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Today’s energy commodity prices likely to double in the near future?

JEFFREY HUNTSBERGER | ENERGY INSIGHTS | JUN 07, 2016

There was a day when sustained increases in the price of oil sent the U.S. stock market into a tail spin. The U.S. imported most of its energy back then, and higher energy prices meant trouble for U.S. industries. The tide, however, has turned.

Over the last year, the stock market has reacted unfavorably to lower oil and gas prices and has recovered when oil and gas prices seemed to rebound. This bears witness to the growing importance of the oil and gas business in the United States. When energy prices retreat, fewer net jobs are created and companies that benefit from sales to the oil and gas industry lose business.

What are the prospects today for the industry and the many individuals and companies that are in the business or sell into the business? According to Baker Hughes, Inc. U.S. rig count increased during the week ending June 3 for the first time since August 21, 2015, ending a 41-week slide. The increase is relatively small, from 404 rigs to 408 rigs, but Baker Hughes estimates that, by the end of 2016, there will be 492 active rigs, with 900 active by the end of 2017 and 1,250 active by the end of 2018. Of course, that is only a prediction and there is no way of knowing for certain whether that will come to bear. And these estimates are actually lower than estimates previously given by Baker Hughes. The reason – blame the need for companies to repair their balance sheets, labor constraints following large scale layoffs, and equipment attrition.

Much of what we have heard from the news media about the price of energy centers on the price of oil, but the Utica and Marcellus, the two plays that have the heaviest impact on Ohio, have largely been gas plays, not oil. Following a recent OPEC meeting, the price of oil topped $50 per barrel. Natural gas, on the other hand, has been somewhat slower to recover, partially due to over supply during our recent warm winter in the United States. But this may be about to change according to a **recent article** in *Forbes*, which predicts that the surplus is disappearing and will move into deficit by November 2016.

During the first half of 2016, the price of natural gas at the Henry Hub averaged $1.99 per mmBtu. During the last deficit, which occurred from December 2012 to November 2014, the price of gas at the Henry Hub was $4.05 per mmBtu. Contributing to the upcoming gas deficit, *Forbes* argues, is the poor financial health of many producers and the disarray of the oil field service industry. The limited number of gas rigs in the field further points to the inability of the industry to ramp up quickly. The 92 U.S. rigs that are currently drilling for gas are150 less than the previous record low in 1992.

This combination of rising demand, the movement from over supply to deficit, and the poor financial health of the oil and gas industry, says *Forbes*, are all likely to result in the doubling of the price of natural gas within the next year or two.

See the chart below for today’s energy commodity prices.

ENERGY COMMODITY PRICES

	As of 6/7/16*	52 week low	52 week high
Heating Oil $/gallon	1.54	0.85	1.95
Oil (Light Crude) $/barrel	50.25	26.05	61.82
Natural Gas $/million BTUs	2.47	1.61	2.96
Unleaded Gasoline $/gallon	1.58	0.90	2.19
PJM Electricity (Nymex)	36.10	–	–

* Last update 2:24 p.m. ET

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