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Natural Gas Price Forecast & Industry Review

2020 Hedge Season

May 15, 2020

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Gelber & Associates (G&A) is pleased to provide its 2020 Natural Gas Price Forecast. This Forecast predicts the NYMEX front month natural gas contract for delivery at Henry Hub through March 2022 and provides guidance for the 2020-21 and 2021-22 winter seasons.

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Executive Summary

Looking Back at the November 2019 Forecast

The world of May 2020 appears very different than that of late-2019. Nonetheless, in our most recent Forecast Revisitation in November 2019, G&A correctly identified many trends that are still playing out in the current natural gas market. Below are listed the key conclusions we predicted would shape the gas market in 2020:

- Production growth would stall in 2020 as producers shift their focus to reduced spending and maintaining current levels.
- Demand growth, primarily from LNG exports, continued to grow and will begin to catch up to supply in the second half of 2020.
- However, the market hasstayed heavily oversupplied on a weather-adjusted basis, and it will take most of 2020 to resolve this imbalance.
- Robust supply will minimize storage fears this winter and inventories could approach 4 Tcf in the 2020 injection season.
- A weak supply/demand balance and plentiful storage will translate to low prices in much of 2020. The primary range for prices is expected between \$2.25-\$2.75, with the potential to test 2016 lows below \$2.00/ MMBtu. Prices will be prepared for a sustainable recovery in the back half of 2020.

What has changed?

As G&A expected, production growth is set to stall in 2020 while demand growth continues. The onset of the COVID-19 pandemic has significantly shifted dynamics in the natural gas market. A deep and rapid cut to demand has taken place in the short-term and led to even more price weakness than could have been predicted. However, similar weakness in oil and global fuel demand has had the secondary effect of setting in motion a more extreme supply reduction (via associated gas) than anticipated.

Years of growth in the natural gas market have come to a head at the beginning of the new decade. In early 2020, the market was feeling the effects of this growth. Natural gas production growth had outstripped demand for several years, and left abundant gas in storage in an oversupplied market. Meanwhile, demand was rushing to catch up with new sectors of growth coming from LNG, power generation, and elsewhere. Some of these dynamics will extend into the post-COVID world. However, duel shocks to supply and demand have exacerbated and hastened other trends that were occurring prior to the pandemic. For example, this spring, short-term demand losses crashed gas prices to lows not seen since 1995. Meanwhile, collapsing oil prices and reduced drilling threatens to significantly shrink the amount of associated natural gas available on the supply side in coming years. In many ways, the story currently playing out in natural gas pricing is a tale of two distinct market shocks.

In this Forecast, G&A will reflect on recent changes that have affected natural gas prices and what can be expected for the next two years. An exogenous event beyond all control is perhaps the best time to reflect on past risk management strategies and take steps to prepare for whatever else could come.

Gelber Natural Gas Price Forecast 2020- NYMEX Front Month



See G&A's final price forecast on page 28.



Forward Curve - Year over Year (\$/MMBtu)



Natural gas prices have undergone two separate shocks early in 2020 that will impact forward prices for the next two to three years. A mild winter and demand destruction related to COVID-19 containment measures have collapsed prices at the front of the curve much lower than anticipated. Meanwhile, a simultaneous collapse in oil demand and prices has implications for associated natural gas production. Expectations for a notable supply contraction by late 2020 and into 2021 are putting upward pressure on the forward curve and exaggerating market contango for the next one to two years.



A Market Divided: Short Versus Long-Term Dynamics

Demand

Short-Term Correction

US natural gas demand has been on a path of growth for many years after the shale revolution renewed the supply of low-cost natural gas all across the country. Gas is no longer only the traditional fuel to heat homes and businesses through residential and commercial use. Growth in natural gas since that market's last downcycle in 2016 has come through a variety of sectors. Industrial natural gas demand has been a slow but steady workhorse over the past five years, growing on par with the US economy as a whole. Natural gas-fired power generation in the US continues to grow and has displaced coal as the countries dominant fuel source. Meanwhile. the export market has been the most exciting and fastest growing outlet for cheap US natural gas. Pipeline exports to Mexico continue to expand as our southern neighbor builds out gas-fired power and industrial capacity. Most importantly, liquefied natural gas (LNG) export capacity, a subset of the industrial sector, has grown to nearly 10 Bcf/D early in 2020. Despite continued expansion in natural gas demand, a widening mismatch with available supply has developed since late 2018. In early 2020, this mismatch brought the market to a breaking point.



Monthly US Natural Gas Demand by Sector - Bcf/D

but this is no longer realistic in the gas market in 2020:

- Industrial demand has lost between 1.5-2 Bcf/D from initial shutdowns. A slowdown in global economic activity will continue to hound industrial demand versus previous expectations this summer.
- LNG export capacity growth is reaching its final stages. However, utilization my be weak throughout the summer due to a glut of global supply.
- Mexican export demand growth will similarly suffer from a slowdown in economic activity from reduced usage for industrial and power sectors.
- Power generation is crimped in the short-term by closures of business and manufacturers. Although some will return when stay-at-home orders are lifted, it will continue to feel a drag this summer. One bright spot: natural gas continues to take a larger and larger share of generation due to recent low prices.



Quantifying Lost Demand



- This analysis removes weather effects from predicted power, residential/commercial, and industrial demand.
- The resulting chart demonstrates losses in these sectors due to COVID-19 reduced economic activity and lockdown measures.
- COVID-19 demand loss has expanded to 7-8 Bcf/D in late April and early May 2020.

Cumulative Demand Lost (ResCom, Power, Ind) - Bcf



- Cumulative power, residential/commercial, and industrial sectors experienced losses in demand for the period March 2020 – May 2020 mounting to 250 Bcf.
- Excess gas is flowing into storage early in the injection season.



Reopening Scenarios

Covid-19 Demand Losses (Power, Ind., ResCom) - Bcf/D



- These charts highlight different potential scenarios in which demand could recover following the severe dropoffs attributed to the COVID-19 pandemic.
- Gelber & Associates forecasts demand to remain negative and recover above -1 Bcf/d towards the latter half of 2020.
- A V-Shaped scenario forecasts demand to recovery quickly by mid-summer, although this no longer appears realistic under current conditions.
- A W-Shaped scenario forecast anticipates repeated outbreaks and additional lockdown periods. This is represented by a demand recovery to -2 Bcf/d followed by reversion back to current May lows of ~8Bcf/d.

Cumulative Demand Lost (Power, Ind., ResCom) - Bcf



- Current demand losses YTD attributed to COVID-19 total 250 Bcf (see previous page).
- Even in a quick recovery (V-Shape) scenario, demand losses willtotal over 400 Bcf.
- Gelber & Associates forecasts a slower recovery, with power, industrial, and residential/commercial demand destruction rising towards a cumulative 600-800 Bcf by late 2020.
- Additional outbreaks prevent an even bleaker picture.
- In all scenarios, excess gas from reduced demand will flow into storage pushing storage inventories to record high levels as shown later in the storage section.





Fuel Switching Offsets Lost Power Demand



- Overall power sector demand is suffering in 2020 due to ٠ Covid-19 shut-ins.
- However, gas demand is faring better than other fuels and continues to take a larger share of generation.
- Data from primary fuel switching ISO's such as PJM, MISO, and SPP indicate that natural gas has been responsible for a larger portion of power generation than coal for the entirety of 2020.





- Coal-to-gas fuel switching remains highly price responsive. ٠
- As gas prices have fallen to historic lows early this year, ٠ they have increased to a record proportion of power generation in key fuel switching regions.
- In late winter 2019-20, natural gas took 65% of gas and • coal power generation.
- This proportion will fall if gas prices recovery appreciably above \$2.50 in late 2020 and early 2021.





First Wave LNG to be Completed amid Global Glut



- LNG exports are being tested for the very first time with cargo cancellations and claims of Force Majeure.
- International Gas prices have started to converge as the impacts on COVID-19 related demand loss become apparent.
- US gas is losing its edge in the world market, as global LNG contracts tied to Brent-crude also become relatively cheaper.
- European storage levels are well above average and will not absorb as much US production in summer and fall of 2020.
- 25 US LNG cargoes have been canceled for the June loading period to date.



- Final, first-wave LNG projects are reaching completion in 2020 and taking US LNG export capacity to new heights.
- However, weak global fundamentals are expected to leave US export capacity underutilized in summer and fall periods of 2020.
- Even so, LNG feedgas demand will increase year-overyear and be prepared for further growth when the global market re-balances.

éia CME Group, Bloomberg L.P.

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Demand Growth Deferred



The near-term slowdown in natural gas demand won't derail expectations of 2020 growth but will defer some expected increases to later periods. Although industrial demand will contract this year due to recessionary impacts on global fuel demand, it is expected to be buoyant in the months following the lift of lockdown measures. Elsewhere, various sectors of natural gas demand are still expected to have record years in 2020 and enjoy further growth in 2021. Areas of growth include power generation, which is benefitting from record fuel switching and should rebound quickly in the summer period, LNG (despite summer fears of global oversupply) and Mexican exports (thanks to additional infrastructure in Mexico). Overall, US gas demand is still forecast to grow very slightly (~0.3%) in 2020 and resume a track of more robust growth in 2021.



Supply

Long-Term Contraction

Short-term demand impacts have triggered a longerterm supply correction in natural gas and other commodity markets. The oil price collapse to historic lows this spring will take a surprisingly bullish form for the natural gas market by substantially reducing associated gas.

• Changes in natural gas production have been anticipated by G&A since the 2019 forecast. Decreases in natural gas production will be focused in wet shale basins.

Oil-focused producers have announced

 shut-ins of about 2 million bpd in May and June which will lead to immediate and drastic reductions in associated gas supply.

Meanwhile, dry natural gas producers have signaled maintenance level spending- will no

 signaled maintenance level spending- will no longer chase growth.

Production declines won't bottom out until early 2021.

The coming supply contraction will take longer than demand losses to materialize, but

will be of a larger magnitude and drawn out over a longer period.





Natural gas production has not been much of a money maker since prices slipped appreciably below \$2.75/MMBtu Henry Hub. The real money has been made on crude oil at \$50-\$60 per barrel in recent years. Natural gas was an ancillary biproduct which was a nice incremental supplement to cash flow. Now, if oil prices don't rebound to \$50 or more, natural gas prices will need to get high enough to inspire rigs to operate in the dry basins such as the Marcellus and the Haynesville. The Permian Basin, the Eagle Ford, and the Bakken will stay stagnant if crude oil stays under \$50. Currently, crude oil price for WTI at Cushing is \$24 per barrel. Outlook based on inventory, production, and demand suggests the oil markets won't get tidied up until spring of 2021.

US Dry Gas Production - Bcf/D

The market has become used to oil and natural gas running off their own independent market dynamics. Except for the wellhead, crude oil and natural gas do not share any demand dynamics. Since 2016, the growing supply of associated gas has been in related to a supportive crude oil price. In 2020-2021, natural gas price is again dependent on what the market clearing price is for crude oil. If crude oil does not achieve launch velocity, natural gas prices will rise to incentivize adequate supply for the massive natural gas market.

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Collapsing Oil Prices; Effect on Gas



Who would have guessed: the biggest story for natural gas supply in 2020 does not relate to natural gas prices, but a historic disruption in global crude oil markets. Crude oil demand began to expect decreases early this year when China, the world's second largest economy, entered a state of lockdown to stop the spread of COVID-19. Later, the failure of OPEC+ to reach agreement on supply cuts in early March led to an extended Saudi-Russian Price War that accelerated crude's decline. When the Price War was settled in April, the damage was already done. The tremendously oversupplied market collapsed to historic lows in late last month, even venturing into negative pricing due to the lack of available crude storage capacity.

Crude's collapse is bringing the interconnectedness of gas and crude, and growing reliance on associated gas production, back to the forefront in the coming forecast period.



Natural Gas Producer Guidance



- Top natural gas producers have reduced their 2020E Capital Expenditures by \$23.1 Billion or a whopping 27% from original 2020 guidance.
- Volatility in oil, natural gas, and NGL prices has increased substantially due to the COVID-19 pandemic and Oil Price War.
- Reductions in capital expenditures by major producers or large firms cause even larger responses from smaller, independent producers.
- On average over the past five years, small independent producers cut capital expenditures by 5.3% more than large independent producers (see chart below).







Natural Gas Producers: A Case Study

EXonMobil



ExxonMobil has announced reductions to their 2020 capital expenditures by \$10 billion. Near-term reductions of capital expenditures will decrease Exxon's 2019 proved reserves estimates by 1 billion oil-equivalent barrels. 1Q 2020 Natural gas volumes were down 88,000 oil-equivalent bpd versus 4Q 2019. Compared to 1Q 2019, production on an oil-equivalents basis increased 2%, however, shut-ins and market related curtailements estimate second quarter imapcts of 400,000 oil-equivalent bpd. Natural gas is estimated to lose approximately 100,000 oil-equivalent bpd as a result of shut-ins. Exxon's current estimates a full year liquid demand contraction range of 4 to 12 million bpd, dependent on the speed of economic recovery and consumer confidence. Permian production is set to see volume reductions of 15,000 oepd in 2020 and 150,000 boepd in 2021.





EQT Corporation has announced reductions to their capital expenditures by \$200 million. EQT is the largest natural gas producer in the United States, with operations focused in the Marcellus and Utica shales of the Appalachian Basin. Natural gas production in 1Q 2020 remained relatively unchanged in comparison to 1Q 2019, although capital expenditures were reduced 46% during the same time period. Despite volatility from the COVID-19 pandemic and the Oil Price war, EQT exceeded high-end guidance ranges of 360-370 Bcf by 20 Bcf. EQT believes the catalysts for 2021-2023 strip improvements stem from supply declines, recovery in demand from COVID-19, and normal 2020/21 winter weather.

Natural Gas Producers: A Case Study





Antero Resources has announced revised reductions to their 2020 capital expenditures by \$400 million. With natural gas, NGL, and oil producing properties spanning the Appalachian basin, oil sales make up only 4% of their Antero's total revenue. Antero's 2020 Hedges are proving succesful, through fixed price contracts the sale of 2.2 Bcfd of natural gas at a weighted average price of \$2.87 per MMBTu, as well as 26,000 bpd of oil at a weighted average price of \$55.63 per barrel for the remainder of 2020. As such, decreases in anticipated production, due to shut-ins or decreased development activity, will not impact Antero's ability to realize the benefit of such hedges. Production in 1Q 2020 increased 9%, rising to 306 Bcfed compared to 1Q 2019 production of 279 Bcfe. Increases in the quantity of producing wells come from a result of new drilling and completion activity. As of the production of this forecast, Antero has not had any shut-ins or announcements of plans to shut-in wells.





EOG Resources, an oil-focused producer in the Permian basin and Eagle Ford shale, has announced revised reductions to their 2020 capital expenditures by \$1 billion. Reductions in capital expenditures are expected to equate to lower production volumes of 390,000 boepd for the remainder of 2020. This is a 15% decrease in oil production versus 2019 levels. EOG estimates shut-ins of an average of 40,000 boepd, as output will gradually be brought back over the rest of the year and into 2021 if oil market conditions permit. 4Q 2020 production follows such recovery hopes, it is estimated to be 420,000 boepd whereas 2Q 2020 production is estimated to be 310,000 boepd. This includes shut-ins of 125,000 boepd in May, and 100,000 boepd in June. EOG plans on delaying drilling 150 new wellls until the second half of 2020, which will contribute to the aformentioned production estimates.



Natural Gas Producers: A Case Study

ExonMobil





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What does this tell us?

- Producers are cutting spending across the board in 2020 as the energy sector loses favor with investors overall.
- Oil producers are getting hit the hardest, and small producers are likely to feel the brunt of the impact even more than the companies in G&A's sample.
- There is a growing division between oil-focused producers and dry gas-only independents.
- The largest Appalachian gas producers like EQT and Antero are holding production volumes steady while decreasing spending.
- For others, like Exxon and EOG, decreased spending is related directly to lower oil (and associated gas) production and voluntary well curtailments in May and June.
- Despite better positioning in dry gas plays, Antero and EQT have signaled that they will not chase growth, and will instead use higher prices and favorable hedges to generate free cash flow and pay down debt.
- Majors are unwilling to do natural gas transactions with customers beyond December 2020.



Basis Squeeze



CIG Rockies Basis Futures (\$/MMBtu) \$0.00 -\$0.10 -Winter 2020-21 -2021 Calendar Strip — Jun-20 -\$0.20 -\$0.30 -\$0.40 -\$0.50 -\$0.60 -\$0.70 -\$0.80 -\$0.90 -\$1.00 Apr-19 Jul-19 Oct-19 Jan-20 Apr-20 Jan-19

- Basis prices have been had some of fastest and hardest correction based on the collapse in oil prices.
- Waha Hub, in the Permian basin of West Texas, has strengthened nearly \$2/MMBtu in prompt and coming winter prices due to expectation of reduced oil drilling and associated gas supply in the region.
- June, Winter 2020–21, and the entire 2021 calendar strip now reside only 25–50 cents below Henry Hub.

- CIG Rockies another supply location in proximity to oilfocused production areas has seen similar strenghthening.
- Upcoming winter prices for 2020-21 have strengthened nearly 20 cents since oil prices went negative in late April.
- Rockies production in the Bakken is expected to be hit particularly hard by well shut-ins in May and June.
- Basin points in other similar areas of the country such as the Anadarko of Oklahoma, Eagle Ford of South Texas have been squeezed higher similar to Waha and CIG.





Year-Over-Year Production Declines



US Dry Gas Production - Bcf/D



- US production estimates have dropped considerably since • late April when oil well shut-ins began to materialize.
- 2020 dry gas production will soon fall below 2019 levels and enter a period of correction in the second half of the year (see next page).

- Year-over-year natural gas production is highly correlated with the active gas rig count.
- The natural gas rig count has fallen to 80 early this yearbelow 2016's low.
- Production has begun to respond, and decreases are also • a result of a collapse in oil-directed completions and shutins.

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2020 Production Forecast



G&A's forecast for dry gas production through the remainder of 2020 and 2021 period is built on anticipation a significant slowdown in crude oil drilling and associated gas production, and expectation of a delayed growth response from dry gas producers. Immediate associated gas shut-ins in the months of May and June 2020 will give way to a steady decline based on reduced drilling through the summer and fall periods. Oil-focused areas like the Permian, Bakken, Anadarko, and Eagle Ford will all contract and lead to supply reductions of 6-7 Bcf/D over the summer of 2020 alone. Production is forecast to bottom-out in early 2021 9-10 Bcf/D below record highs reached in November 2019. Volumes will begin to recover next year as both crude and gas markets mend themselves. but markedly higher prices will be required for dry gas producers in areas like the Marcellus and Havnesville to return to a state of growth.



Equilibrium

The Intersection of Supply/Demand Forecasts

G&A's pricing expectations for the period follow from a fundamental forecast of the balance of supply and demand. Since the market's last downcycle in 2016, production has seen tremendous growth and outpaced the rate at which demand has entered the market (See changes over time in the graph at right). This was expressed by a collapse to a historic, almost 25-year low in prices in early 2020. Now, despite near-term impediments to demand, the market is rebalancing itself.

Production growth peaked in late 2019 and was expected to hold flat or slightly declining levels through this year until the crude oil price collapse led to expectations of even deeper supply cuts. Meanwhile, demand growth was set to catch up to production this year through growing exports and record fuel switching. Although demand growth has been delayed by Covid-19 containment measures and moderate somewhat by global economic turmoil, expectations of growth still exist.

The intersection of these differing expectations for supply and demand is key. In the near-term, demand losses and oversupply still rule, and the implications for storage will influence price expectations much of this year. However, when things turn, the longer-term supply contraction will begin to exert its influence on immediate prices and those further down the forward curve.

Demand and Production Changes Over Time-Bcf/D





Forecasting Structural Changes

Covid-19 Demand Destruction Production 25 20 15 10 Structural Demand 5 0 2017 2018 2020 2021 2022 2019

Demand and Production Changes Over Time-Bcf/D

Extending analysis from the previous page, G&A's forecast for structural changes has shifted to account for much lower demand this spring than previously expected. Even so, demand will be repair itself during summer months just as strong production declines begin to set in. The market will enter under-supplied territory in late 2020 and is forecast to remain there for the entirety of 2020. Once the market works through its current storage inventory overhang, this will place upward pressure on prices throughout the forecast period.



Injection Season Forecasts

US Gas Storage - Bcf



Following an extremely mild winter, storage inventories began the 2020 injection season at a substantial surplus to previous years. Lost demand early in the season has helped injections get off to a rapid start and will help storage grow well above-average by the mid summer period. Various forecasts of the potential path of storage this year are displayed to the left. Only in a case of very quick demand recovery and aggressive supply reductions do inventories remain below 4 Tcf. G&A's base forecast for end-ofseason inventories is just above 4.2 Tcf. a record level. If demand losses pervade throughout the summer and associated gas production falls less than expected, storage inventories could end even higher, testing demonstrated peak capacity above 4.3 Tcf. Strongly indicative of anticipated price weakness in remainder of 2020 and 1Q 2021.



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Structural Balance and Residuals



- G&A storage residuals seperate weather effects from predicted storage changes and are indicative of market over/under supply.
- Yearly storage residuals demonstrate whether the market was over (positive value) vs under-supplied (negative value) in a given time frame.
- The market moved into a heavily oversupplied state in 2019 and the first half of 2020, but this is expected to shift in the back half of the year (see structural balance below).



- This chart visualizes the correlation between Storage Residuals and the Structural Supply/Demand Balance.
- Forecasted Structural Supply/Demand indicates continual undersupply in the second half of 2020 and throughout 2021, resulting net storage decreases after adjusting for weather.
- Foretells coming supply deficiencies.



Storage and Price Trends



- Strong upward storage trending years are pictured to the ٠ left.
- G&A analysis shows storage trends early in the injection season have high correlation with coming winter prices.
- Early indications are for strongly upward trending storage levels (relative to the 5-year average) for the April to June period of 2020.



- This analysis demonstrates that March contracts show a • strong downward tendency in upward trending storage years.
- March 2021 prices have rallied higher this spring on ٠ expectation of reduced supply.
- Rising storage levels will moderate contract increases as ٠ the year goes on.



Summer Weather Forecasts





Price Forecasts and Conclusions

The prevailing market dynamics of supply and demand have been turned on their head with the Covid-19 virus, the Saudi Russian price war, the slashing of capital budgets and the cancellation of a sizable number of LNG cargoes.

What was a seemingly permanent supply glut is projected to return to balance and even devolve into a deficit within the Forecast period.

Price and basis have already strengthened but opportunities exist on both sides of the market. There is a path to \$3/MMBtu and above, as the market has recognized on the forward curve. However, price increases are likely to be capped this summer but continued demand weakness and a growing storage overhang. G&A believes bullish market forces will not fully express themselves until the 2021 injection season and the 2021-22 winter.

- Structural, non-weather related demand is still growing.
- Supply peaked in November 2019 and is moving towards a long-term contraction.
- There is a recognized time discordance between the near-term demand losses and the longer term supply reductions.
- Storage will fill very quickly early in the 2020 injection season due to immediate demand destruction.
- Storage inventories forecast to reach record levels of nearly 4.2 Tcf will carry the market through the upcoming 2020-21 winter, limiting price increase.
- Undersupply in 2021 will significantly inhibit storage refill in the 2021 storage season.
- Upward price pressure will persist in 2021 until dry gas production picks up to replace lost associated gas volumes.
- Forecast is contingent on continued disarray in global oil markets, not to be resolved until early 2021.



Updated Natural Gas Price Forecast



Gelber Natural Gas Price Forecast 2020- NYMEX Front Month

Expectations for natural gas prices include lingering weakness throughout the balance of 2020 that limits a breakaway from the depressed \$2 level until late in the year. Following the 2020-21 winter, heavy undersupply will be expressed by bullishness throughout the calendar strip and into the following winter. Substantial value exists on the forward curve throughout 2021 when comparing to forecasted prices.

- 2020 front month prices are forecast to end at an average of \$2.06/MMBtu.
- 2021 front month is forecast to rise considerably to an average of nearly \$3.15/MMBtu
- Balance of 2020 and 2021 calendar strips are averaging \$2.10/MMBtu and \$2.66/MMBtu respectively at forecast publication.





Winter Strips Forecast

Gelber Natural Gas Price Forecast 2020 - Winter Strips



Oil's price collapse and seasonal forces have taken winter strips higher early in the 2020 hedging season. G&A expects upward pressure to ease in Winter 1 as the summer goes on and an imposing storage surplus materialize. Winter 2 will begin to creep higher later in the year when an impending shift to undersupply becomes clear. Winter 2 presents best hedging opportunities early in the 2020 Hedge Season.

- 2020-21 winter averaging \$2.775/MMBtu at forecast publication.
- 2021–22 winter average \$2.77/MMBtu at forecast publication.



Further Discussion

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