

EBB AND FLOW OF NATURAL GAS COMMODITY MARKET

Transparent natural gas commodity market reflects supply and demand, effect of shale gas

The transparent natural gas commodity market provides a clear view of the stabilizing effect of shale gas. The chart below tracks price changes in the commodity futures market for six different commodities, including natural gas. The chart chronicles the transformation of U.S. natural gas supply that began in 2008, the year that natural gas produced from abundant shale formations first arrived on the market in large volumes.

As supply has grown, natural gas prices in both the physical and the financial markets have steadied and dropped. In comparison, the other commodities that are traded in large volumes on the futures market continue to show significant upward and downward price swings.

The U.S. natural gas market offers an exceptional amount of timely and widely available information about physical and financial transactions. This transparency strengthens competition and provides natural gas market participants with more facts than any other commodity market, contributing to informed decisions that benefit consumers.

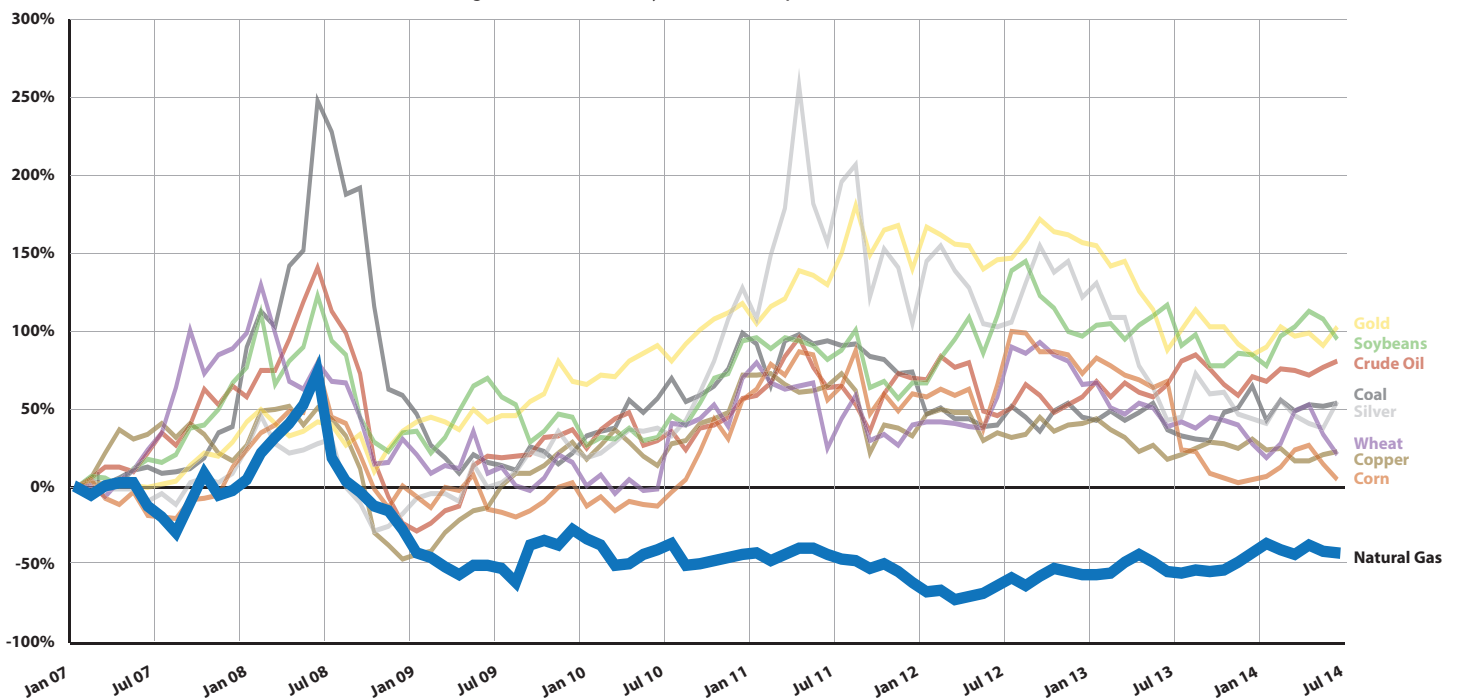
There are two distinct markets for natural gas: the physical market and the financial market. They are separate but linked.

Financial Market: In addition to physical transactions, natural gas is traded as a commodity for future delivery between one and 36 months from the present. These “futures” contracts are used by both buyers and sellers as tools to reduce risk and to promote market liquidity. Transactions in the futures markets rarely involve the actual physical exchange of natural gas, instead futures contracts are liquidated by offsetting a future obligation to sell natural gas with a future obligation to buy natural gas. Over time, the physical and financial markets converge.

Physical Market: The daily market where natural gas is bought and sold for physical delivery today or in a matter of days is the spot market. To get the current price of natural gas, we look to the spot market. It is characterized by thousands of participants making transactions at numerous locations, with one-third to one-half of these volumes reported to price publishers. This system of price formation and discovery is unique to the U.S. natural gas market and contributes substantially to competitive pricing and transparency. (*Price Transparency in the U.S. Natural Gas Market*, William P. Albrecht, 2009)

Comparison of Commodities Shows Stabilizing Effect of Shale Gas

Changes in CME monthly settlement prices Jan 2007–Present



2014

