's total value, signaling Chevron's ambitions beyond U.S. borders and positioning Guyana as a linchpin in its growth strategy. Meanwhile, Hess's Bakken holdings producing 180,000 Bboe/D add scale to Chevron's unconventional portfolio, strengthening its positioning in key shale regions and providing a substantial inventory of low-cost drilling locations.



This acquisition aligns with a broader M&A trend driven by a scarcity of drilling opportunities and heightened competition for high value pre-explored assets. As Chevron and Exxon embark on multi billion dollar mergers, industry analysts expect further consolidation, with medium sized producers likely to join the ranks in search of scale and resilience. Chevron projects $1 billion in synergies from the Hess acquisition, with accretive cash flow expected by 2025 as it achieves cost savings and launches a new production vessel in Guyana. The Chevron-Hess merger not only reaffirms Chevron's competitive edge but also highlights a transformative era for the energy sector, where resource consolidation is essential to future growth and profitability.

Mexican Demand Set to Rise in 2025



As Mexico ushers in a new era for their natural-gas dependent energy sector under President Claudia Sheinbaum, new regulatory hurdles and opportunities will present themselves. Consistent with the last six-year administration of Andrés Manuel Lòpez Obrador, Mexican imports of U.S. natural gas continued to climb in 2024. Average daily exports YTD have averaged 6.3 Bcf/D so far in 2024, compared with 6.0 and 5.8 in 2023 and 2022, respectively. As a result of such strong Mexican industrial and power demand, Mexico helps shape pricing at certain U.S. indexes and is going to remain a key part of the growing NA market.

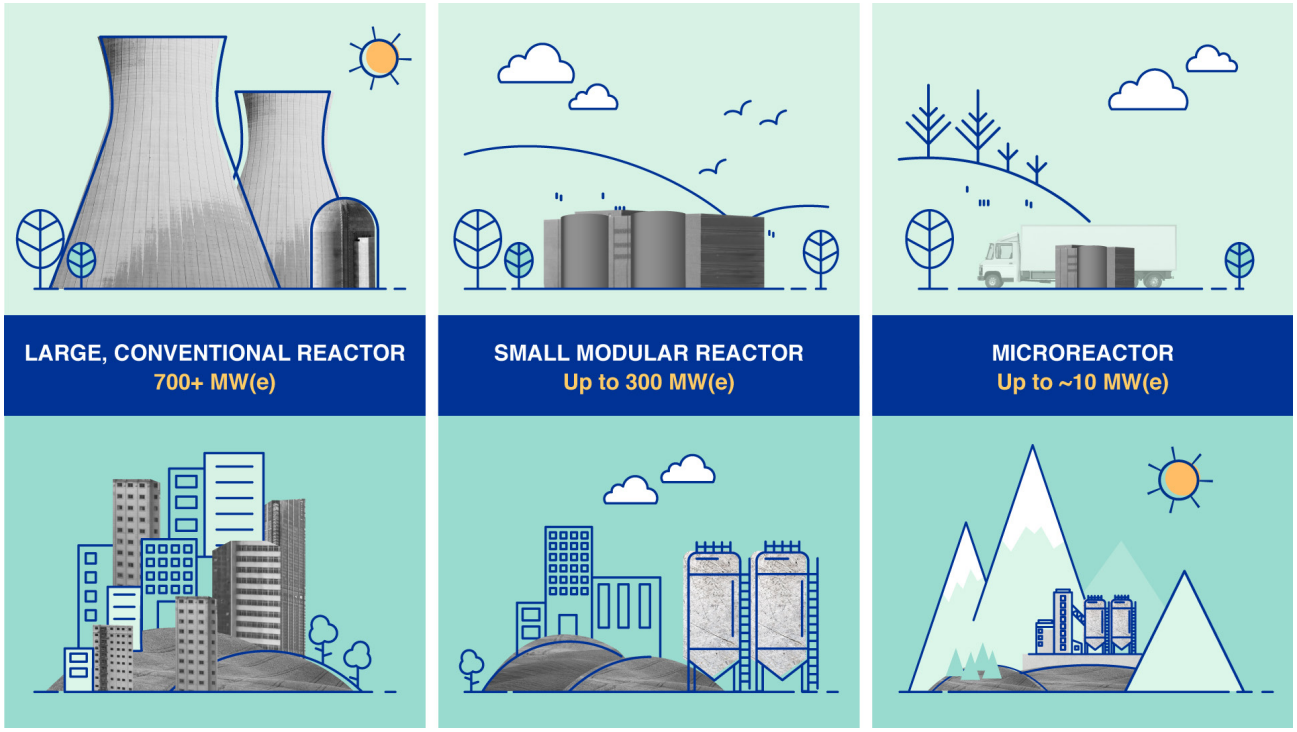
While U.S. natural gas prices showed some shoulder season momentum, prices remained lower than they were last year at this time, allowing for Mexican Exports to surge to record volumes for the month of September, well above 7 Bcf/d. G&A anticipates an additional 0.5-1 Bcf/D of natural gas demand will allow US natural gas exports to Mexico to average close to 7 Bcf/D in 2025. President Sheinbaum and her newly appointed energy team, while interested in deploying more renewable energy and off-shore wind generation, does not anticipate Mexico's dependence on U.S. natural gas to change anytime soon.

Big Tech Goes Nuclear: Potential Ripple Effects on Natural Gas

Last month, tech giants Google, Microsoft, and Amazon signed deals to secure nuclear power in order to meet growing demand from data centers. On October 14th, Google announced the world's first corporate agreement to purchase 500 MW of nuclear energy in the form of multiple small modular reactors (SMRs) to be developed by Kairos Power by 2030.

Merely two days later, Amazon announced its agreement to fund development for an SMR project near a Northwest Energy site in Washington state. Under the agreement, Amazon will have the right to purchase electricity from four modules once built and will have the option to purchase up to eight additional 80 MW modules resulting in a total capacity of up to 960 MW. Amazon has also signed two additional investment agreements with X-energy and Dominion Energy to further development of SMRs, totalling more than $500 million in investment. Earlier in September, Microsoft announced it will be partnering with Constellation Energy to restart Three Mile Island Unit 1 and to subsequently purchase all of its 835 MW generation for the next 20 years.

While these sizable investments highlight a trend towards Big Tech becoming reliant on nuclear energy in the future, that reliance isn't without downsides. Even with massive amounts of investment in nuclear energy, the time it may take to develop infrastructure may not be able to keep up with growing data center demand. There are currently no operational SMRs in the United States and there may not be for the next several years. In addition, many data centers will be connected directly to local grids, potentially increasing load if nuclear plants were to underproduce.



Overall, Big Tech's commitment to clean energy seems to be reinforcing, rather than diminishing, the role of natural gas as the primary reliable and available energy source for meeting the rising data center demand in the United States, even as it works toward a transition to nuclear power. An April 2024 Goldman Sachs report estimates that 47 GW of incremental power generation capacity will be required to support US data center demand through 2030. In July, the Biden-Harris administration approved more than 13 GW of offshore energy, aiming to deploy 30 GW by 2030. With other industry reports estimating the US investment in SMRs to be about 7 GW of capacity and factoring in the recent contribution of big tech, this would total up to an optimistic estimate of around 11 GW. Even accounting for future increases in renewables capacity, initial estimates indicate that the 47 GW of data center demand will be met with about 60% natural gas and 40% renewable energy sources. Though the energy landscape is undergoing rapid change, the narrative of natural gas as a transition fuel is stronger than ever.

Further Discussion

Don’t hesitate to call us at (713) 655-7000 or email us at info@gelbercorp.com with comments or questions.

GELBER & ASSOCIATES

712 Main St. #1710
Houston, TX 77002

Gelbercorp.com