

What's Hot: Record US temperatures could drive natural gas demand higher

Publié le 21 juin 2024

Nitesh Shah

Head of Commodities and Macroeconomic Research, WisdomTree Europe

Points clés

- Swathes of the US are suffering from a heatwave and air conditioning demand is rising.
- New England saw an uptick in electricity and natural gas demand as a result of extreme heat.
- As the heat wave spreads, we expect more demand for natural gas.
- LNG shut-in risks have fallen as Storm Alberto has been downgraded to a depression, reducing the prospect of natural gas gluts forming.
- Weather extremes are getting more common and prolonged, and so we should expect more of these events to come.
- Related Products [WisdomTree Natural Gas](#), [WisdomTree Natural Gas 3x Daily Leveraged](#) Find out more

Record temperatures hit the North East

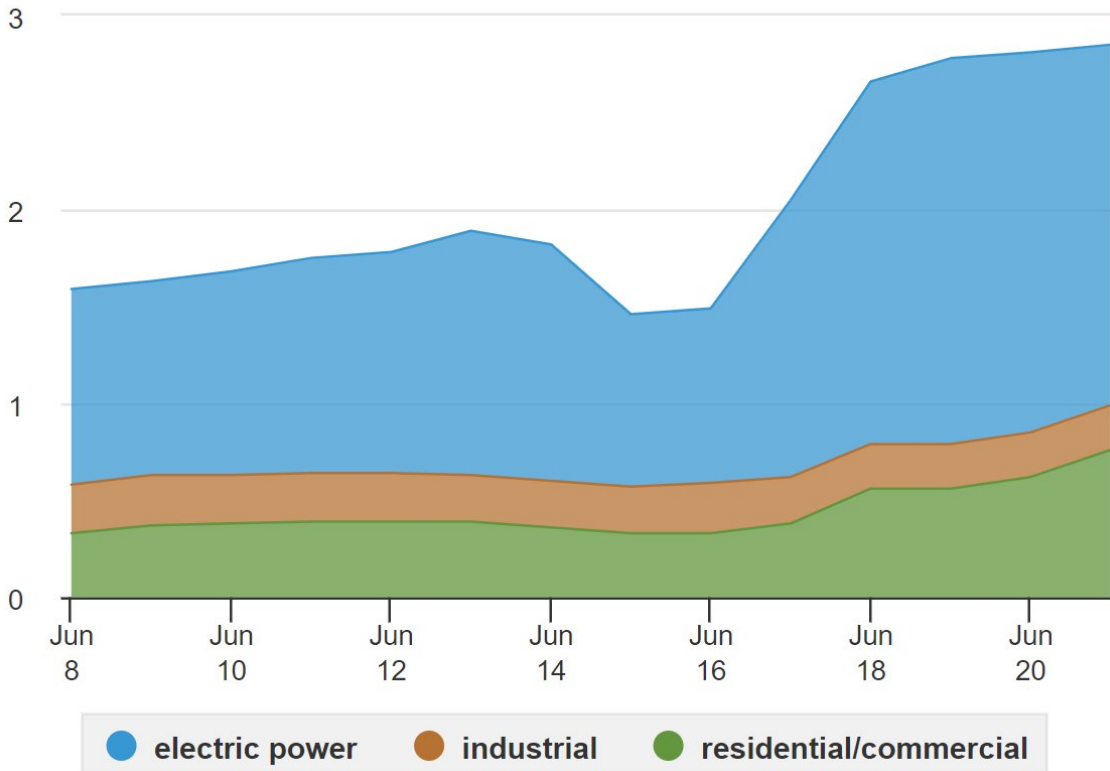
The United States continues to suffer extreme weather as a heatwave baked millions across the upper Midwest and north-east and a tropical storm soaked Texas and northern Mexico.

The National Weather Service said the heatwave was expected to peak in the eastern Great Lakes, New England, the Ohio Valley and mid-Atlantic over the weekend of 22-23 June.

Air conditioners use electricity and 43% of US electricity is generated from natural gas¹. New England gas demand increased by more than 50% between Sunday 16th and Thursday 20th June (Chart 1). Over that period spot natural gas prices for the region doubled (Chart 2).

Chart 1: Natural gas consumption in New England

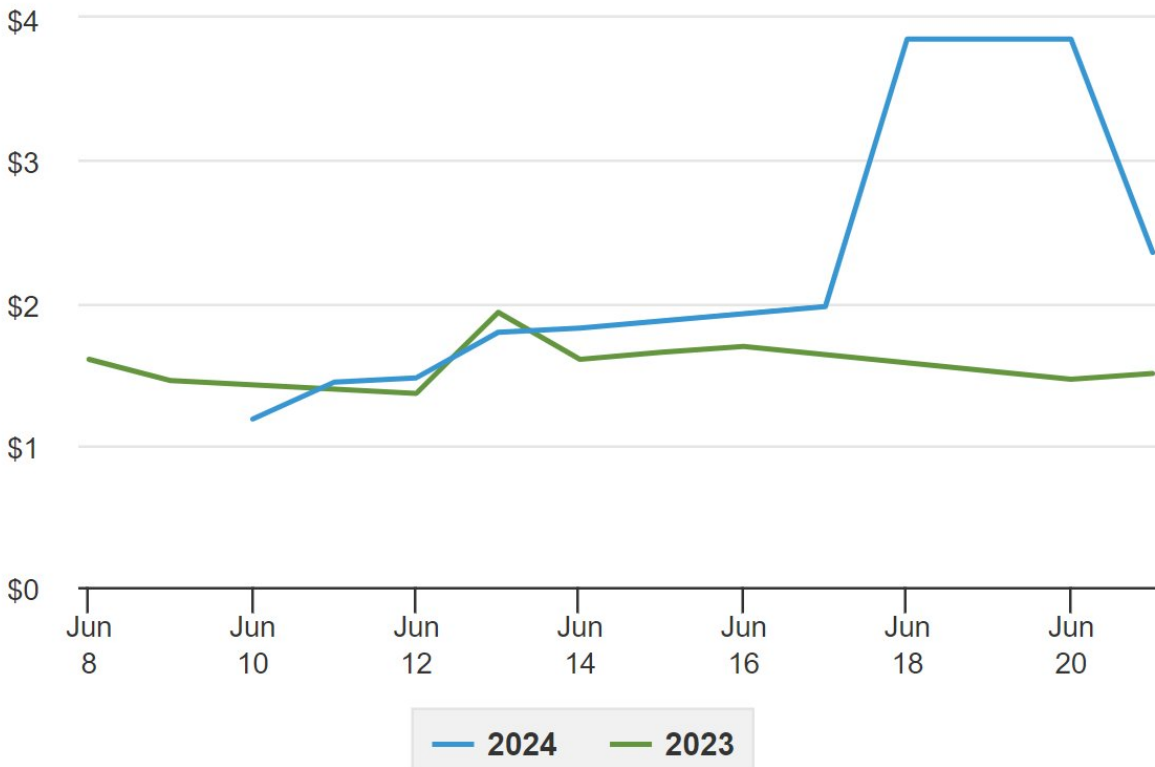
billion cubic feet per day (Bcf/d)



Source: Energy Information Agency, 21 June 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Chart 2: Spot price of natural gas in New England

dollars per million British thermal units



Source: Energy Information Agency, 21 June 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Heatwave spreading

As the heatwave moves south and inwards, afternoon high temperatures and warm overnight lows will challenge and exceed daily records for many locations in the Ohio Valley eastward. Heat index readings are expected to peak from 100°F to 105°F in many locations, and Heat Advisories are in effect from Ohio to New Jersey.

Keep air conditioners blowing

The National Weather Service advised “those without access to reliable air conditioning are urged to find a way to cool down as very warm overnight temperatures (only in the 70°Fs) will prevent natural cooling and allow the heat danger to build over time indoors without air conditioning”. In short, they have advised those with air conditioning to keep it on! We thus expect a surge in natural gas demand from the moving heatwave. That in turn should drive natural gas as an energy source for power generation higher.

Although cooler air will filter into northern New England behind a slowly-moving cold front, temperatures south of the boundary will soar into the weekend. These temperatures may be the highest observed in several years for some locations. In much of the West (West Coast and Great Basin/Desert Southwest),

temperatures will continue to heat up each day with 90°F s and 100°F s. Some daily record highs may be challenged in Northern California into Oregon.

Heat stress to crops could also follow. The United States Department of Agriculture is expecting topsoil moisture declines due to dry heat.²

Shut-in risk reduced

In the Gulf of Mexico, tropical storm Alberto (the first named storm of the season) has been downgraded to a depression. While wind and flooding affected southern Texas, the Bureau of Safety and Environmental Enforcement has not reported any oil or natural gas liquification plant closures.

Often hurricane activity can force closures, shutting in natural gas and thus increasing supply. The avoidance of this risk this time, reduces a potential weight on gas prices.

Conclusion

Weather risks continue to drive volatility and price spikes in certain commodities. We expect tactical upside potential for US natural gas. Interestingly a study in Sciences Advances³ concludes since 1979, global heat waves are moving 20% more slowly — meaning more people stay hot longer — and they are happening 67% more often. The study found the highest temperatures in the heat waves are warmer than 40 years ago and the area under a heat dome is larger. We should expect weather related volatility as a result.

1 Source: Energy Information Agency, 2023

2 <https://www.usda.gov/media/radio/daily-newsline/2024-06-20/topsoil-moisture-declines-due-dry-heat>

3 <https://www.science.org/doi/10.1126/sciadv.adl1598>

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.