It Does Not Get Any More Bearish Than This

The latest weekly update from EIA provides much needed relief for beleaguered natural gas bulls. For the week ended December 04th, the government reported an abnormally large delivery (91 Bcf) of natural gas from L48 underground storage. The typical delivery is 63 ±17 Bcf and the five-year average is 61 Bcf. The consensus was looking for a solid delivery with a range from 78 Bcf Platts, 83 Bcf The Desk and Reuters, 86 Bcf Bloomberg, and 89 Bcf Dow Jones.

We are of the strong opinion that last week's larger than normal delivery was a function of a true-up to the prior week's atypically small delivery of -1 Bcf.

In light of this update, we calculate there is a 75% probability of finishing this season above the EIA's forecast (STEO) of 1.535 Tcf and a 60% chance of finishing above the 1.694 Tcf five-year mean. Furthermore, cleared futures on the ICE exchange for the end-of-season balance are currently trading around 1.550 Tcf. We see the odds of coming in above this level around 72%.

As far as next week's report is concerned (EIA week ended December 11th) it looks like we are going to see a relatively light delivery. Cleared futures on the ICE are bid at 82 Bcf and offered at 78 Bcf. The typical delivery for this part of the winter is 109 ±30 Bcf, and the five-year mean is 105 Bcf.

The NYMEX Summer Strip for 2021 peaked at a 52-week high of $3.033/MMBtu at the end of October. Since then, the market has traded bearishly with the trend over the last two weeks, falling by an average of -0.51% per session. On Monday of this week, the strip settled at a four-month low of $2.570.

Gas for next winter is also giving up the ship. The NYMEX 2021-22 Winter Strip peaked at the beginning of November at a 52-week high of $3.236/MMBtu. Over the last two weeks, the market's trend has fallen by an average of 0.43% per session. Similar to the Summer 2021 market, next winter settled at a four-month low ($2.793/MMBtu) on Monday of this week.

The trend in the discount on summer gas to next winter has grown over the last two weeks by an average of 0.35% per session, rising from -$0.253/MMBtu to -$0.262/MMBtu. **This is a clear telltale that the market continues to price in weaker fundamentals for 2021**.

Gas bulls still have a tough row to hoe.

The greater than normal delivery of 91 Bcf from last week notwithstanding, the fundamental picture of the market remains murky. Earlier this week on the NYMEX, the futures contract for March 2021 delivery settled at a discount to the April 2021 contract. **In other words, a contract for a month in which we have a net draw in underground storage is now trading below the first month when we see a net addition!**