its lowest level since the tail end of 2021, while two large gas basins also hit new recent lows.

Rigs working in the natural gas-prone Haynesville Shale and Marcellus Shale both hit new low levels not seen since April 2021, the analysis found. The Haynesville dropped to 47, down three, while the Marcellus Shale fell to 23, down two,

Moreover, both oil and gas rigs fell during the week ended Aug. 9. Operators released six gas rigs, leaving 129 and also four oil rigs, leaving 583.

The Permian Basin was the only one of the eight US unconventional large plays that S&P Global closely tracks, that gained rigs for the week ended Aug. 9. The basin was up by three rigs to 329.

But most other basins lost rigs, with the Williston losing the most – down nine rigs to 28. The SCOOP-STACK decreased by two rigs to 30. The DJ Basin and the Utica remained steady at 18 and 12 rigs, respectively – each for the third week in a row.

Bottoming 'very soon' in Q3

The good news is that as rigs continue to fall – and they have been drifting down for most basins during much of 2023 – the bottom of the cycle inches ever closer, analysts say.

"The rig count keeps sliding, but commentary from all oil service companies is pointing to the rig count bottoming very soon in the third quarter," Piper Sandler oil services analyst Luke Lemoine said in an Aug. 14 investor note.

"Moreover, commentary from all suggests that Q4 activity could jump-start 2024 drilling plans," Lemoine said. "Using land driller guides as a proxy, [they] pointed to the Baker Hughes US land rig count bottoming at around 625."

As of the week ended Aug. 11, the Baker Hughes rig count was 636.

S&P Global's rig count is likely to trough in the low 700s, Rene Santos manager of North American supply and production, said.

"Since oil prices have gone up around 15% since late June, it is reasonable to expect that rig counts will bottom out soon and after that show a small increase coming primarily from private operators who are faster to react to changes in oil prices compared to public operators," Santos said.

Since early August, WTI oil prices have largely hovered in the low $80s/b.

"Also, [there is a] time lag between changes in oil prices and increase in rig activity – four-eight weeks – as it takes time to decide on having more rigs, contracting the rigs and moving them to new well locations," Santos said.

Rig count may gain 100 in 2024

Meanwhile, the upside is a toss-up, Lemoine said. "But at this point, we see it hopping into the low 700s" in 2024, he said.

Lemoine also noted the stated view of Cactus Wellhead, a provider of highly engineered pressure control and wellhead equipment and technologies, is for a trough in the "low 600s" by the end of Q3 for the Baker Hughes count, adding that Cactus' management "tends to be pretty accurate on the rig count."

In his company's Q2 conference call Aug. 8, Cactus CEO Scott Bender said that very scenario is poised to occur in the mid-to-latter part of the third quarter, after which time there will be "some stabilization."

"And ... we'll begin to see some increases, particularly coming from the privates who have suffered the most in terms of activity decline – and they always respond first," Bender said.

Assuming oil prices remain in the $78/b to $82/b range, upstream budgets will most likely reset a little higher, he said. "That will include ... increased activity from privates as well as from the larger players."

Lemoine also cited big North American land driller Precision Drilling which suggested during its Q2 conference call in July that "super-spec" or top-tier rigs were being sold out for 2024. That would imply a roughly rig count increase of about 100 from current levels, Lemoine said

— Starr Spencer

Analysts expect lower US gas prices, bearish market cues in 2024

- Supply growth in 2023 is triple that of demand
- Winter 2023-2024 gas prices trading under $4/MMBtu

Bearish sentiment in the US gas market could well persist into 2024 as high storage levels, slow incremental demand growth and strong gas production keep domestic gas prices under pressure, according to ConocoPhillips' senior market analyst, Matthew Henderson.

Speaking from the Energy Innovations: Rockies & West LDC Gas Forum in Denver Aug. 17, Henderson offered a candid year-in-review of the US gas market detailing how mild winter weather and strong production in 2023 have conspired to sink NYMEX Henry Hub gas prices to an average of $2.56/MMBtu and lift US inventories to a surplus that remains close to 300 Bcf this summer.

In a forward-looking segment, Henderson also warned of downward price pressure prior to the startup of incremental LNG feedgas demand from Golden Pass and Plaquemines LNG, which could start up as soon as late 2024. Even before that, he still sees some factors that could fuel price volatility in the months ahead.

Henderson isn't alone in his less-than-rosy assessment of the US gas market.

In its latest Short-Term Energy Outlook, the US Energy Information Administration predicted US Henry Hub gas prices to average just $2.56/MMBtu this year and only $3.22/MMBtu in 2024. In a recent short-term forecast, analysts with S&P Global Commodity Insights drew similar conclusions, pointing to high storage levels and a slow but steady rise in domestic gas production over the balance of this year.

Fundamentals

In 2023, US gas production has averaged nearly 101.3 Bcf/d so far, rising nearly 4.9 Bcf/d, or about 5% compared with the

same nearly eight-month period last year, S&P Global data shows. Despite recent cuts in the US gas-directed drilling rig count and a slowdown in new well starts and completions, output has continued apace this summer, trending near record highs at over 102 Bcf/d in July and August.

Demand growth, meanwhile, has trailed the gain in supply this year. Through mid-August, total US gas demand has averaged about 99.3 Bcf/d in 2023, up just 1.5 Bcf/d, or about 1.5 %, compared with the same time frame last year. While power burn demand has accounted for much of that gain — climbing about 2.4 Bcf/d this year — over two-thirds of the added demand has been offset by lower residential-commercial and industrial burns.

According to Henderson, LNG terminal maintenance and the outage at Freeport LNG are largely to blame for underperforming LNG feedgas demand this year, which is up just 750 MMcf/d compared with levels seen from January through mid-August 2022.

Volatility

As bearish fundamentals put a damper on the gas futures market — keeping winter prices under $4/MMBtu — Henderson pointed to at least two factors that could still drive price volatility over the next year. They are continued coal plant retirements and the failure to build new gas storage capacity in recent years. According to Henderson, both factors have made it more difficult for the US gas market to balance.

In the power generation market, coal-gas switching has long provided a balancing mechanism for the market, providing demand destruction when supply is tight and gas prices are high and incremental demand when the market is oversupplied and prices are low. As more coal plants retire, much of that capacity is also being replaced by non-dispatchable resources like wind and solar.

As LNG exports account for an ever-larger share of US gas demand, the absence of new storage capacity could also pose new challenges for the US gas market. While LNG exports typically remain rangebound throughout most of the calendar year, unscheduled outages and even maintenance can now thrust additional supply into the domestic market, similar to what was seen during the Freeport outage.

— J Robinson

Nearshoring an opportunity for Mexico, but energy to power it could be a challenge

- Mexico's power balance under stress
- Availability of natural gas limited
- More private industry participation desired

Mexico faces a great opportunity with nearshoring of foreign businesses, from companies that already have operations in Mexico looking to expand to others considering setting up shop in the country because of its low costs and easy access to the world's largest market.

But market participants and observers say that the window of opportunity will not be open for long and that the Mexico must solve some challenges, including its limited availability of natural gas and renewable energy in vast areas of the country.

Mexico depends on natural gas, mostly imported from the US, to produce energy and to fuel its industry. In June, imports from the US reached an all-time high of over 7 Bcf/d on nine days. Mexico also uses natural gas for its upstream and midstream sectors, utilizing it at oil wells to add pressure and at its refineries to produce fuel, although it mostly uses local production for this.

Natural gas demand in 2022 exceeded pre-pandemic levels and reached 8.4 Bcf/d on the back of strong demand from gas-fired power plants and industrial production. According to S&P Global Commodity Insights data, total demand for natural gas is expected to reach nearly 9Bcf/d in 2023, with the power sector expected to account for 58% of that.

Transmission infrastructure

Yet, availability of natural gas is limited to the industrial corridors created after the signing of the first North American trade agreement in the mid-1990s, independent consultant Rosanety Barrios told S&P Global. Nearshoring investors are likely to go to those areas, where services and infrastructure are already developed.

However, those corridors are saturated, and more infrastructure, particularly for transmission, is needed, said Barrios, who helped in the design of the current legal framework as a high-level official at the Energy Secretariat, or SENER, during the previous administration.

"Mexico is already in a sensitive position in terms of its power balance," Abraham Zamora, president of the Mexican Energy Association, or AME, said Aug. 16 during a virtual webinar organized by Coparmex, the country's employers association.

Mexico's installed capacity is roughly 90 GW, of which only about 60 GW is dispatchable, and this summer's peak demand has already reached 57 GW, Zamora noted, putting the system under alert. "This showed just how fragile the system is," Zamora said, adding that nearshoring will put an even greater stress on the system.

Calls for better planning

Market participants and observers see Mexico's situation as the product of poor planning.

SENER publishes a long-term energy sector outlook yearly. In its latest edition, published in May, it considers an average yearly growth rate of power demand of only 2.5% for the next 15 years, which does not consider the potential increases as a result of nearshoring, observers said.

"If nearshoring is not even considered in the official planning document, how can the country take advantage of the opportunity?" Barrios said.

The private sector should be allowed to participate more in planning in the sector and help the government identify where investments are most needed, observers say.