



REPORT DASHBOARD

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OVERALL SENTIMENT

MONTHLY GWDD TRENDS

SEASONAL FORECASTING TRENDS

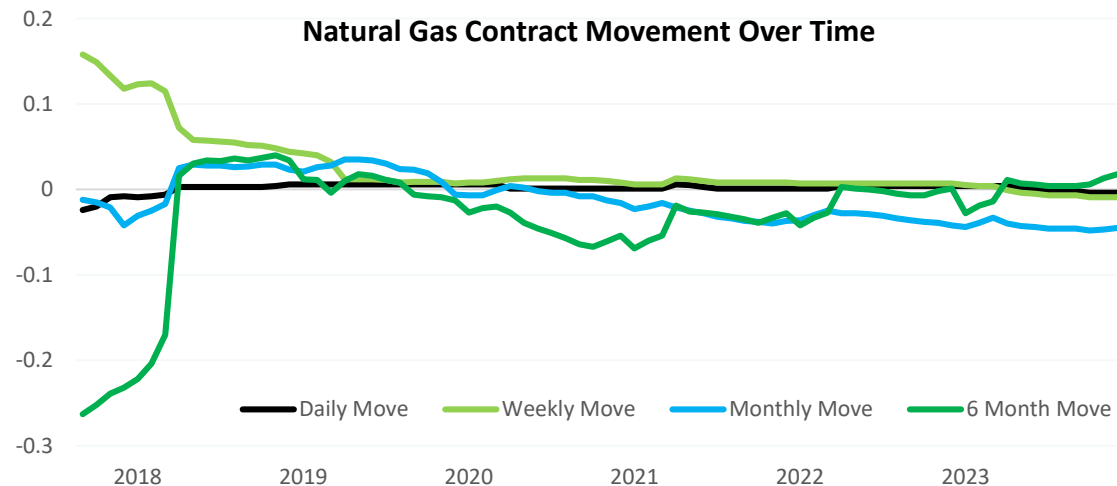
SPREAD ANALYSIS

SEASONAL STORAGE ANALYSIS

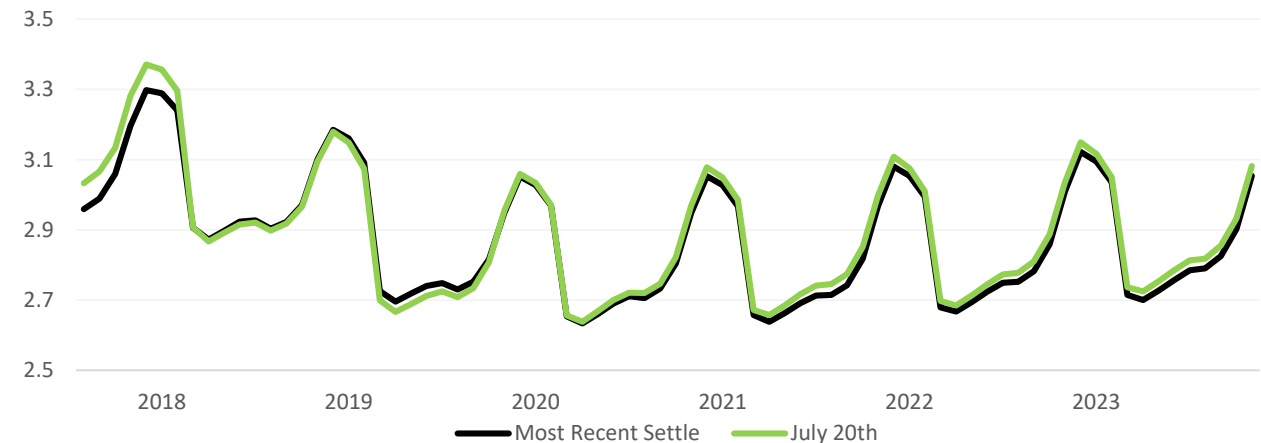
SEASONAL TRADE IDEAS

Report Summary: The current natural gas strip does not appear to be adequately pricing in the bullish forecast risks we see for the first half of the winter. Though a comparatively wide H/J indicates the market is pricing in storage concerns, we feel weather risks would allow for more upside than downside moving through the winter in natural gas prices, and accordingly would favor long trades trying to take advantage of this skewed upside. Forecasts for September and October have cooled a bit week-over-week, and November appears likely to begin colder than average. Confidence from there still falls off quickly thanks to an unpredictable Pacific, but a number of early seasonal atmospheric indicators point towards more bullish risks than in the past couple of winters.

Natural Gas Contract Movement Over Time



Current Strip vs. Recent Analogous Prompt Settle

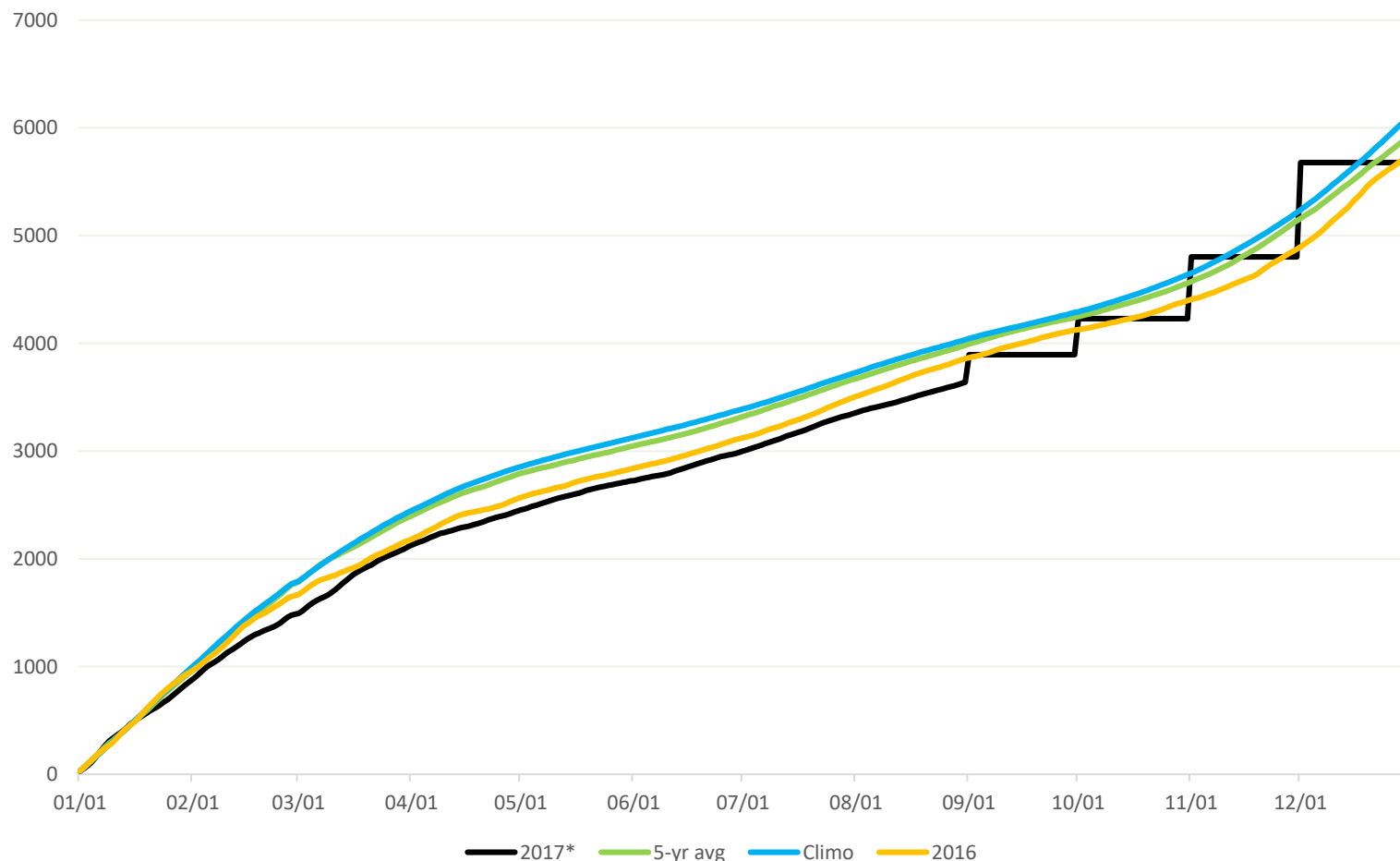




Long-Range Sentiment: SLIGHTLY BULLISH

Sentiment Summary: We continue to hold slightly bullish long-range sentiment within the natural gas market as we see a market that is quite tight and does not appear to be pricing in the full scope of bullish weather risks from the fall into the winter. The season has had significantly fewer GWDDs than past years, masking much of the structural tightness we have seen in the natural gas market. A colder fall or winter would allow traders to quickly realize bullish market risks.

Gas Weighted Degree Days



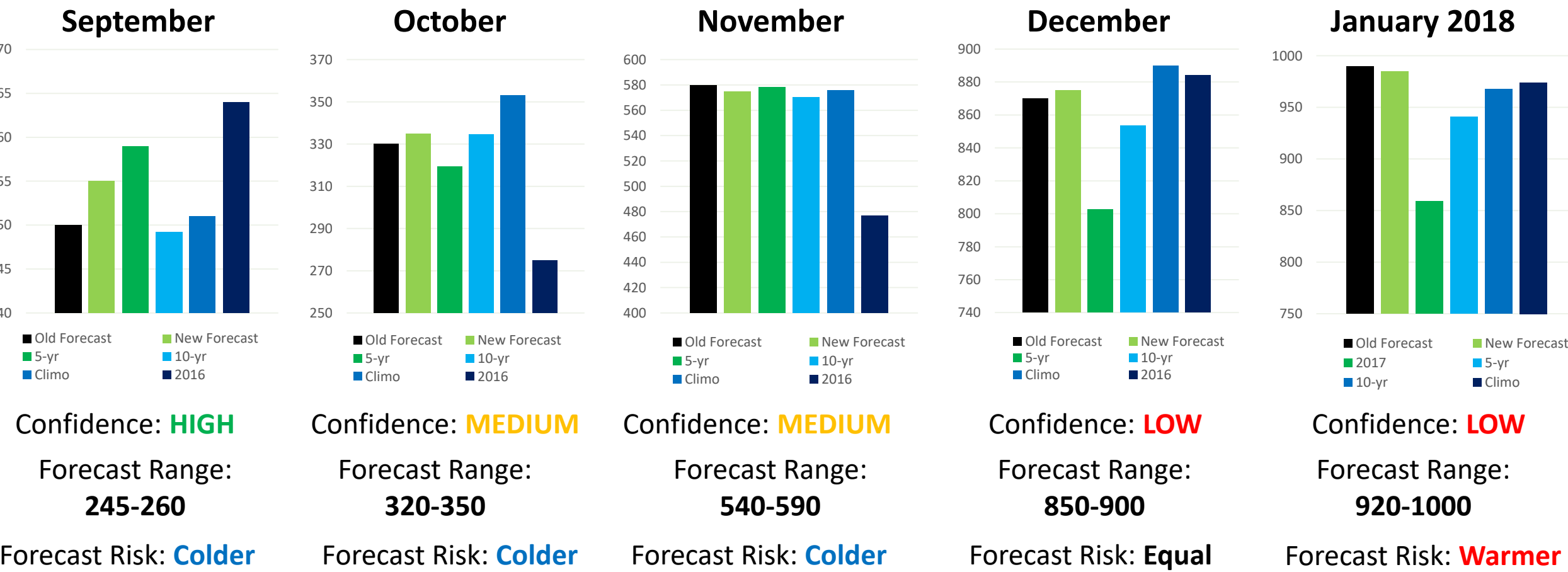
Discussion

Weather in August has been quite bearish thus far, and though we have heat coming in the next week and a half we still remain quite likely to see GWDDs for the month come in rather significantly below average. This cool weather may restrict demand into early September, but later in September GWDDs switch from holding predominantly PWDDs to holding predominantly UGWDDs, and if cold weather sticks around we could begin to see weather-driven natural gas demand turn above average. Most guidance and analogs show this colder weather then sticking around into at least October, at which points UGWDDs would work to restrict injection size into the end of injection season and potentially exacerbate concerns about limited storage levels, leading to a price rally into the winter. Confidence begins to drop off from there, as come November more conflicting indicators appear, but we see at least some lingering cold risks that have us feeling more bullish than bearish for the month. Such cold risks are similarly apparent on analogs in December and January, though of course by then confidence is rather significantly below average as ENSO forecasts are quite uncertain. Recent trends a bit more towards a weak La Nina would decrease bullish cold risk in the Southeast later on in the winter, but the stratosphere and other atmospheric indicators are currently showing more cold risk for the upcoming winter than we have seen in either of the last two.



Monthly GWDD Forecast Updates: SLIGHTLY BULLISH

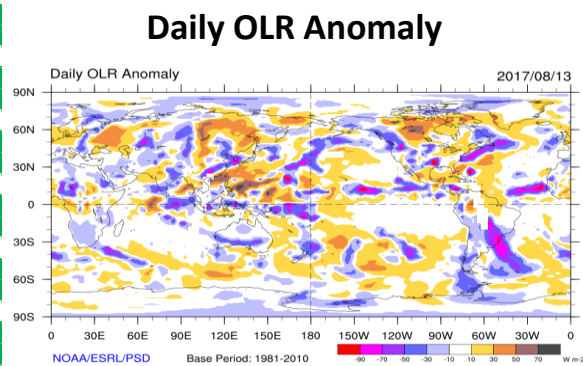
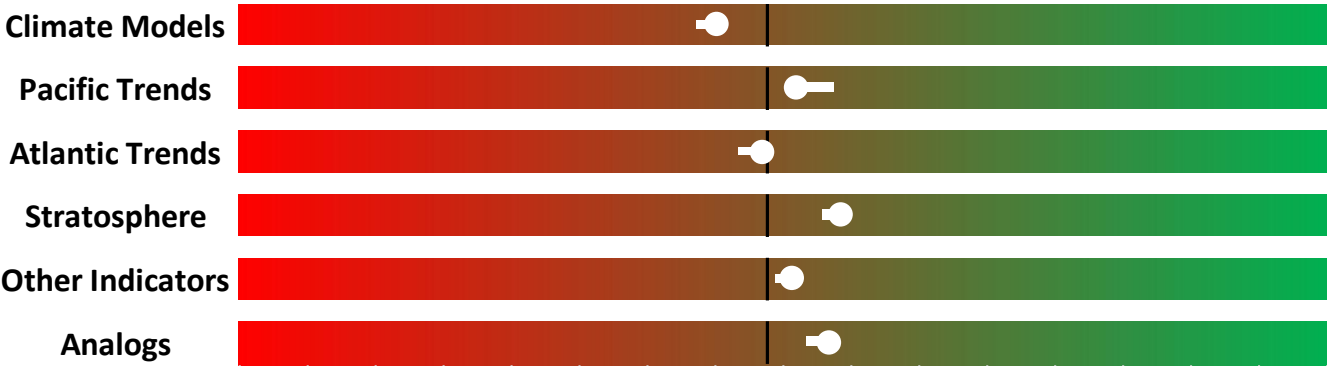
Summary: On a monthly basis, we see an increase in lingering cold risk across the country later in September as enough to tick up our GWDD forecast for the month. The same is true in October, where confidence in colder weather is increasing, though we began to lose this signal by November, with our forecast falling back to showing demand rather close to climatological averages. The same can be said for December and January, though we note that January is very likely to be colder than this past year and December is likely to at least be similar. The result should easily be more weather-driven demand than last winter.





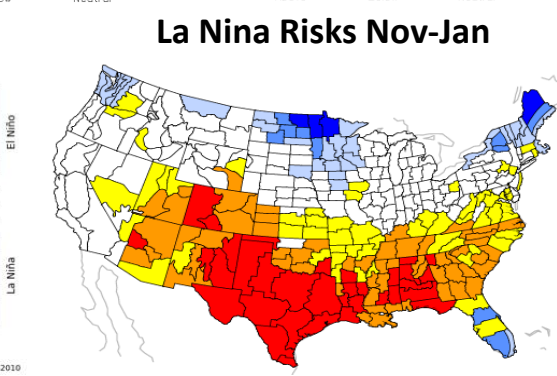
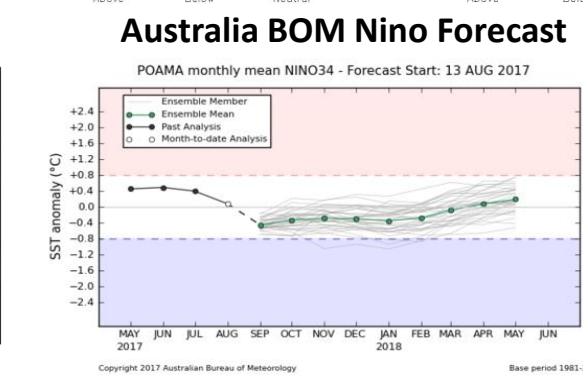
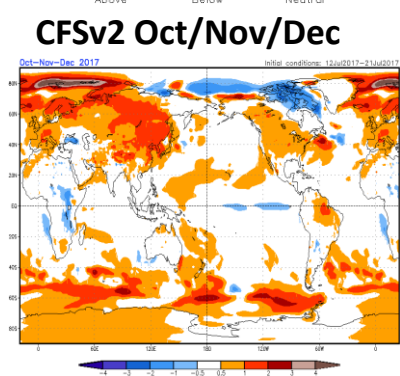
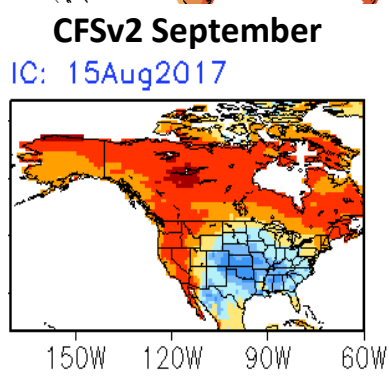
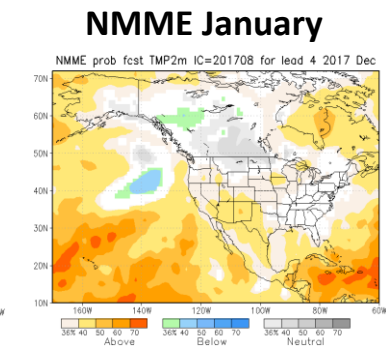
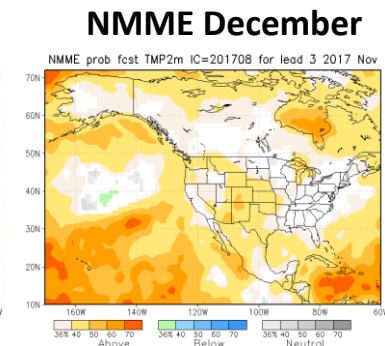
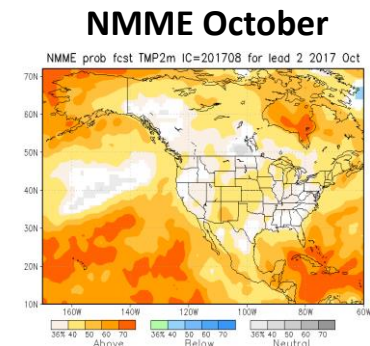
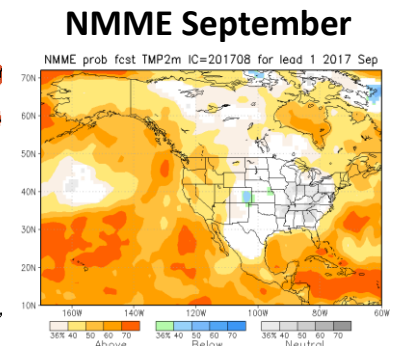
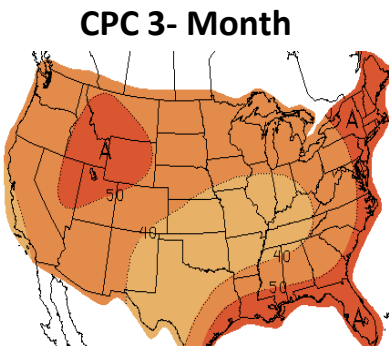
Seasonal Forecasting Trends: SLIGHTLY BULLISH

Key Takeaway: Climate guidance continues to have a warm bias through the winter that we have seen in past years, though the warm bias this year is not quite as strong. Meanwhile, the consensus for colder weather in September has increased on both our climate guidance and predominant analogs for the month.



Discussion

Weather risks through the next few months appear to be a bit more bullish than bearish despite the next few weeks beginning to shift back in a more bearish direction with cooler revisions to the end-of-August forecast. We see the CPC has a warmer bias across the country but feel like that is overdone, as CFSv2 climate guidance has been picking up on cooler trends for the September forecast through the entire month. The NMME has shown similar things, overcoming its large warm bias to show a few cooler risks in September, a feat we have not seen from the model in quite some time. Meanwhile, we continue to see enhanced convection across the Indian Ocean as a new pulse of the MJO may get started, meaning the tropics could get similarly active over the next few weeks and potentially months (though as this pulse propagates it could potentially limit tropical activity by increasing shear early in September). Two indicators worth watching at this time are the PDO and QBO; the QBO is trending negative for the first time in three years after its surprising cycle breakdown before last winter, and this could indicate a bit colder risk, though if the PDO trends neutral we may struggle to see as much of a sustained PNA in the pattern through the winter. Pacific uncertainty will likely be a theme through much of the winter.

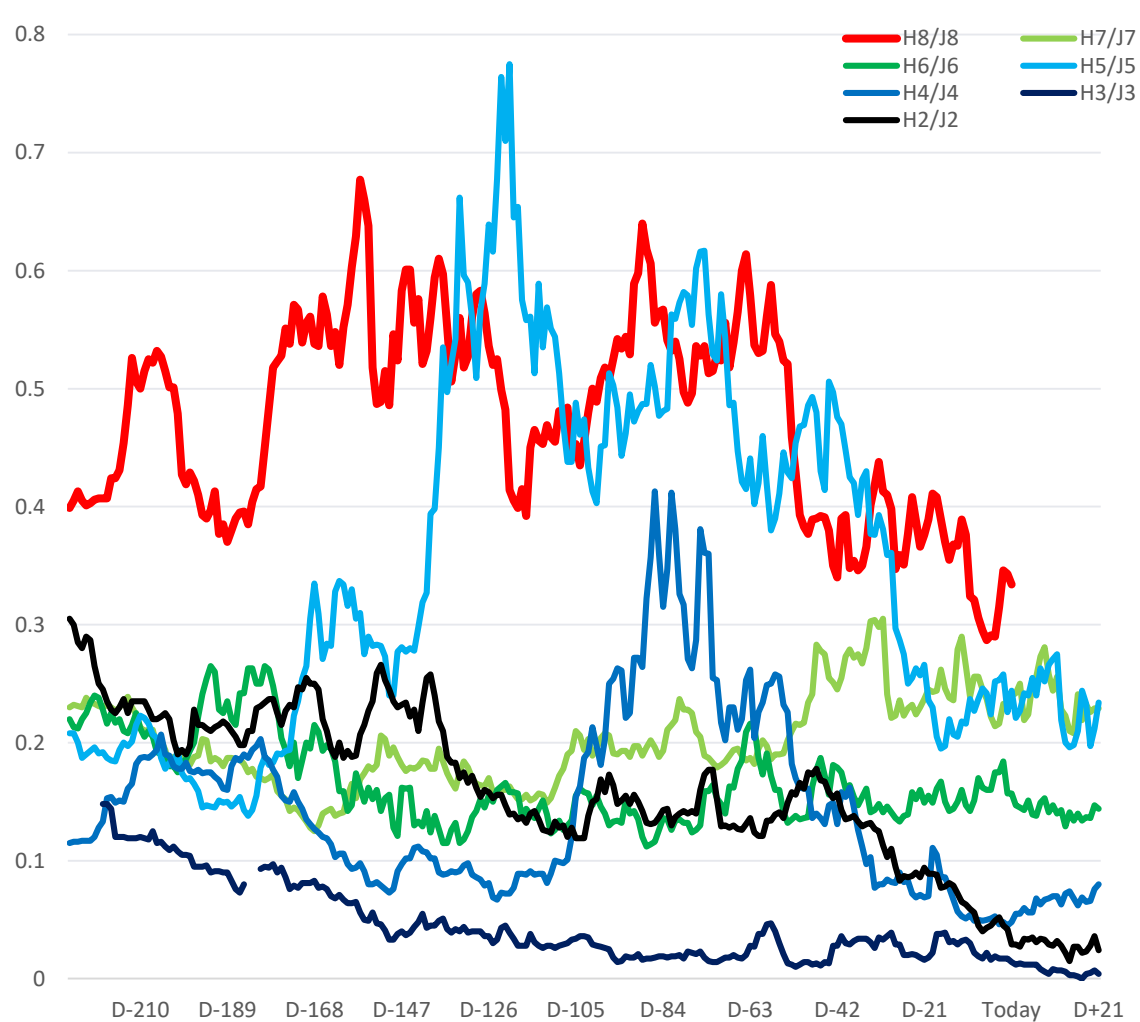




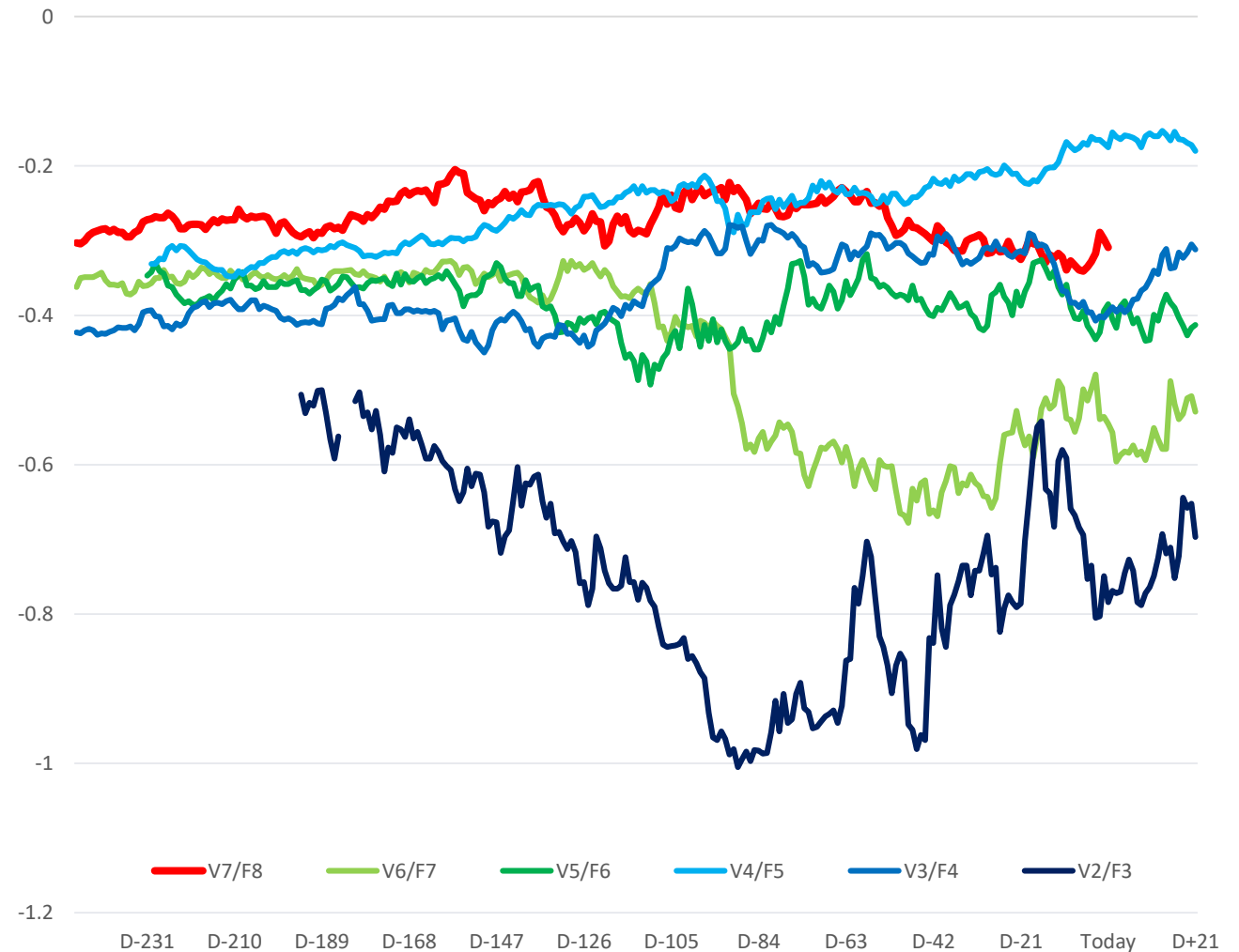
Spread Analysis: SLIGHTLY BULLISH

Key Takeaway: Using historical analogs one would expect the H/J spread to tighten, though this appears to be the one place where the natural gas market is not showing complacency towards winter cold risks. V/F spreads meanwhile seem to show traders are not especially concerned about mid-winter cold just yet.

Historic and Current H/J Spreads



Historic and Current V/F Spreads

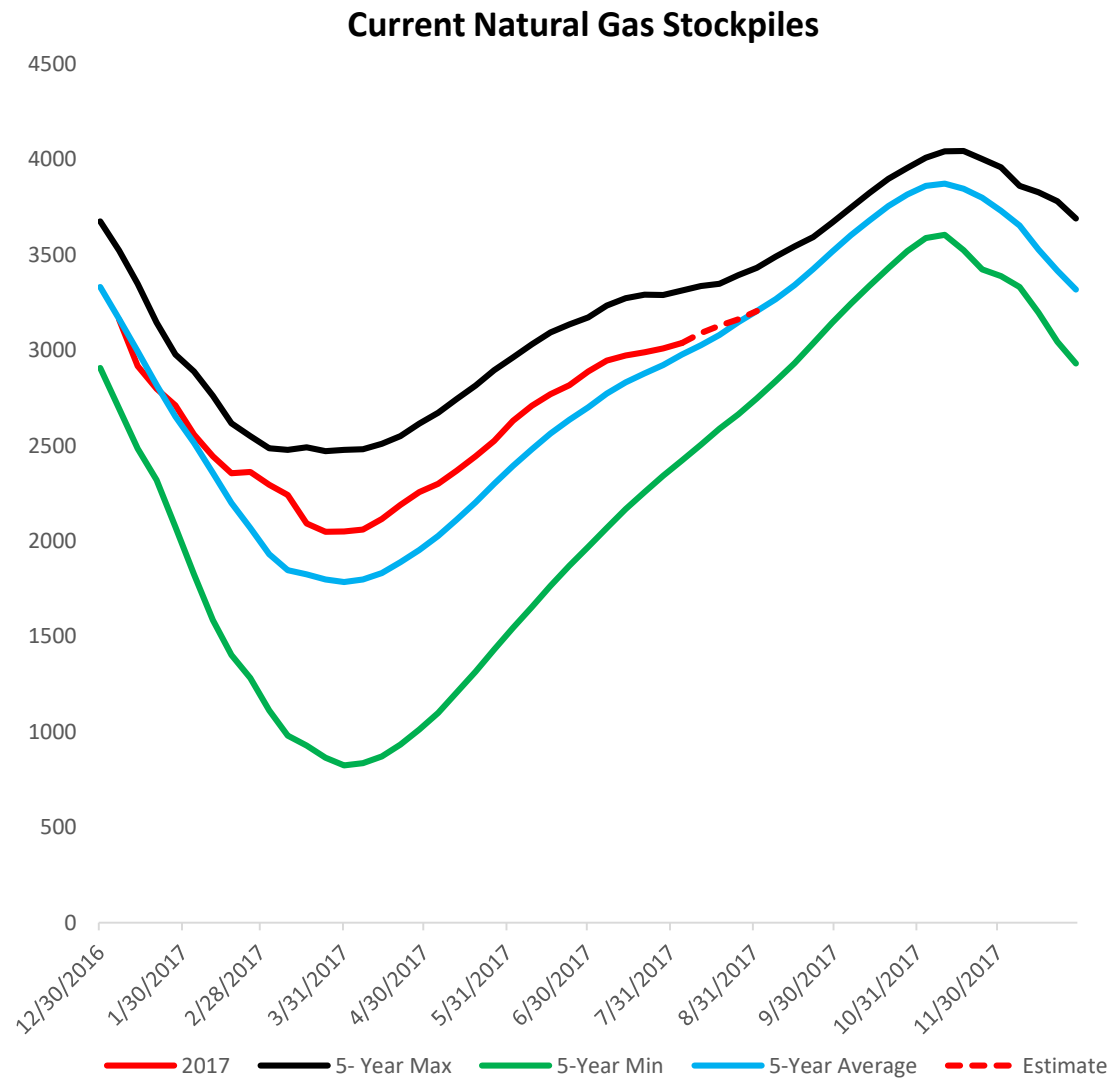
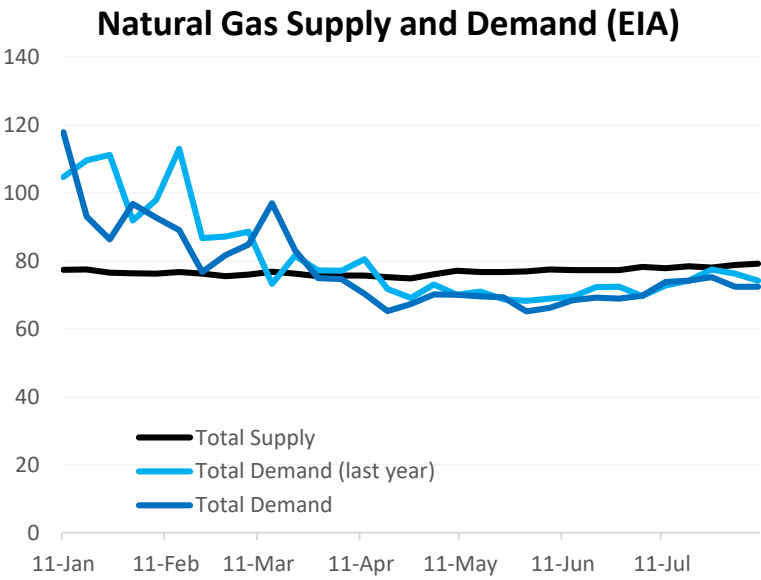




Seasonal Storage Analysis: MODERATELY BULLISH

Key Takeaway: We current forecast the natural gas market to be fully balanced by mid-September, as after a large storage injection on Thursday the next three should be below the 5-year average thanks to short-term heat. The result is shrinking EOS estimates, with ours remaining on the lower end of most analyst estimates.

ICE End of Storage Futures	3764
Previous ICE EOS Future	3769
4-Week Tightness Model	3485.64
8-Week Tightness Model	3489.84
12-Week Tightness Model	3866.43
24-Week Tightness Model	3894.65
Official BWS Forecast	3723



Discussion

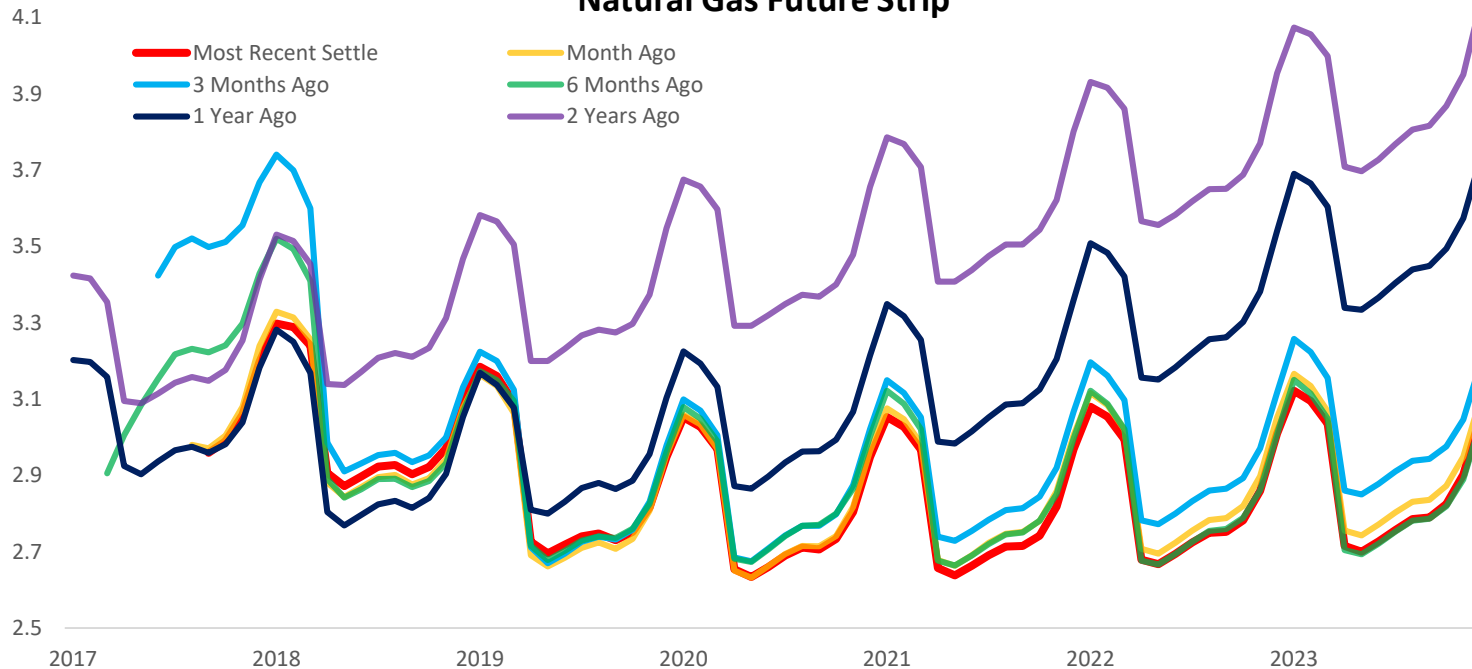
Our EOS estimate remains decently below the most recent ICE settle, though we remain in a similar range as the longer-range tightness models we hold show potential for market tightening to ease if weather does not cooperate as much. Still, given current forecasts for a colder September and October we see risk for peak storage levels to come in a bit below even what some of the more aggressive analysts are forecasting with normal weather. Of course, confidence is a bit below average here, and we can see that demand continues to lag behind the levels we were seeing with the more impressive heat last season. Additionally, Week 3-6 loosening in this model may be necessary with cooler trends to end August and bring in September, so we could see our EOS estimate tick up slightly if confidence in such forecast trends increase, but the market remains shockingly tight as we have seen with the EIA data the last few weeks. The result is that we are virtually guaranteed to walk into the winter withdrawal season with less gas in storage than average, and there is a risk that we could walk in with significantly less gas than average, leading to potential short term price spikes should temperatures surprise to the colder side for even a couple of weeks.



Seasonal Trade Ideas: LONG-SIDE BIASED

Key Takeaway: We continue to see prices for the winter and spring season as undervalued, which the market appears to finally be realizing at least in Spring 2018 as prices have risen over the past year. Most trade ideas therefore will look to capture the limited downside we see presented along the current strip.

Natural Gas Future Strip



Idea 3: Sell \$3.1 F8 Puts

This idea similarly looks to capitalize on the limited downside that we see for winter contract natural gas prices in the face of a very tight natural gas market and stockpiles primed to fall below the 5-year average. We will have to see production increase dramatically this winter or weather miss far more bearish than our forecasts indicate for January contract prices to fall below the \$3.1 level, while the upside is more apparent should colder than average weather arrive. More aggressive traders could consider purchasing calls around a similar level as well, positioning themselves within a market that currently has far more bullish risks than it did at the same time last year. We note that F8 was trading at almost the exact same level last year as well despite the market not realizing the tightness to arrive this summer, adding further support to this idea.

Idea 1: Long H/J

This idea looks to capitalize on the potential that the natural gas market has not yet priced in the potential for a colder than average winter as we walk into the winter season with stockpiles below averages. We note that this trade is higher risk-reward than usual, as already H/J is trading at significantly above average levels, but this appears to be for good reason. Should a sustained period of cold weather arrive at any point this winter, we could easily see this spread increase further as traders mull whether we will have enough gas in underground storage to last us through the winter and bring us to the spring season, as we are looking at the potential for shortages should weather miss on the bullish side.

Idea 2: Long X/J

As we head into the winter, we have decent confidence that October will be colder than average, limiting injection size as UGHDDs return in force across the country. The result likely will be a rally in prices near the front of the natural gas strip to price out baseload demand in the south and help ensure stockpiles either continue to grow or at the very least are not eroded. Meanwhile, such concerns are unlikely to impact later portions of the strip nearly as much, where supply concerns are (clearly) not as apparent. Some traders may opt to capitalize on our higher confidence in elevated weather-driven demand in this spread data for October.

The Longshot (Our Lowest Confidence Call): Long J8 \$2.8 Calls

Though much of our focus is on short-term trading calls and even trading spreads where we short J8 contracts, we see downside in J8 as rather limited. The market is rather tight, and already the contract is trading at decently lower levels than we are currently trading at. Though supply concerns will not press on the contract much, we are already seeing tightness support Spring and Summer 2018 contracts over the past year, and expectations that power burns will continue to increase each year could lead speculators to gradually bid up the strip a bit more over time as well. Confidence in this trade is lower, yet we see downside still as quite limited for a contract that has already remained stable in the face of front-end selling over the past few months.



Seasonal Update Disclaimer and Key

Bespoke Weather Services, LLC believes all information contained in this report to be accurate, but we do not guarantee its accuracy. None of the information in this report or any opinions expressed constitutes a solicitation of the purchase or sale of any securities or commodities.

Key:

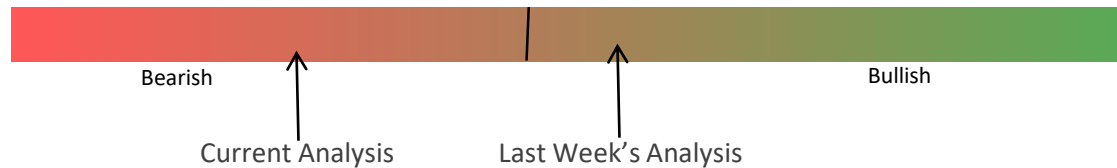
CFSv2: American climate model guidance

CPC: Climate Prediction Center

Analog: Previously occurring weather pattern that has similarities to the current one

GEFS: Global Ensemble Forecasting System, American modeling guidance

Teleconnections: Atmospheric indices that measure expected orientation both of upper and lower levels of the atmosphere (ie. MJO, NAO, AO, PNA, etc.)



MJO: Madden/Julian Oscillation, a measure of global convection (storminess) placement

GWDDs: Gas Weighted Degree Days (calculated by combining Population Weighted Cooling Degree Days (PWCDs) with Utility Gas Weighted Heating Degree Days (UGWHDDs))

EIA Forecasts: Our forecast for the weekly change in natural gas stockpiles, going out three or four weeks

Note: All above information is part of this informational key, and is not updated daily.