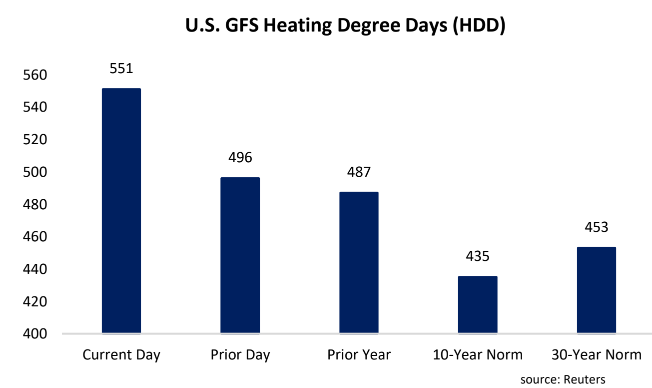
Cold Snap Catches Market Off-Guard

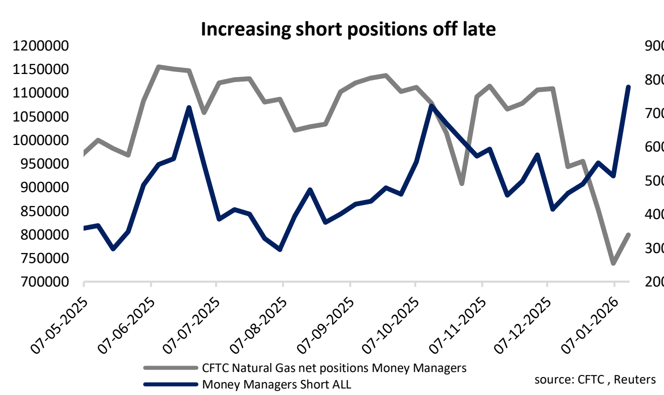
Natural gas prices have staged a sharp and sudden rally since January 19, rising nearly 38% in less than a week. Primarily an intense and unexpectedly severe Arctic cold snap across large parts of the United States, aggressive short-covering by speculative traders, and a sharp rise in weather-related risk premiums triggered the rally. While prices could extend further in the near term if cold conditions persist or intensify, the rally increasingly appears tactical and risk-driven rather than structurally fundamental, as supply, storage levels, and LNG export flows remain broadly stable.



Weather models shifted decisively colder over the recent weekend, calling for a deep Arctic outbreak affecting nearly two-thirds of the U.S. population. Forecasts indicate temperatures averaging 15–25°F below seasonal norms across the Midwest and Northeast, with more than 200 million Americans expected to face below-freezing conditions and increasing HDD's reinforces the view. Freeze warnings have extended unusually far south, including parts of Georgia and Florida. Peak cold is expected between January 23 and January 27, when national average temperatures are projected to hover near 21°F. This abrupt reversal followed a relatively mild winter and caught markets off-guard, forcing a rapid repricing of heating demand expectations.

LSEG projects that total U.S. natural gas demand, including exports, currently near 150 bcfd, is expected to rise sharply into the 168–177 bcfd range over the coming week as the late-January cold snap intensifies. Power-sector demand has also increased as weak wind generation has forced greater reliance on gas-fired power plants.

Regional grid operators, including PJM and MISO, have issued alerts warning of higher near-term power and heating demand, underscoring the strain on energy systems during the coldest period. Despite these pressures, U.S. production has not collapsed; Lower-48 output remains near record highs, with only localized risks of freeze-offs in Appalachia, Texas, and the Bakken.



The magnitude of the recent price move was largely amplified by market positioning. Speculative short positions had built up over recent weeks following a milder-than-expected winter, with successive weather forecasts failing to support prices. However, as prices began to rise, traders were forced to cover these short positions, triggering a short squeeze and accelerating the rally.

Despite colder weather, the broader supply backdrop remains supportive but not restrictive. U.S. production continues to run near historic highs, LNG feedgas flows remain steady at approximately 18.5–19 bcfd and storage levels remain above the five-year average even after recent withdrawals. Recent EIA data have also shown smaller-than-expected inventory draws, suggesting that while winter risk has increased materially, the market is not yet structurally tight. However, this week’s inventory draws could be significant considering the widespread of cold.

Weather risks are not confined to the United States. Forecasts across Northeast Asia have also turned colder, directly lifting heating demand expectations in key LNG-importing regions. Heating Degree Days (HDDs) in Northeast Asia are projected to exceed the 10-year average from January 21 onward, signaling stronger-than-normal heating demand. HDDs are expected to peak at roughly 27% above normal late in January, reflecting a meaningful increase in cold intensity. Even Europe is witnessing severe cold with storage levels well below historic norms at about 50 to 55%.

Looking ahead, forecasts indicate the core Arctic blast will peak between January 23–27, with colder-than-normal conditions potentially extending into early February. However, a large portion of this weather risk now appears priced in, given the over 50% surge in natural gas prices over the past three days. Beyond the said window, forecast confidence drops, with early indications of possible moderation later in February. Historically, once peak cold is priced into the market, natural gas prices often lose momentum quickly unless colder risk re-emerges. Upcoming NOAA weather outlooks and major weather model updates will therefore be key in assessing the durability of the rally.

While the broader trend remains positive, we advise some caution after the recent sharp rally, with further direction likely to be driven by upcoming weather and inventory updates. If forthcoming forecasts continue to signal an extension of the cold snap or an intensification of colder conditions, the rally could extend further. The next NOAA update, scheduled for 23rd January, along with U.S. inventory data updates, should offer greater near-term clarity following the strong price move.

On the technical front, key support for the next contract is seen in the 290–275 zone, while resistance is placed near 330.

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