



EIA Finally Joins the Party

Today, the EIA reported the 27th injection of natural gas into underground storage of the season. As of Friday, October 2nd, 75 Bcf were injected. This is a solid number, i.e. the seasonally adjusted trend for this report is 78 ±24 Bcf. The consensus ranged from the high 60s to the mid-80s Bcf. Our forecast was 78 Bcf. Total underground storage for the Lower 48 climbed to 3.831 Tcf. We are around 85% of the way through refills and the market has replaced 106% of the gas that was delivered last winter.

As far as the NYMEX 2020-21 Winter Strip is concerned, market volatility is as robust as ever. In the final week of September, the strip peaked at a 52-week high of \$3.265 (on September 24th) but then bottomed last Friday (October 2nd) at \$2.932. As of this past Wednesday, the strip was back up to \$3.085 and over the last five sessions, the strip averaged \$3.026, down 4.1% week-over-week.

In contrast, the Summer Strip for 2021 has been much more gentlemanly. Over the last five sessions, the strip has ranged in between \$2.741 and \$2.804, with a \$2.779 mean, down 1.7% week-over-week. As a result, the winter strip's average premium (backwardation) to next summer plunged by 25% from a three-week high to a nine-week low of \$0.247.

The contraction in the Winter Strip to next summer makes sense. As we noted here last week... *Short of an early start to the heating season, we suspect that the front of the curve is vulnerable to further weakness.*

To this point, the likelihood of entering this winter with record inventories is, for all-intents-and-purposes, a given. Earlier this week, the EIA upped its forecast for end-of-season balances from 3.942 Tcf to 4.006 Tcf. Per our seasonal models, we project end-of-season balances to be 3.996 Tcf (at a minimum) with a high upwards of the seasonal trend of 4.026 Tcf.

We repeat... short of an early start to the heating season, we suspect that the front of the curve is still vulnerable to further weakness. For crying out loud, NYMEX gas for November delivery is trading at \$2.606, while the cash is only trading at \$2.006!

Volatility remains high as we transition to the heating season.

NYMEX natural gas is stuck in a severe pocket of turbulence. Through the first three days of this week, the market's average daily statistical volatility—the likely daily price movement—in the Winter Strip's premium (backwardation) to Summer jumped by \$0.059 (28%).