Natural Gas Quarterly Report

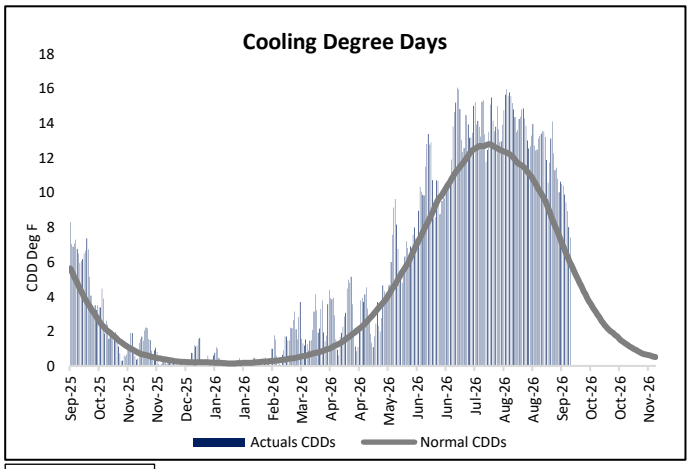
After remaining largely range-bound through the last quarter, natural gas prices broke higher in the final weeks of September, with Henry Hub Natural gas prices gaining around 15% from recent lows. While stronger US LNG demand continued to create a decent base for prices, growing US prodcution coupled with the recent Cove Point outage (an LNG export terminal located) temporarily removing around 0.85 Bcf/d of feedgas demand kept the prices in check in the earlier weeks of the month.

The recent upswing was triggered after a pipeline disruption in Appalachia on September 24 forced TC Energy to declare force majeure, restricting around 1.8 Bcf/d of gas flows. The outage reduced the amount of Appalachian gas reaching major U.S. markets, adding near-term supply tightness and triggering short-covering in futures. Repairs are underway, but with no firm timeline for a full restart.

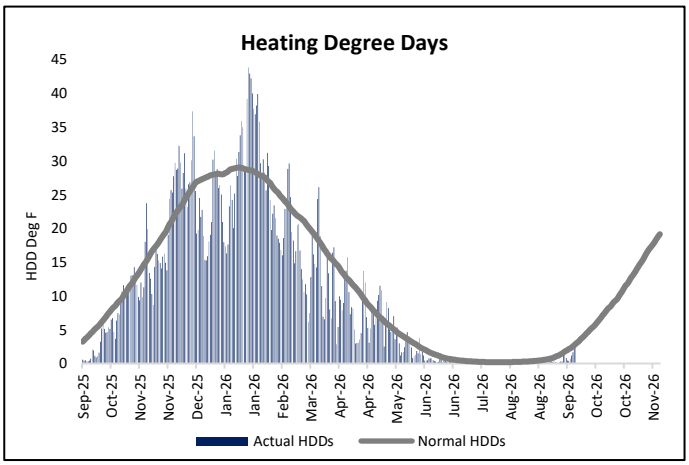
Together, firm LNG demand, temporary pipeline constraints and some improvement in weather expectations shifted the near-term balance in favour of prices. However, the breakout failed to sustain, with prices now back around the $3/MMBtu mark as the initial supply shock fades and the market refocuses on underlying fundamentals. While the LNG element has been in play for a while now, the outage remained a temporary support.

The key question now is whether the cool snaps mark the beginning of a winter rally or if it is still too early to call. Historically, September remains a cooling-demand month, while October acts as a shoulder period, with cooling demand fading before heating demand picks up meaningfully. This seasonal gap can potentially limit further gains, even when the underlying supply-demand balance remains constructive.

A storm system brought chilly air to the East Coast and cool shots through the Midwest, potentially the first **meaningful uptick in near-term heating-degree-day (HDD) forecasts** which also acted as a fresh catalyst. The uptick in HDDs was real and encouraging, but it comes against a medium-range weather outlook that remains uncertain. The gradual transition into winter could act as a near-term headwind if heating demand takes longer to build, particularly if the recent upward revisions in winter HDD projections fail to sustain with the similar intensity.



Source: LSEG

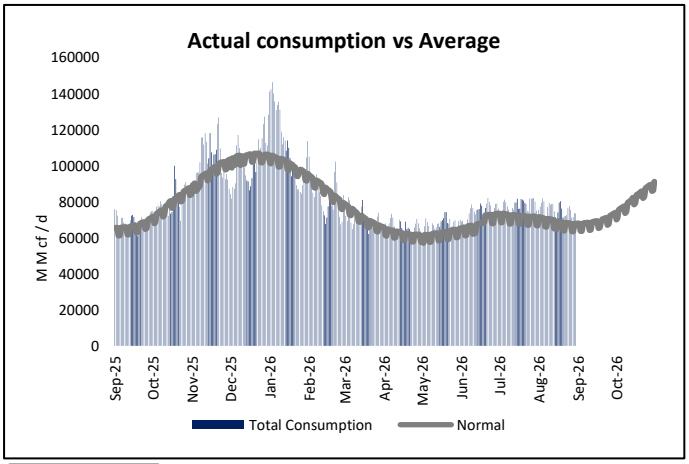


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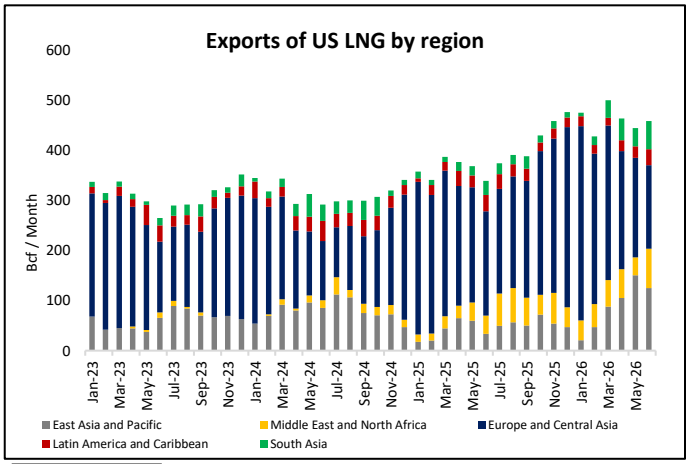
El Niño caveat: The biggest headwind to the winter natural gas outlook is the risk of a much warmer-than-normal winter from an unusually strong El Niño. NOAA puts the probability of a "very strong" El Niño at above 90%, while the WMO expects the event to peak in early 2027; NOAA also assigns a 75% probability that the October–December period could rank among the strongest El Niño events on record. Reuters notes that such an event can significantly alter temperature and rainfall patterns, raising the risk of warmer conditions across parts of the Northern Hemisphere.

For natural gas, the implication is straightforward: fewer heating degree days (HDDs) would weaken winter heating demand, slow storage withdrawals and leave more gas in inventories. This risk is particularly important because U.S. production remains near record levels, leaving less room for a weather-driven tightening of the balance. However, with U.S. LNG exports absorbing a growing share of domestic gas supply, any prolonged spell of above-normal heating demand could tighten the balance rapidly during peak winter. Sharp cold snaps therefore remain a key upside risk, with the potential to trigger elevated price volatility and keep near-term risks skewed to the upside.

Growing US Production & LNG exports



Source: LSEG



Source: LSEG

Even as US gas output hits record heights, a tight market persists as expanding domestic consumption and LNG export pulls continues to maintain the balance. LNG feedgas demand remains the clearest structural floor under this market. September flows have averaged 18.0 Bcf/d, up from 17.2 Bcf/d in August, even with Cove Point (0.8 Bcf/d) and one of Cameron LNG's three trains offline for planned maintenance, strength that implies underlying demand elsewhere is running higher still. More capacity is also on the way: Golden Pass is still ramping up after shipping its first cargo earlier this year, Corpus Christi Stage 3's remaining trains are being brought online through 2026, and Plaquemines Phase 2 continues its own ramp-up, together pushing total US LNG export capacity toward roughly 19 Bcf/d by year-end.

Behind all of this sits an extraordinary international price gap: TTF and JKM are both more than double their 2025 average levels, driven by the Qatar LNG capacity cut tied to the Iran-Israel conflict and Strait of Hormuz shipping risk, wide enough to keep pulling US cargoes to export docks largely independent of domestic weather, and likely to persist even if tensions ease, since rebuilding Qatari volumes and European storage will take longer than a single quarter.

Production: The latest daily reading of 109.8 Bcf/d is an 11-week low, but a single observation does not indicate a change in trend. U.S. output remains near record levels and is expected to stay elevated to meet growing domestic and LNG demand. The recent Appalachian outage could temporarily constrain regional production, with no confirmed timeline for full restoration. However, unless lower output persists for several weeks, we view this as a temporary supply risk rather than a structural tightening. A sustained decline below the 30-day average would prompt us to reassess the winter balance.

What Could Move This Market

Could push prices higher	Could stop the rally
Cove Point & Cameron LNG return from maintenance in early October, lifting feedgas back toward/above 18.8 Bcf/d	Weather models revise HDDs lower again, reversing the recent uptick
HDD forecasts close the gap to normal on consecutive updates, not just a single print	September's production average confirms the daily dip was a blip, not a trend
Storage surplus keeps narrowing toward a deficit	A Qatar/Middle East de-escalation narrows TTF/JKM premiums
Production's September average (currently a record 112.9 Bcf/d) actually rolls over for several weeks	Storage surplus stabilizes or widens back toward the 5-year average
A sharp cold snap despite the milder El Niño base case	NOAA confirms a broadly mild Midwest/Northeast winter

Outlook

Over the next two to three weeks, natural gas is likely to remain volatile as the market moves through the seasonal shift from cooling to heating demand. The late-September pipeline outage, which temporarily affected around 1.8 Bcf/d of transportation capacity, triggered a sharp rally by tightening near-term supply. However, that disruption is now being absorbed by the market, bringing the focus back to production and weather. The latest NOAA Week 3–4 outlook (release on 25th Sept, 2026) favours above-normal temperatures across much of the western U.S. and Gulf Coast through October 10–23, pointing to a slower start to heating demand. **With U.S. production still near record levels, this warmer outlook could limit near-term demand and weigh on the prices in the near term.**

The recent rise in HDD forecasts is encouraging, but one colder forecast is not enough to establish a sustained winter trend. The key signal will be whether HDDs continue to move higher across successive forecasts and begin to close the gap with normal levels. Until then, the market is likely to remain sensitive to weather revisions and short-term supply changes. Beyond the near term, the fundamentals remain supportive. U.S. LNG demand is firm, European inventories remain below seasonal levels with the market is gradually moving toward the winter withdrawal season. The main risk is the October shoulder period, when cooling demand fades before heating demand gains momentum. This temporary demand gap could lead to periods of weakness and sharp pullbacks, even if the broader winter balance continues to tighten. As long as the storage surplus keeps narrowing, such dips would largely reflect seasonality rather than a deterioration in the underlying market.

The market should gain greater clarity on the winter balance as weather models develop better visibility into October and November. If heating demand strengthens as expected while LNG exports remain firm, the U.S. gas balance could tighten materially during the winter, creating room for a stronger price move. We see Henry Hub moving toward the $5.1/MMBtu range, with a sustained break below $2.40 invalidating the bullish view. For MCX Natural Gas, the prices could potentially move towards ₹500, while a sustained break below ₹240 would negate the bullish view for the year.

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