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The Atlantic hurricane season is the period in a year when hurricanes usually form in the Atlantic Ocean. It officially runs from 01<sup>st</sup> June to 30<sup>th</sup> November with August and September being the most active months. The areas covered include the North Atlantic Ocean, Gulf of Mexico and the Caribbean Sea. Tropical cyclones in the North Atlantic are called hurricanes, tropical storms, or tropical depressions depending their strength and intensity.

We have seen an early start to the season as Tropical Storm Alberto formed in the Gulf of Mexico. The weather pattern weakened to a subtropical depression after making a landfall near Florida but is expected to have caused economic damages of about \$1 billion.

Weather forecasters are forecasting an above average season in 2018. Storm activity will affect economic outlook for US amid possibility of economic damages caused by flooding and rains. Crude oil and natural gas price will also witness volatile trade as storm activity affects both demand and supply.

### **Forecast for 2018 Atlantic Hurricane Season**

According to US National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center, the 2018 Atlantic hurricane season will be near-normal to above-normal in number and intensity of storms.

The NOAA forecast predicts 10 to 16 named storms (winds of 39 mph or higher), of which 5 to 9 could become hurricanes (winds of 74 mph or higher), including 1 to 4 major hurricanes (category 3, 4 or 5; with winds of 111 mph or higher)

AccuWeather's official 2018 hurricane forecast calls for 12-15 storms in the Atlantic basin overall, six to eight of which are forecast to be hurricanes and three to five of which may be major hurricanes.

Colorado State University is calling for 14 named storms and seven hurricanes. The predictions call for three major storms of Category 3 or higher

An average season in the Atlantic consists of 12 named storms, six hurricanes and two major hurricanes and three to four direct impacts on the U.S. per year.

The 2017 season was very active, in part, because of a weak La Niña that developed during the season. La Nina has weakened and we are seeing a transition to neutral state. Weather models are now suggesting that El Niño could possibly develop later in the season this year. El Niño features warmer water in the eastern Pacific equatorial region, creating greater wind shear in the Atlantic, and thus, fewer tropical storms.

### **Extremely Active 2017 Hurricane Season Caused Severe Damage**

The 2017 season set several records. The season produced 17 named storms of which 10 became hurricanes including six major hurricanes (Category 3, 4 or 5) – including the first two major hurricanes to hit the continental U.S. in 12 years. 2017 was the seventh most active season in the historical record dating to 1851 and was the most active season since 2005.

Harvey (Category 4), Irma and Maria (both Category 5) caused approximately \$200 billion in damage in the US, a record. That easily eclipses the previous record of about \$159 billion, set during the summer of 2005.

Harvey was the first major hurricane to hit the U.S. since Wilma struck Florida in October 2005. Additionally, four other storms hit the U.S., including Cindy, Emily, Phillipe and Nate.

### **How to interpret storm activity for crude and natural gas price**

The effects that named storms in the Atlantic will have on crude oil and natural gas prices will depend on their trajectory and strength. The Gulf of Mexico is home to about a third of the US oil and natural gas producing facilities. More than 40% of total US petroleum refining capacity is along the Gulf Coast, as well as 30% of total US natural gas processing plant capacity.

A major hurricane in Gulf of Mexico region can damage infrastructure and disrupt crude oil and natural gas production causing a lapse in supply. Even a relatively-tame tropical storm in the area can prompt personnel evacuations and create a short-term disruption. Bad weather that precedes a hurricane may keep tankers waiting for endless days without unloading affecting imports.

While storm activity in the Gulf Coast can disrupt supplies, price impact has waned in last few years due to regional shifts in where production takes place. There are now greater levels of production taking place at inland basins, which are generally less affected by storms.

At the same time, we have to see the effect of storm activity from demand front. The landfall of storms in US crude refining regions could affect processing demand for crude. Power outages could also result in lower demand for electricity and thereby fuels like natural gas which is used for power generation. In last few years, US petroleum and natural gas exports have risen. Port closures due to storm could also affect exports.

On the whole, key factors to look for are the strength and intensity of the storm as well as the region where it makes a landfall.

### **Crude Oil Market Impact**

Forecasters are predicting an active season this year which means we could see more price volatility. The exact impact on supply and price depends on the intensity and region where the storm makes a landfall.

If we see a major storm forming in the Gulf of Mexico, it may result in production shutdowns pushing crude price higher. With tightening supply in global market, any short term disruption to US supply could be positive for price. On other hand, if we see major storm affecting refining region located largely in Gulf Coast, crude refining demand may fall putting pressure on crude price. Bad weather due to storm activity could also affect travel during summer driving season which will reduce gasoline demand. Any major damage to US economy will also be negative for crude oil.

### **Natural Gas Market Impact**

The share of natural gas production from Gulf of Mexico is falling however any disruption caused by storm activity will be positive for gas price. Similarly, a big storm making landfall in US may result in power shutdowns reducing demand for natural gas for power generation and thereby put downward pressure on price. Any effect on gas exports will also be negative for gas price.

The following list of names will be used for named storms that form in the North Atlantic in 2018

1. Alberto (currently active near Florida panhandle)
2. Beryl
3. Chris
4. Debby
5. Ernesto
6. Florence
7. Gordon
8. Helene
9. Isaac
10. Joyce
11. Kirk
12. Leslie
13. Michael
14. Nadine
15. Oscar
16. Patty
17. Rafael
18. Sara
19. Tony
20. Valerie
21. William

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