Lower for Longer: A New Normal for U.S. Natural Gas Prices
Examining the impact of abundant low-cost supply—and uncertainty in global oil markets—on the domestic natural gas complex.

Executive Summary
In the face of continued growth of low-cost supply, we are reducing our midcycle price estimate for U.S. natural gas by 25%, to $4 per thousand cubic feet. While demand tailwinds from exports and industrial consumption will help balance the domestic gas market, ongoing cost pressures from efficiency gains and excess services capacity—as well as the crowding out of higher-cost production by world-class resources like the Marcellus Shale and associated volumes from oil-rich areas like the Eagle Ford and Permian—justify our revised outlook. Even under our lower price deck, however, undervalued, cost-advantaged investment opportunities remain. Our top picks among natural gas-focused E&Ps are Cabot Oil & Gas, Range Resources, Antero Resources, and Southwestern Energy.

Key Takeaways
× While U.S. gas production is likely to slow in the near term as oil-directed drilling hits the brakes, the wealth of low-cost inventory in areas like the Marcellus points to continued growth through the end of this decade and beyond. The Marcellus is the single-biggest growth driver in our forecast, adding 14 billion cubic feet per day (75% of incremental volumes) through 2020.
× Increased gas consumption should provide an outlet for this abundance of low-cost supply. Recent reforms to Mexico’s energy industry should boost demand for gas in that country (most easily supplied through U.S.-to-Mexico pipelines), while liquefied natural gas exports from the United States are set to become a reality starting next year, with a meaningful ramp-up in volumes likely through the end of the decade. U.S. industrial consumption should also increase, given recent greenfield investments and natural gas’ cost advantage in petrochemical manufacturing.
× Despite our expectation for continued growth in demand, there is more than enough low-cost supply to justify a reduction in our midcycle U.S. natural gas price estimate to $4/mcf from $5.40/mcf. Our revised outlook is informed by a region-by-region analysis of underlying well performance, resource potential, and cost trends as well as an examination of how end users are likely to respond to these cost-advantaged resources. Our gas outlook references a concurrent analysis of the global oil market that examines the rise of U.S. oil and its impact on industrywide activity levels, prices, and costs.