

Kissler: The Here and Now

Future AI and LNG demand won't support the current low prices of natural gas.



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At first glance, it appears counterintuitive that U.S. natural gas prices have been falling since their winter highs in early March.

Most people have expected LNG exports and the rapid buildout of gas-fired power for AI data centers to increase demand for natural gas, which in turn should support higher prices. Instead, Henry Hub has drifted back toward—and, as of this writing, now well below—the \$3 level.

The explanation is a growing disconnect between near-term fundamentals and longer-term demand growth.

In sum: while future consumption stories remain compelling, today's pricing is being driven by what the market can see, measure and balance right now—and those factors aren't currently supporting higher prices. After all, in the near term, the natural gas market is well supplied, weather risk has faded and storage concerns have eased faster than many expected.

Winter Premium

Natural gas prices peaked on extreme weather risk, with prices in the last week of January just over \$7.80 for front-month Nymex futures. January's cold snap briefly tightened balances, drove large storage withdrawals and introduced fears of prolonged supply disruptions. Well freeze-offs were not confined to traditional cold zones either, extending as far south as the Permian Basin in West Texas and reinforcing the market's sense of urgency.

However, that fear proved short-lived. As winter progressed, temperatures moderated materially and then turned warmer than normal. Heating demand fell sharply, and with it, the weather premium built into prices dropped. Once the cold risk disappeared, there was little fundamental support left to sustain elevated price levels.

By late March, the market exited winter with inventories within single-digit percentages of the five-year range, not meaningfully undersupplied. Without a persistent weather threat or a structural shortage, prices quickly retreated, reflecting a market that had overpaid for risk that never fully materialized.

Production Rebound

If weather removed one pillar of price support, domestic supply removed another.

U.S. dry gas production returned quickly

after the January freeze-offs and has pushed back toward record levels above 111 Bcf/d. The speed of this recovery was critical. What could have been a prolonged tightening event instead became a brief disruption, quickly absorbed by robust output.

Even more important is the role of associated gas. Higher crude oil prices have continued to incentivize oil-directed drilling, particularly in the Permian Basin. As oil production rises, natural gas output comes along with it. This dynamic has kept supply flowing even as prices weakened.

The result has been persistent oversupply at key production hubs. Waha basis levels, in particular, have moved deep into negative territory, reflecting both strong production growth and ongoing infrastructure constraints.

With ample supply available and no looming shortage, storage has shifted from a bullish anchor to a neutral—or even mildly bearish—factor for prompt month pricing. In the front of the curve, this reality matters far more than distant demand forecasts. Traders focused on near-term balances see little reason to pay a premium when storage levels suggest comfort rather than constraint.

AI Power Demand is Not Immediate

The excitement surrounding AI-driven electricity demand is real, but it remains largely a forward curve story rather than a spot market catalyst. Major AI data center gas projects from Microsoft, Google and Meta are real, but construction timelines, turbine shortages and interconnection delays mean most of that gas burn will arrive in 2027-2030, not spring 2026.

From the market's perspective, that demand is not imminent enough to tighten today's balance.

This timing mismatch explains the structure seen in the futures curve. From a trading standpoint, steep contango often acts as a quiet, bearish signal for near-term prices.

Excess supply today forces storage and defers value into the future, pressuring prompt-month contracts even while long-term narratives grow more constructive.

In that sense, the hype surrounding AI and LNG can paradoxically weigh on current pricing. Simply put, the energy market agrees that demand growth is years away, so it has become more comfortable discounting present-day barrels. 