



Forget Crude: Get Ready for the Natural Gas Boom in 2017

Description

Natural gas has been caught in a concerted slump for years, and despite declining yet again last month, there are signs that the outlook could improve dramatically during 2017. Some analysts are predicting that it could be the start of a multi-year natural gas boom that would significantly benefit Canada's beaten-down natural gas producers.

There are a number of signs that confirm that this could certainly be the case.

Now what?

An increasingly important driver for the growing demand of natural gas is its use in the production of electricity.

You see, the demand for base load power is swelling, particularly in Asia where the economies of India, Indonesia, and China are rapidly expanding and modernizing. It has been estimated by the International Energy Agency that India's installed electricity-generating capacity alone will almost quadruple by 2040.

One of the cheapest and most reliable forms of delivering base load capacity is coal-fired power generation. It was the growing demand for coal-fired electricity that was a crucial reason for the surge in thermal coal prices during the second half of 2016.

However, concerns over global warming and the need to slash greenhouse gas emissions are creating considerable pressure for coal-fired electricity to be phased out. That pressure has increased significantly since the introduction of the Paris climate change agreement, which seeks to reduce global warming to less than two degrees Celsius.

Under such requirements, it is almost impossible for coal-fired electricity to operate within the required parameters.

Meanwhile, most renewables, such as wind, solar, or hydro, have been found to be incapable or highly unreliable of meeting base load demand.

It is here that natural gas steps in.

Not only is it a reliable producer of base load electricity, but it has significantly lower emissions than coal. The U.S. Energy Information Administration states that natural gas emits almost half of the carbon dioxide of coal.

Clearly, as Asia's demand for base load power grows, the demand for natural gas across the region will explode. This coupled with many developed nations, including Canada, focusing on phasing out coal-fired electricity will add to the marked increase in demand for natural gas.

One company that has shown how important natural gas is as a more environmentally friendly means of generating base load power is renewable energy company **Northland Power Inc.** ([TSX:NPI](#)). Of its installed capacity of 1,394 megawatts, over 70% is generated by natural gas-fired facilities.

One of the best-positioned energy stocks to take advantage of the expanding Asian demand for natural gas is **Husky Energy Inc.** (TSX:HSE). It has considerable natural gas-producing assets located in the South China Sea and the Madura Strait in Indonesia. Importantly, they have fixed-price agreements in place in which the sale price for the natural gas produced is higher than the market price.

This isn't the only reason natural gas will shine in 2017.

Analysts also expect that North American demand will rise, the surplus of stored natural gas in the U.S. will decline, and that it will take some time for the shale oil and gas industry to ramp up production. This is because many drillers have yet to recover from the prolonged slump in crude and natural gas, so it will be some time before they can ramp up production.

So what?

These factors make now the time for investors to consider upping their exposure to natural gas with any sustained rally, giving the bottom lines of gas producers a healthy bump. One company to benefit is **Encana Corp.** (TSX:ECA)(NYSE:ECA) because 65% of its total production is composed of natural gas.

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Author

mattdsmith

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