

EIA - Short-Term Energy Outlook (STEO) (August Report)

The **U.S. Energy Information Administration** (EIA), the statistical and analytical agency within the U.S. Department of Energy, Washington, D.C., released its August Report regarding Short-Term Energy Outlook (STEO) in the U.S. Brief highlights of the Report are:

- U.S. crude oil production averaged an estimated 8.9 million barrels per day (b/d) in 2016 and is forecast to average 9.3 million b/d in 2017. EIA forecasts crude oil production to average 9.9 million b/d in 2018, which would mark the highest annual average production in U.S. history, surpassing the previous record of 9.6 million b/d set in 1970.

- Crude oil prices increased in response to supply-side factors, as well as strong U.S. refinery demand. Total commercial crude oil and petroleum product inventories in the United States fell by 22.4 million barrels from June 30 to July 28, compared with a five-year average inventory build of 5.9 million barrels over that period.

- Drilling activity in the United States, as measured by the Baker Hughes active oil rig count, increased by 10 rigs in July, the fewest monthly oil rig additions since the rig count began increasing in June 2016. Some U.S. exploration and production companies recently announced less investment spending for the rest of the year, suggesting the current rate of U.S. oil production growth could slow.

- EIA forecasts that month-over-month crude oil production increases for the Lower 48 states onshore region will slow to an average of 60,000 barrels per day (b/d) in the second half of 2017, compared with estimated average monthly growth of 110,000 b/d in the first half of the year.

- EIA forecasts that global petroleum and liquid fuels inventories will be largely unchanged in 2017 and then increase by an average of 0.2 million b/d in 2018.

- U.S. dry natural gas production is forecast to average 73.5 billion cubic feet per day (Bcf/d) in 2017, a 1.2 Bcf/d increase from the 2016 level. Natural gas production in 2018 is forecast to be 3.9 Bcf/d above the 2017 level.

- Natural gas production in the Marcellus and Utica shales has risen substantially in recent years, often outpacing the growth of natural gas pipeline capacity. This growth has pushed regional natural gas prices lower relative to the benchmark Henry Hub price. The front-month basis swap (the difference between a regional natural gas price and the price at Henry Hub in Louisiana) for Dominion South in southeast Pennsylvania was -\$1.20 / MMBtu as of August 3, down from the average basis of -50 cents / MMBtu from January through May 2017. This price decrease reflects constrained pipeline takeaway capacity, which drives producers to lower their natural gas prices. Prior increases in takeaway capacity in the region have narrowed the basis.

- In July, the average Henry Hub natural gas spot price was \$2.98 per million British thermal units (MMBtu), about the same as in June. Higher natural gas exports and growing domestic natural gas consumption in 2018 contribute to the forecast Henry Hub natural gas spot price rising from an annual average of \$3.06/MMBtu in 2017 to \$3.29/MMBtu in 2018.