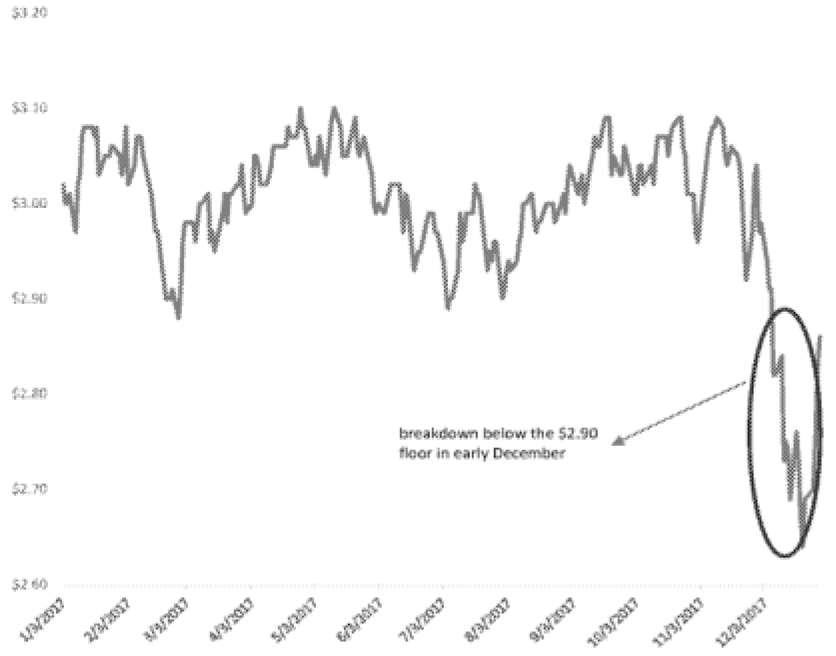
production growth (discussed below), winter demand plays a big role in maintaining balance in the market. Consequently, in early December, the 2018 gas strip broke down below the $2.90 floor maintained throughout the year, touching a low of $2.69 in mid-December. Since then, winter has revived and has been especially strong in the Northeast and Midwest, leading to a bounce back in gas prices to $2.86 by the end of the year. However, with another three months to go for end of the withdrawal season, the volatility underlines the downside risks to the 2018 gas market driven by an unpredictable heating demand.

Figure 15: Nymex natural gas 2018 strip



Source: Bloomberg Finance LP

NE takeaway capacity expansion sets 2018 production growth surge

A key reason for subdued production in the last two years has been the slowing momentum in the prolific Appalachian basin as takeaway capacity in the region failed to keep pace with production growth. With over 12 Bcf/d of additional takeaway capacity potentially coming online during 2018, the base case thesis for 2018 had always been one of renewed momentum in the basin. However, this has also been accompanied by uncertainty over what the pace of growth would be, considering execution risks that come with infrastructure buildouts. As we move into 2018, these concerns are steadily being addressed - as per EIA, ~4 Bcf/d of new capacity has come online between July and mid-November and another ~4 Bcf/d of additional capacity is expected to be operational by the end of Q1-18 (see chart below), including the 1.5 Bcf/d Leach Xpress and Phase 1B (1.40 Bcf/d) and Phase 2 (1.15 Bcf/d) of Rover.