THE SCHORK REPORT

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, September 25, 2020

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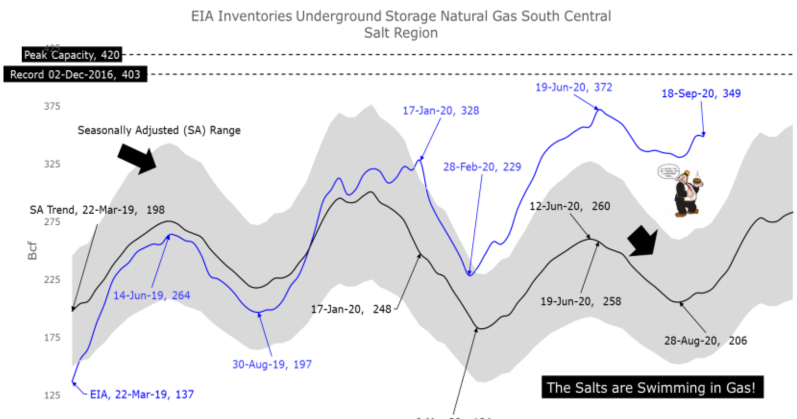
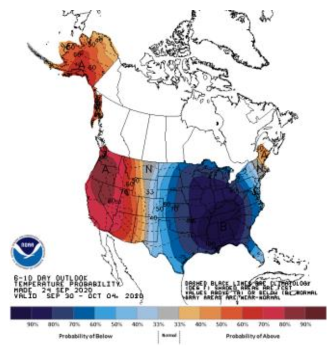
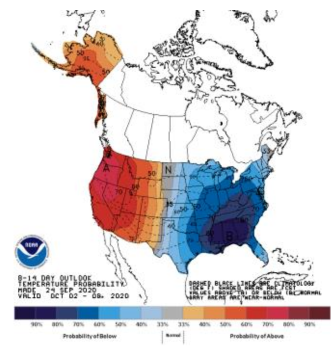


NOAA Outlook



Temperature 6-10 Day



Temperature 8-14 Day

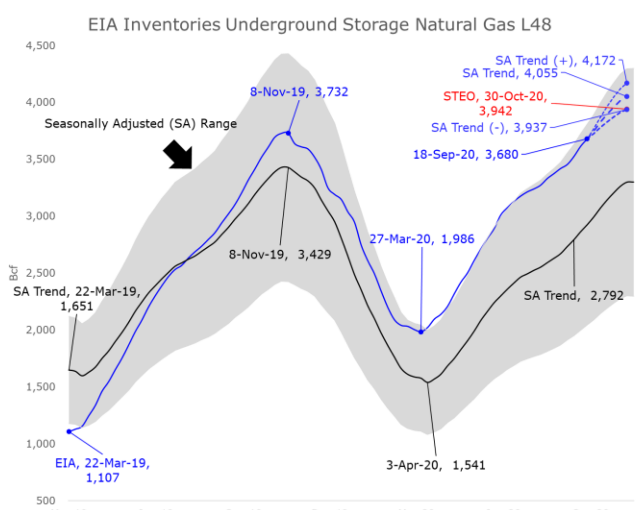
Nota Bene: Nearly 62 million and rising. For the week ended September 19th, the number of Americans filing for first-time unemployment benefits was 870,000… which is up from the prior week's upwardly revised report of 860,000. Claims have now come in below 900,000 for four straight weeks. Since COVID-19 mitigation protocols were put into place—i.e. since March 14th—a total of 61.9 million initial claims have been processed. Prior to this wretched stretch, it took 257 weeks (from April 18th, 2015 to a March 14th, 2019) for cumulative claims to top this level. Therefore, who says the government is not efficient? Government imposed lockdowns succeeded in laying off 62 million Americans in 1/9th of the time. Lastly, the number of continuing claims fell to a 23-week low of 12.6 million, albeit from the prior week's sharply upward revised total of 12.75 million. More troubling than this, the velocity in the downward trend decelerated.

Omnium Gatherum

PRICES WERE STRONG YESTERDAY… NYMEX WTI for November delivery closed above the $40 threshold for the first time in four sessions. Meanwhile, NYMEX natural gas for October finished at a six-session high as Wall Street scurries to improve their third quarter marks.

EIA Natural Gas Review

Yesterday, the EIA reported the 25th injection of natural gas into underground storage of the season. As of Friday, September 18th, 66 Bcf were injected. This is a solid number, i.e. the seasonally adjusted trend for this report is 62 ±13 Bcf. This was an especially difficult report to forecast given the disruptions to production and LNG shipments stemming from tropical weather impacts along the Gulf Coast. For example, the consensus heading into the report ranged from 65 Bcf, all the way to 86 Bcf.



Total underground storage for the Lower 48 climbed to 3.680 Tcf and the year-over-year surplus narrowed by 165 basis points to 15% or 475 Bcf. This season's refill is up to 1.694 Tcf… which is 22% above the seasonally adjusted trend. We are a little more than three quarters of the way through refills, and the market has replaced 97% of the gas that was delivered last winter. As far as next week's report goes, the typical injection is 68 ±23 Bcf and the five-year mean (interpolated) is 78 Bcf. The early consensus runs from 80 Bcf to 101 Bcf.

In their latest monthly update, the EIA expects L48 underground storage to finish this season at 3.942 Tcf. Cleared futures for the end-of-season balance on ICE are currently bid in 3.986 Tcf, offered at 4.010 Tcf; we like the over, i.e. based on yesterday's report, our baseline end-of-season model is now 4.055 Tcf.

One week after reporting an out-of-bounds injection of 14 Bcf, the Salt Region was unchanged last week… **can you say true-up?** All told, the Gulf Coast has been pounded by four tropical weather events over the last three weeks, so recent volatility in this particular market is to be expected.

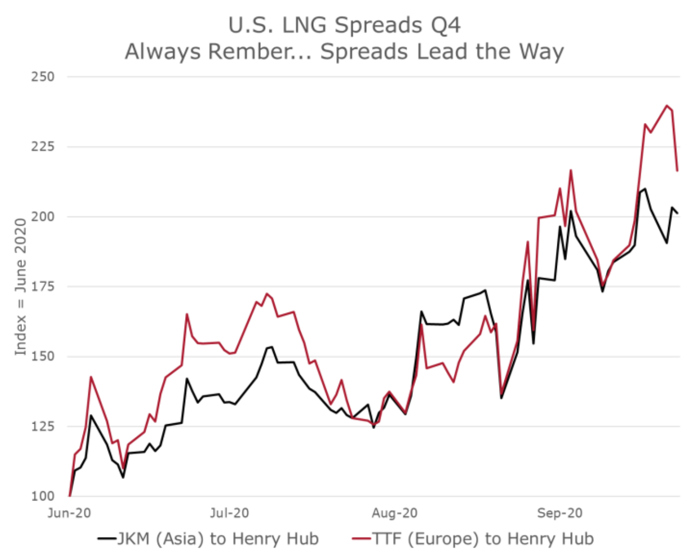
Inventories held at a two-month high of 349 Bcf, while the year-over-year surplus narrowed by 590 basis points to 69% or 142 Bcf. As we are want to say… you cannot swing a cat through the salts without hitting gas. This summer's injection is 54% greater than last summer's injection and the market has replaced 130% of the gas that was delivered last winter. Looking ahead, *Wimpy*—utilities in the northern latitudes—will repay the 41 Bcf of gas that they *borrowed* through the dog days.

Storage in the Midwest and East is fat. The Midwest reported a nice 26 Bcf injection. A total of 534 Bcf has been injected to date, which is spot-on to the seasonal norm. Thus far, 77% of last winter's delivery has been replaced. Storage stands at 1,009 Bcf; **this is the earliest that the market has topped 1.0 Tcf since 2012**. As is such, the market remains on pace to finish summer above the EIA's (STEO) forecast of 1.128 Tcf and challenge peak capacity constraints of 1.179 Tcf.

The East reported a strong 26 Bcf injection—the seasonal norm is 21 ±8 Bcf. Inventories climbed to 851 Bcf and the year-over-year surplus narrowed by 95 basis points to 7%, from 62 Bcf to 57 Bcf. To date, 469 Bcf has been injected this season. In return, 85% of last winter's delivery has been replaced. Storage is still on pace to come in above the EIA's 923 Bcf end-of-season forecast.

Bottom line, this week's sudden spike in the October market is impossible to justify. The option contracts expire today, and the futures expire on Monday, while underground storage of gas is on pace to finish this month in excess of 3.75 Tcf… the highest level for the month of September on record. What is more, we are of the strong, nay, herculean opinion that we will begin the heating season with a record amount of gas—well above 4.0 Tcf—in the ground.

We do cede that market bulls have a case to be made for the fourth quarter… assuming we do not see another round of draconian COVID mitigation diktats around the globe. For example, strength in global spreads continue to fuel speculation that the LNG cavalry is on its way to rescue woebegone gas bulls. Since the start of summer, through this week, premiums on Q4 NYMEX JKM/Asia and TTF/Europe to NYMEX Henry Hub futures more than doubled.



Therefore, we can buy into the bullish case for the first two NYMEX winter contracts (November 2020 and December 2020) but, there is no way we can make a fundamental case for strength in the October 2020 market.

So what is fueling the October strength?

Keep in mind that as of the latest update from the CFTC, natural gas hedge funds were holding their most bullish position (NYMEX & ICE contracts) in two years. We therefore venture that Wall Street is scrambling before the October expiry to spruce up their third quarter P&Ls.