



The Market is Pricing in Weaker Fundamentals

The latest weekly update from the EIA bodes ill for natural gas bulls. For the week ended November 27th, the government reported a supremely paltry -1 Bcf delivery of natural gas from Lower 48 underground storage. The typical movement for this part of the month is a delivery of -34 ± 12 Bcf, while the five-year average (interpolated) is a delivery of -41 Bcf.

Given last week's mild temps in the northern latitudes, plus the Thanksgiving Day holiday, a sub-par delivery was expected, albeit not as small as -1 Bcf. The consensus surveys ranged from as high as -17 Bcf (Bloomberg and Dow Jones) to as low as -10 Bcf (The Desk). Considering the latest report, we venture there is currently a 61% probability of finishing this season above the EIA's forecast (STEO) of 1.503 Tcf and a 50% chance of finishing above ≈ 1.56 Tcf.

As far as next week's report is concerned (EIA week ended December 04th) it looks like we are going to see the first above-normal delivery since the week ended October 30th. The preliminary consensus on Reuters is -88 Bcf. The typical delivery is -63 ± 17 Bcf, the five-year average is -61 Bcf. However, given time decay, the preliminary end-of-season probability of closing above the EIA's forecast will rise to 63% (odds of 3:5) with the 50/50 line rising to ≈ 1.57 Tcf.

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 0.46% per session. On Wednesday of this week, the strip settled at \$2.732.

Gas for next winter also appears to be 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 0.38% per session, closing on Wednesday of this week at \$2.979.

The trend in the discount (contango) on summer gas to next winter has increased over the last two weeks by an average of 0.53% per session, escalating from $-\$0.245$ /MMBtu to $-\$0.259$ /MMBtu.



It is hard to imagine how the start of winter could be any uglier for gas bulls.

After a gargantuan delivery of -36 Bcf for the week of October 30th, the market has **injected** a net of 20 Bcf over the last four weeks! As a result, the odds of ending of this season above the EIA's 1.503 Tcf forecast has ballooned from 11% to 61%!