

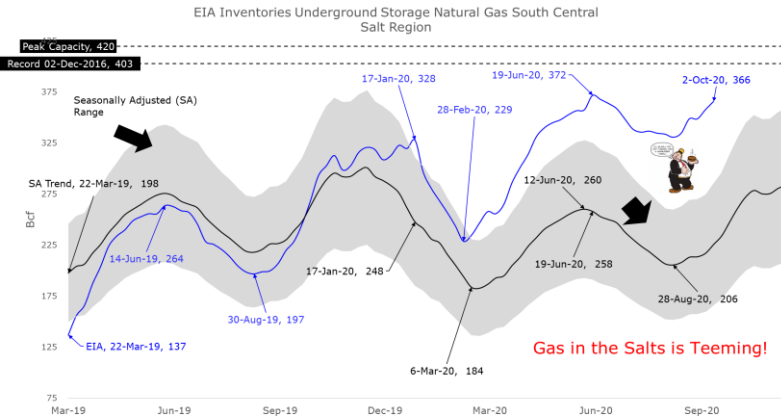
# THE SCHORK REPORT



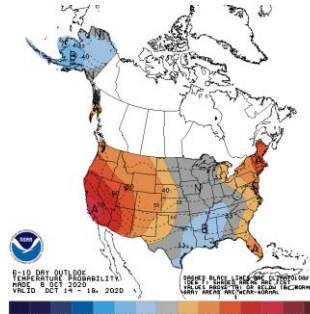
FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, October 9, 2020

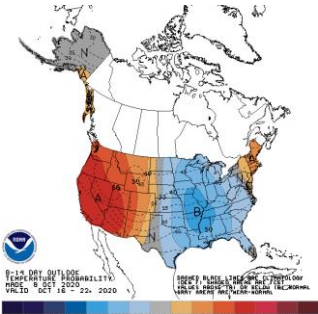
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## NOAA Outlook



Temperature 6-10 Day



Temperature 8-14 Day

**Nota Bene:** Over 63 million and rising. For the week ended October 03<sup>rd</sup>, the number of Americans filing for first-time unemployment benefits was 840,000, down from the prior week's sharply revised (from 837,000 to 849,000) claims. This was the fewest number of claims since diktats from the states shut the economy down 29 weeks ago in March. Prior to this miserable stretch, it took 263 weeks (from March 07<sup>th</sup>, 2015 to March 14<sup>th</sup>, 2019) for cumulative claims to sum over 63 million. On a somewhat positive note, the number of continuing claims fell below 11 million for the first time in 26 weeks.

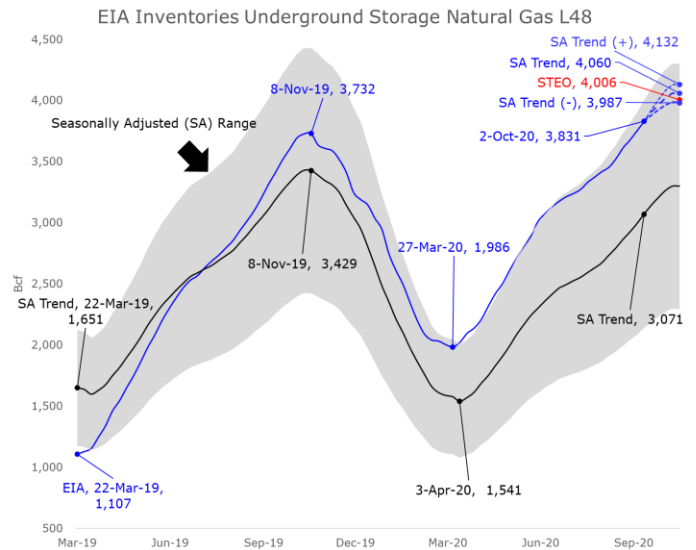
October 02<sup>nd</sup>, 75 Bcf were injected. This is a solid number, i.e. the seasonally adjusted trend for this report is 78 ±24 Bcf. The consensus ranged from the high 60s to the mid-80s Bcf. Our forecast was 78 Bcf. Total underground storage for the Lower 48 climbed to 3.831 Tcf. We are around 85% of the way through refills, and the market has replaced 106% of the gas that was delivered last winter. This season's refill is up to 1.845 Tcf or 21% above the seasonally adjusted trend.

## Omnium Gatherum

PRICES WERE STRONG YESTERDAY... with the majority of oil and gas production in the Gulf of Mexico shuttered by Hurricane Delta. NYMEX WTI for November delivery printed below \$40/b for a fourteenth straight session but rallied from there and closed above \$41/b for the first time in three weeks. November natural gas picked up a strong bid midday and finished at an eight-session high.

## EIA Natural Gas Review

Yesterday, the EIA reported the 27<sup>th</sup> injection of natural gas into underground storage of the season. As of Friday,



The Salt Region reported a solid injection of 8 Bcf. Inventories rose to a 14-week high of 366 Bcf. As we say every week... you cannot swing a cat through the salts without hitting gas. This summer's injection is 51% greater than last summer's injection and the market has replaced 149% of the gas that was delivered last winter. Over the last five weeks, *Wimpy*—utilities in the northern latitudes—have repaid 35 Bcf of the 41 Bcf of gas that he *borrowed* through the dog days.

Storage in the Midwest and East is comfortable. The Midwest reported a solid 29 Bcf injection. A total of 587 Bcf has been injected to date, which is within 1.4% of the seasonal baseline. Thus far, 93% of last winter's delivery has been replaced. Storage stands at 1.062 Tcf and remains on pace to finish the season above the EIA's (STEO) upwardly revised forecast of 1.129 Tcf and challenge peak capacity constraints of 1.179 Tcf.

The East reported a nice 21 Bcf injection—the seasonal norm is 24 ±9 Bcf. Inventories climbed to 893 Bcf. To date, 511 Bcf has been injected this season. In return, 93% of last winter's delivery has been replaced. Storage is on pace to come in above the EIA's downwardly revised 920 Bcf end-of-season forecast.

As far as the next two reports go (which brings us to the week ended October 16<sup>th</sup>), the typical injections are 71 ±22 Bcf and 63 ±20 Bcf, respectively. On the ICE, next week's report is expected to be a low one—likely residue from a sharp rebound in LNG exports following delays related to tropical weather events—with the bid/ask of 48 Bcf/55 Bcf for the week ended October 09<sup>th</sup>. The following week's report is also low with a bid/ask of 52 Bcf/65 Bcf for the week ended October 16<sup>th</sup>. Keep in mind, extant production shut-ins related to Hurricane Delta will skew the next two reports.

Based on preliminary data, L48 stocks of underground storage ended September at a record 3.777 Tcf, 9.5% above the five-year average and 2.0% above the previous record (from 2016) of 3.705 Tcf. Meanwhile, earlier this week, the EIA upped its forecast for end-of-season balances from 3.942 Tcf to 4.006 Tcf. Cleared futures for the end-of-season balance on ICE are currently bid in 3.990 Tcf, offered at 4.005 Tcf. As far as our seasonal models go, we currently see end-of-season balances at a minimum of 3.996 Tcf and a high upwards of the seasonal trend of 4.026 Tcf.

Market volatility in the NYMEX 2020-21 Winter Strip is as robust as ever. In the final week of September, the strip peaked at a 52-week high of \$3.265 but then bottomed

last Friday at \$2.932. 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. 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.

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 winter's premium (backwardation) to next summer jumped by 28% to 5.9 cents. You should expect volatility to remain high as we transition to the heating season.

We suspect that the glut of gas at the start of this season will continue to keep pressure on the front-end of the curve; for crying out loud, NYMEX gas for November delivery is trading at \$2.606, while the cash is trading at \$2.006... how much longer can that last? Be that as it may, aside from short-term weakness, fundamentals are building to support a bullish case for next year.

For instance, based on their latest monthly update (STEO), the EIA expects dry natural gas production will average 90.65 Bcf/d this year, a reduction of 2.39 Bcf/d or 2.6% from 2019's record output of 93.04 Bcf/d. The reduction in production will compound a surge in exports. This year's hit from COVID-19 demand destruction notwithstanding, net exports (LNG and pipeline) are expected to average 7.15 Bcf/d, a jump of 1.70 Bcf/d or 31% compared with 2019.

**The market is much more bullish on end-of-winter balances. For instance, based on the ICE futures market, traders are looking to end the heating season somewhere in between 1.500 Tcf and 1.250 Tcf. Thus, at a minimum the market is looking for an absolute gargantuan drawdown this winter of 2.506 Tcf, 6% above normal!**

In conclusion, lower production, higher exports, and a rebound in domestic demand—which to date, has decimated commercial and industrial demand—sets the table for higher prices, with Henry Hub prices expected to hold above \$3/MMBtu through all of 2021. Furthermore, with coal and nukes share of the generation stack shrinking from retirements, along with strong natural gas prices, electricity prices will firm.

