Bearish 65 bcf injection much higher than estimates

Dom South and TCO prices converge slightly since Aug. 1
The EIA reported a 65 bcf storage injection for the week ending August 7, higher than the market estimate of a 57 bcf injection. Front-month Henry Hub was down $0.08 after the number was released at $2.84 and calendar 2016 Henry-Hub was down $0.04 to $3.11. Working gas in storage now sits at 2,977 bcf and is now 521 bcf higher than last year at this time and 81 bcf above the 5-year average. The East region now sits at 1,407 bcf of storage and 61 bcf below the five-year average. Use Markets symbol EIA.TOTAL.US for historic storage numbers.

While there are certainly structural reasons why TCO continues to price much closer to Henry than Dom South as southwest Marcellus gas is trapped behind pipeline constraints at Dom South, there’s certainly a case to be made that these two hubs should eventually trade closer to parity. Basis forwards certainly capture some of this convergence with the TCO curve in backwardation and Dom South in contango. The TCO/Dom South spread is currently $0.83, $0.64 and $0.42 in calendar 2016, 2017 and 2018 respectively. These spreads have inched lower since REX came online August 1, suggesting a market reaction to the outbound flows. However in November of 2017, the Leach and Rayne Xpress should begin flowing adding 1.5 bcf of takeaway capacity sourcing from TCO. This project should further tie TCO pricing to Henry Hub minus the .45 firm transport costs meaning that TCO/Dom South spread convergence would most likely come from higher Dom South pricing.
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