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Horizons

Defying gravity

Why US Henry Hub natural gas prices are set to rise

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A relentless wave of productivity gains, capital investment and low-cost supply has made the US Henry Hub gas price one of the global energy market's most stable benchmarks. Over the past decade, average annual prices have rarely moved outside a relatively narrow nominal range of US$2 to US$4/mmbtu.

Cheap Henry Hub gas prices have provided a huge competitive advantage in underpinning the massive buildout of US liquefied natural gas (LNG) export infrastructure and the expansion of gas-fired power generation that is now supporting AI-driven data-centre growth across the country. The price at which Henry Hub trades is increasingly critical for the future competitiveness of the US economy and US LNG exports.

We believe Henry Hub is now entering a new era. Over the next decade, we forecast a sustained increase in Henry Hub prices – approaching a real US$5/mmbtu by 2035 - as gas demand surges across the power, industrial and LNG export markets.

At the same time, the highest-quality acreage for gas production will continue to deplete as US Lower 48 production matures, technology, supply-chain and operational gains have been tapped, and companies holding the best acreage remain committed to pursuing capital discipline. In many areas, technology gains are plateauing and a deceleration in oil-directed drilling is reducing sources of associated gas from the supply stack.

On this basis, our forecast of a higher – though still globally competitive – Henry Hub price stands up to scrutiny. There are, of course, risks to our view and, indeed, many have already challenged it. In this month's Horizons, therefore, we lay out the key drivers of Wood Mackenzie's Henry Hub price outlook and examine other possible outcomes. And despite the risks, we maintain our view that Henry Hub natural gas prices are set to rise.

We believe Henry Hub is now entering a new era

The structural case for higher Henry Hub prices

After more than a decade of comparative stability, the US Henry Hub gas price is set to rise. Multiple factors have emerged in recent years that contribute to our stronger Henry Hub forecast. The demand story is straightforward and compelling, while the supply story is more nuanced.

Demand

US gas demand growth

Instead of simply absorbing supply, the US gas market is hungry for more. Power sector load is surging, driven by data centres and artificial intelligence (AI) investment, necessitating even more gas-fired generation to support it – to the tune of an extra 17 bcfd by the mid-2030s, an increase of nearly 50% from 2025 levels.

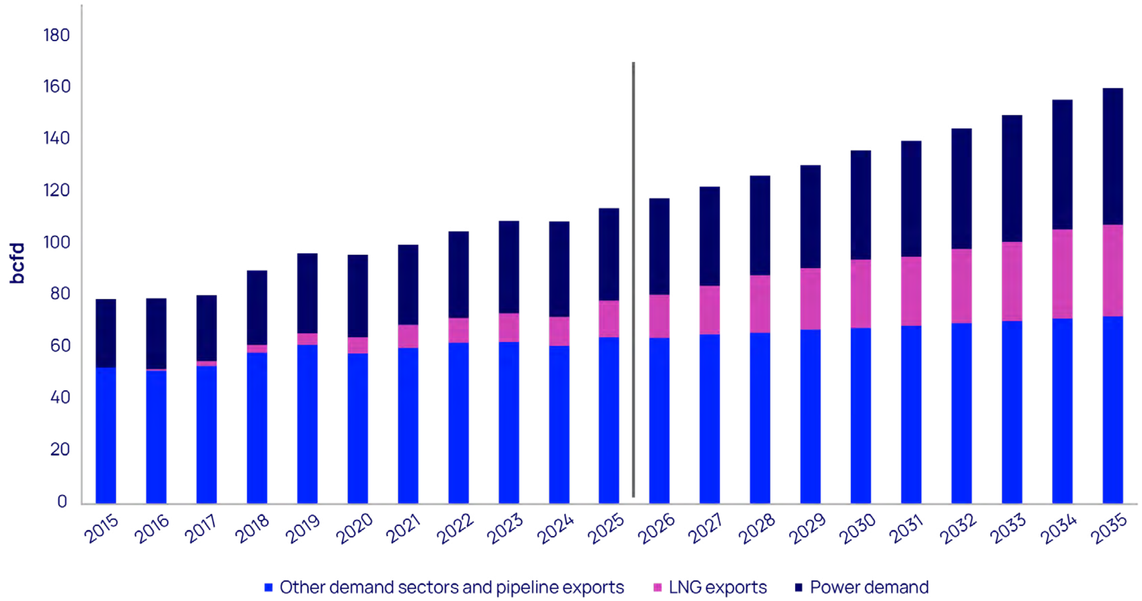
Meanwhile, final investment decisions for new US LNG exports hit a record high in 2025 and more projects have already reached final investment decision in 2026. This will lead to US LNG capacity more than doubling compared to current levels, with more growth expected. The aggregate demand picture is one of continued expansion into the 2040s, with few opportunities for near-term substitution that could meaningfully reduce the gas intensity of the US energy system.

Demand variability continues to drive volatility

As the power sector leans increasingly on gas to balance intermittent renewable generation, demand has become structurally more volatile and Henry Hub prices will reflect this. Weather remains a sharp amplifier, while underinvested storage is limiting the market's ability to absorb swings. Moreover, geopolitical developments have demonstrated their capacity to rapidly reshape global gas flows, with a complicated read-across to US pricing. Supply-side disruptions, such as freeze-offs and infrastructure outages, are a feature of the market, but not one we expect to intensify. The more durable volatility story is on the demand side, where the drivers are growing and ever more interconnected.

Instead of simply absorbing supply, the US gas market is hungry for more

Figure 1: US gas demand 2015-35: continuing on the same trajectory



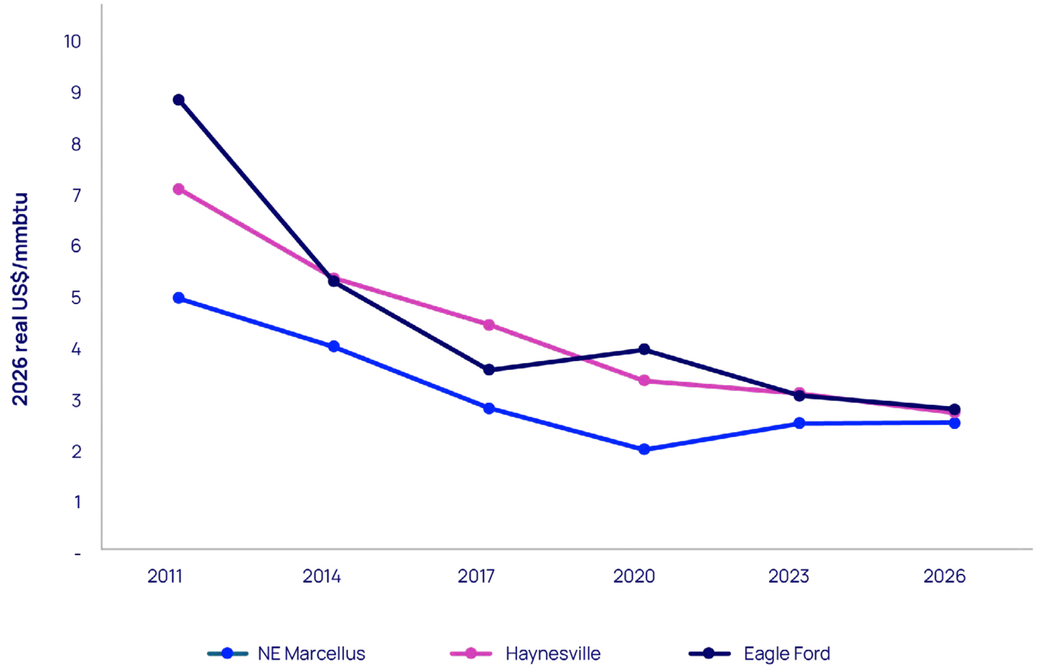
Source: Wood Mackenzie Lens Gas & LNG

Supply

The best rock is found and producing

While substantial acreage remains undrilled across major US gas plays, producers have been leaning into the sweet spots for years. This has resulted in a form of perpetual high-grading that has consumed the best inventory year after year. As the best parts of the Marcellus, Permian and Haynesville are developed, the gas drilling projects that remain - which are critical for growing production - will be, by definition, of lower quality. Breakeven costs are flattening out after falling for years and future wells will be less productive on both production and reserve metrics, have more complex geology and often be further from market. Operators' response will be to keep lowering well costs to combat productivity losses. Supply costs will rise, not because of declining operational efficiency, but because reservoirs have matured. And no new US basins of scale sit untapped.

Figure 2: Breakeven cost of supply over time - flattening in the 2020s



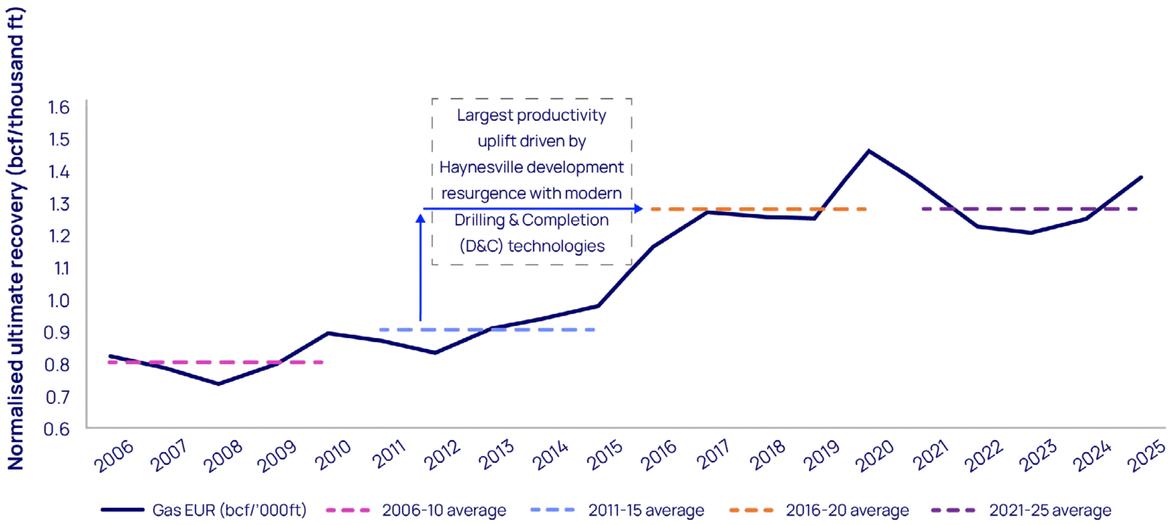
Source: Wood Mackenzie Lens Gas & LNG, Lower 48 solution

Future technology gains in mature plays appear incremental

The gains from re-engineering well designs or drilling longer laterals in gas plays have mostly played out already. And potential technology applications for the original shale gas basins, such as refracturing, have never really broken out. Rather, technology efforts to unlock resource have been replaced by more robust gas marketing strategies instead. Deep gas plays have promise, but some of the main companies are struggling to find the right technology applications to lower costs.

This is quite unlike oil plays, where substantial R&D investment, led by the Majors, has unleashed stretch targets such as doubling recovery factors. But until gas margins compete with liquids plays, material technology investment will remain oil-biased.

Figure 3: Gas well efficiency still improving but step change was a decade ago



Source: Wood Mackenzie and Novi Labs, Inc. Sample set includes 48,000 horizontal gas wells in the Marcellus, Barnett, Eagle Ford, Haynesville and Fayetteville plays; dates represent first production year.

Decreasing impact of associated gas

Associated gas, produced as a co-product of oil drilling and effectively low- to zero-cost supply, has had a huge impact on the US gas supply landscape over the past decade. At its peak, Permian-driven associated gas growth materially offset the need for dedicated gas drilling, suppressing the price signal required to incentivise new supply. That dynamic is now slowing.

As the Permian Basin matures, more companies are focusing on boosting margins rather than volumes. Only those with differentiated value-chain integration continue to expand. As smaller operators preserve top inventory, the growth in associated gas will similarly decelerate as a function of less rig activity. Permian gas will still grow, but the rate of growth will change. Over the last 10 years, associated gas has accounted for about half of US gas supply growth, but over the next 10, it will account for less than 20%. This will amplify the need for gas-focused drilling to increase supply, requiring higher prices to be economic.

E&P capital discipline

Listed US exploration and production (E&P) companies remain committed to returning capital to shareholders, managing balance sheets and requiring genuinely attractive returns before committing to incremental drilling - even choking back production when cash prices fall below operating costs. The implication for gas markets is that price signals will have to rise further and persist for longer before these operators are motivated to materially increase investment. Consequently, with the elasticity of supply to price declining, domestic gas prices are having to do more work to balance the market than in the past. As demand rises, price forecasts will have to rise as well to bring supply to market.

Henry Hub is the benchmark, but it is still a local price

Henry Hub serves as the central pricing benchmark for US gas markets. At the same time, it remains a localised price, shaped by supply, demand and infrastructure conditions in southern Louisiana. As demand and export growth have been concentrated in Texas and Louisiana, Henry Hub has evolved into a representation of the US demand market. Increasingly, it is influenced less by the lowest-cost supplies hundreds of miles away and more by the investment in midstream infrastructure required to bring supply to the region. While this transition began in the last decade, its growing impact – as pipeline developments to cover longer distances become more costly, requiring greenfield investment and/or facing increased local opposition – continues to be reflected in our forecast, which sees Henry Hub rising not only with underlying supply costs, but also with increasing midstream costs.

As the Permian Basin matures, more companies are focusing on boosting margins rather than volumes

Pivot points: factors that could temper the gas price outlook

Each of the factors discussed above points to structurally higher US gas prices. We are not, however, blind to the proven ability of US shale gas producers to consistently deliver supply at competitive costs and unlock new geographies and reservoirs at pace. And while some developments have emerged in recent months that merit attention, others are more speculative. On the US gas demand front, though, it will take a major reversal in either power demand or LNG exports to alter our outlook.

Supply

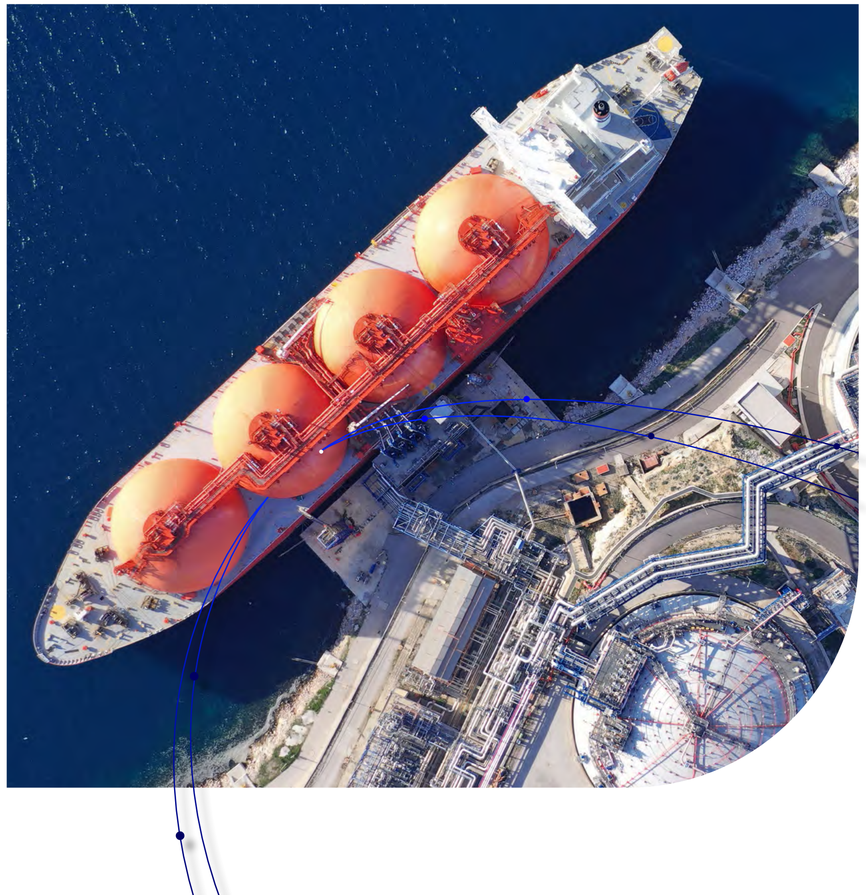
Oil price and associated gas: an upward revision

Higher oil prices incentivise more oil-directed drilling - and more associated gas, both from additional wells and from gassier wells that are less economic at lower oil prices. We have made a modest upward revision to our latest oil price outlook, though it remains well below the levels that would be needed to drive a radical increase in drilling activity in the US.

Not all capital thinks alike

The discipline exhibited by publicly listed US E&P companies is a defining feature of the US upstream sector. Acreage ownership is not monolithic, however, with different operator types bringing different investment considerations and portfolios to gas development decisions. This creates the potential for a faster – or slower – supply response than our base case assumes. A faster supply response would reduce the extent that prices would need to rise before adding incremental supply.

On the US gas demand front, it will take a major reversal in either power demand or LNG exports to alter our outlook

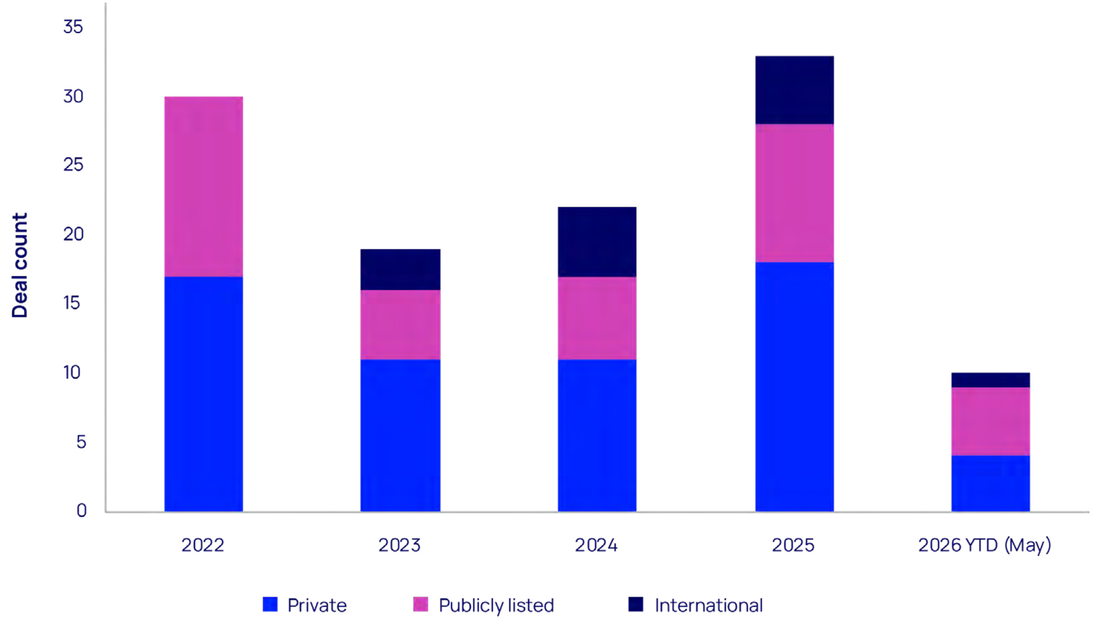


The clearest example today is the growing integration of LNG exports and upstream development. Operators with firm supply commitments to export facilities can make investment decisions that reflect long-term contract values, or international gas prices, rather than local Henry Hub economics. EOG's commitment to supply more than 700 mmcfd to Cheniere's Corpus Christi Stage III project is a good example: nearly 60% of that volume is based on Asian spot prices, bringing forward South Texas supply that typical listed E&P behaviour would have deferred.

Traders are another distinct category. Operators such as Apex, backed by Citadel in the Haynesville, can capture value across a broader trading book in ways that pure-play E&Ps cannot. Data-centre and power-generation development could create similar dynamics in West Texas, the Rockies and Appalachia, while internationally backed operators - including Mitsubishi, JERA, Tokyo Gas and Osaka Gas, which have also built material Haynesville positions - may develop resources more aggressively than their US peers.

Lastly, private equity (PE) cannot be discounted. PE-backed operators drove the earlier, aggressive development of plays like the Haynesville on return profiles distinct from today's listed companies. Were quality acreage to migrate back towards private equity, the supply discipline underpinning our price outlook could loosen.

Figure 4: Lower 48 gas M&A activity by buyer type – increasing activity from international players



Source: Wood Mackenzie M&A Service

The inventory runs deeper still

Beyond active plays, two further categories of resource could add scalable supply: dormant plays that lost out to better economics, and frontier plays that have yet to be commercially developed.

Numerous US pre-shale gas plays were abandoned early because they lost the cost-of-supply battle to more prolific alternatives. However, modern well designs and drilling efficiencies could produce substantially better economics than their historical record implies. A prime example of this is tight gas acreage in the Rockies, driven by data-centre proximity and emerging private equity interest.

Then there are frontier resources that have never been fully commercially assessed. The western extension of the Haynesville/Bossier is the most visible instance today, and some operators are even targeting ultra-deep, high-pressure conventional reservoirs in Louisiana in light of proximate demand. Deep gas along the Texas Gulf Coast is always a price-sensitive supply option, too. Scale is a consideration. A handful of successful deeper developments could add a few bcfd in aggregate - modest, but meaningful at the margin.

Technology wildcards

US E&Ps have been remarkable in their ability to bring down costs; the question is what comes next. If a wildcard technology emerges that fundamentally shifts recovery factors or significantly lowers breakevens, it could flatten the price curve outlined in our forecast.

Demand

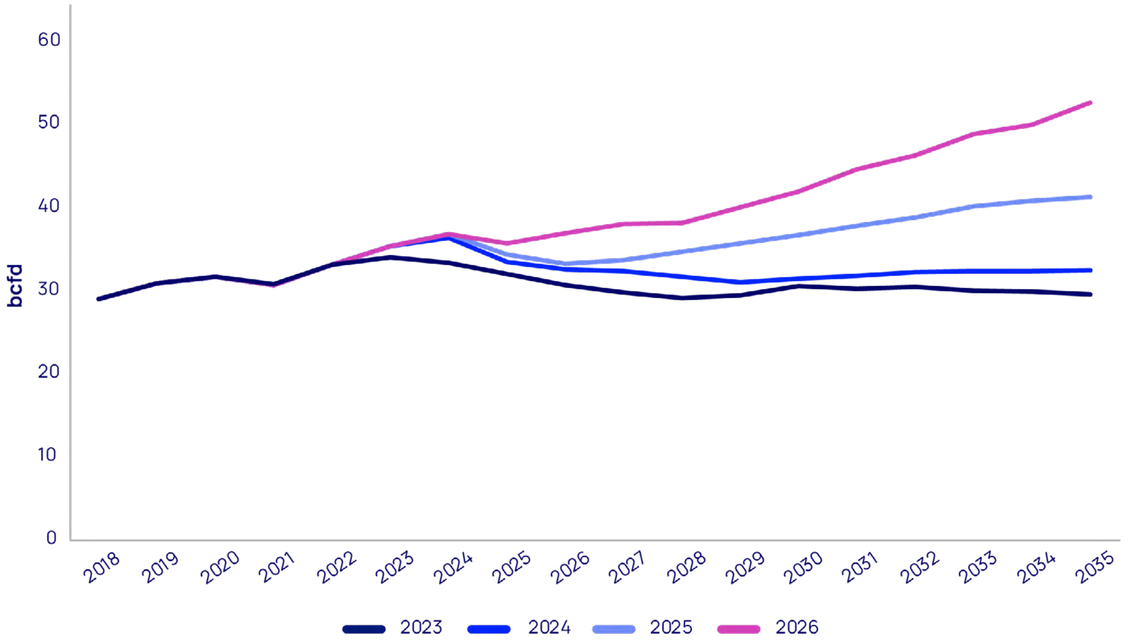
AI/data-centre demand disappoints

Our US gas demand outlook features substantial power load growth from data centres and AI-related electrification, alongside a modest amount of direct gas-fired behind-the-meter and collocated generation.

The pace and scale of this demand growth is already materialising, though not without a degree of risk. Efficiency improvements in chip architecture, a cyclical or structural correction in AI investment or a step-change in battery economics enabling higher renewable penetration in data-centre power supply could each reduce overall power demand from the sector. The scale of gas demand at stake - an extra 17 bcfd of incremental power sector demand by the mid-2030s, according to our current outlook - means that even a modest demand slowdown would have price implications.

There is also a political dimension to this risk. US energy policy after the current administration could accelerate the deployment of clean energy in ways that reduce gas intensity at the margin over time.

Figure 5: US gas demand into power by forecast vintage – AI/data centres are shifting demand materially higher



Source: Wood Mackenzie Lens Gas & LNG; vintages annual Strategic Planning Outlooks

LNG dominance also creates vulnerability

We remain confident in the long-term Asian demand story that is driving investment in US LNG exports. It is worth noting, however, that as the marginal supplier to the global market, the US would feel any slowdown in the pace of demand growth disproportionately. The conflict in the Middle East is already testing the demand growth story. Should the war result in persistently high LNG prices, emerging Asian markets' appetite for new LNG supply could be tested. This has potentially significant implications for feedgas demand and Henry Hub prices.

And there is a further dimension to this risk. With US LNG capacity set to exceed one-third of global supply in the early 2030s, buyer concerns about over-concentration of supply are already emerging. Conflict-driven pressure to diversify could provide meaningful momentum for LNG projects outside North America - Argentina being a credible recent example, or even a return of Russian supplies - reducing the share of incremental demand flowing to US facilities. US LNG's scale, currently a commercial strength, risks becoming a liability when buyers begin to treat supplier diversity the way they treat shipping routes or counterparty diversity.

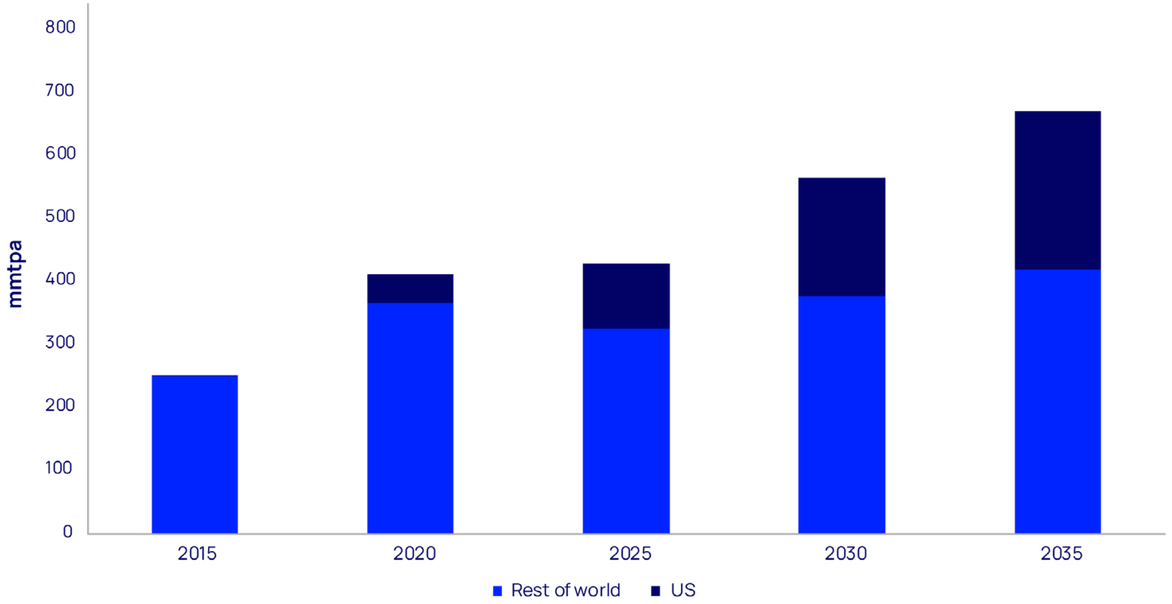
A pipeline renaissance

As mentioned, Henry Hub is increasingly influenced by the investment in midstream infrastructure required to bring supply to the region. Were the US to rapidly develop new pipelines to connect low-cost supply basins to market, this would compress basis differentials and erode the cost premium of moving molecules from supply to demand centres - something last seen at scale during the 2010s shale boom, when thousands of miles of new pipeline were built in relatively quick succession.

Getting back there would require an easing of the underlying challenges that have stifled development: local opposition, state-level regulatory intervention and litigation have made new interstate pipeline projects slow, costly and high risk, deterring capital and leaving few projects even reaching the proposal stage. Some of those barriers may be softening, and early project revivals suggest conditions could be improving. Lead times are long and the barriers remain real, but a sustained shift in the development environment is a credible wildcard that could reduce basis spreads and put downward pressure on Henry Hub.

Conflict-driven pressure to diversify could provide meaningful momentum for LNG projects outside North America

Figure 6: Global LNG supply: US versus the rest of the world



Source: Wood Mackenzie Lens Gas & LNG

Conclusion: **the only way is up**

The conditions that kept Henry Hub cheap through the 2010s and early 2020s were exceptional. New plays were opened at pace, associated gas from the tight oil boom added supply at near-zero marginal cost and technology drove up well productivity every year. Even as LNG exports grew and gas displaced coal generation in the domestic power mix, prices remained low. Many of these conditions are no longer guaranteed, however, supporting our forecast of higher Henry Hub gas prices.

Lowering our forecast price outlook will take a combination of supply and demand drivers. On the supply side, this will mean a combination of dormant or frontier plays proving their viability at scale and operators being willing to invest at lower return thresholds. As far as demand is concerned, there will need to be a major slowdown in the pace of domestic gas consumption in the power sector or a fundamental reshaping of global LNG trade flows.

It is important to note that even with our forecast increase, Henry Hub prices will remain competitive globally. That said, a higher Henry Hub price still has significant implications for the future of US industry and the country's LNG exports. Domestic producers will benefit from rising margins. Higher energy prices, including power, will have political ramifications as US consumers face rising household bills. Higher gas prices will also improve the competitiveness of renewables in power markets, particularly with gas plant construction costs sky rocketing. Internationally, as US LNG is the marginal cost fuel, higher Henry Hub prices inevitably mean higher global LNG prices, increasing costs for buyers. Any slowdown in gas adoption in price-sensitive markets that are expected to underpin long-term demand growth is a particular risk.

Many of these consequences will be unwelcome, but also unavoidable. US producers' ability to continue to develop low-cost gas resources has undoubtedly been proved over the past two decades, but every season has its end.

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