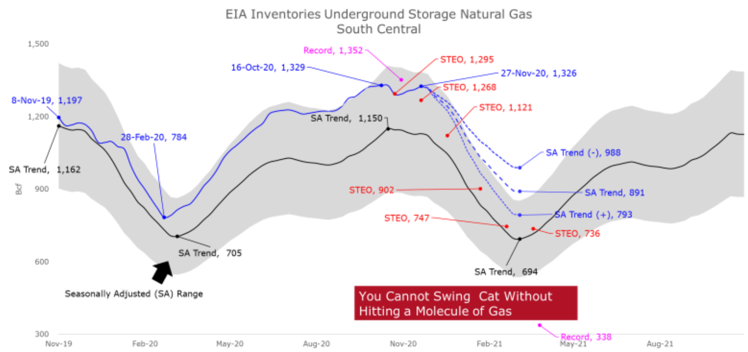
THE SCHORK REPORT

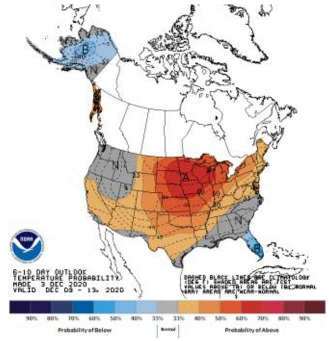
FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, December 4, 2020

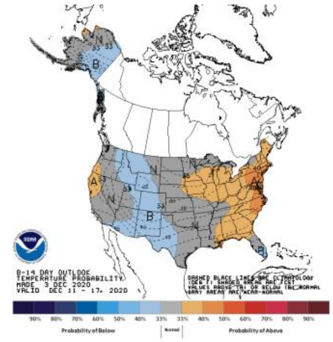
www.schorkgroup.com



NOAA Outlook

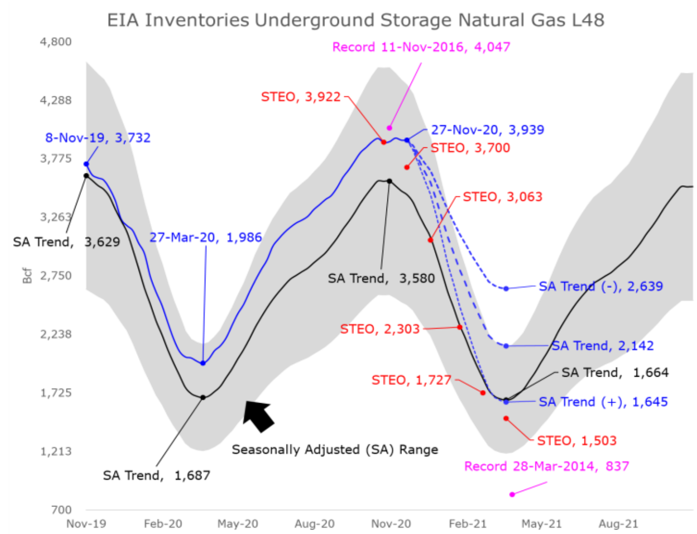


Temperature 6-10 Day



Temperature 8-14 Day

Note Bene: [CNBC](#) - Delta Air Lines said that a spike in coronavirus infections is hurting demand for air travel… as COVID-19 infections rise. As noted over on [Zero Hedge](#), per an [internal memo](#) from the company's CEO, Ed Bastian, "While we enjoyed an increase in travel volume over the Thanksgiving holiday, in reality there were still less than half of what we normally fly during the holiday...like others in the industry, we've seen some slowing of demand and forward bookings as COVID cases have risen across the U.S. Revenues are slowly coming back, but we still expect to be at just 30 percent of our 2019 levels for the four quarter".



Omnium Gatherum

PRICES WERE MIXED YESTERDAY… Oil markets closed higher in spite of OPEC+'s decision to add 500 Mb/d of production to the market starting next month. NYMEX gas plunged after the EIA showed another anemic delivery in its weekly update on L48 underground storage.

EIA Natural Review
A Complete Disaster for Gas Bulls

Yesterday, the EIA reported a mind-numbingly meager delivery of natural gas from Lower 48 underground storage. As of November 27th, -1 Bcf was withdrawn. 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) and as low as -10 Bcf (The Desk). In light of yesterday's report, we venture there is a 60% probability of finishing this season above the five-year average of 1.694 Tcf.

After three deliveries and two no changes, gas has been injected for the last three weeks in the Salt Region (South Central region). As of last Friday, storage rose by 12 Bcf to 368 Bcf. The seasonally adjusted norm for last week was a 6 ±3 Bcf injection. Since the Labor Day holiday, the market area has replaced 37 Bcf of the 41 Bcf of gas that was delivered through the peak cooling season of July and August. The year-over-year surplus stands at 52 Bcf or 16%.

For the entire South Central region, inventories jumped by 14 Bcf; the seasonally adjusted norm is a 3 ±1 Bcf injection. Inventories climbed to 1.33 Tcf and the surplus to a year ago rose to 152 Bcf, a six-week high. The season's refill stands at 545 Bcf which is 49% greater than the five-year average and virtually spot on the upper range of the seasonally adjusted time series. Thus far, the market has replaced 132% of the gas that was withdrawn last winter.

Storage in the Midwest and East is stacked. The Midwest reported a relatively light delivery of -11 Bcf. You normally expect a delivery of -18 ±6 Bcf delivery for this report. A total of 664 Bcf was injected this refill season, which is within 7% of the seasonal baseline. In return, 105% of last winter's delivery was replaced and storage started this winter at an all-time high of 1.139 Tcf; 5 Bcf greater than the previous record from the week ended November 11th, 2016.

Deliveries in this region have stumbled out the gate this winter. Last week's withdrawal was only the second of the season. A mere -17 Bcf has been delivered over the last two weeks. At this point in the season, the five-year average delivery is -41 Bcf, while the minimum of the seasonally adjusted time series is -32 Bcf.

The East began this season within 7 Bcf of the 960 Bcf record from the week of October 26th, 2012. One week after reporting a solid delivery of -19 Bcf, storage in the East was unchanged last week at 934 Bcf. The surplus to a year ago moved out by 35 basis points to 5% or 43 Bcf.

Similar to the situation in the Midwest, deliveries in the East have failed to launch. The five-year delivery for this portion of the season is -41 Bcf, whereas the hitherto net delivery is -19 Bcf.

It is hard to imagine how the start of winter could be any worse for gas bulls. After a gargantuan delivery in L48 storage of -36 Bcf for the week of October 30th, the market has injected a net of 20 Bcf over the last four weeks! As is such, the NYMEX is trading accordingly.

For starters, over the last four weeks, the Jan/Feb (F/G) spread has morphed from backwardation to contango while the Feb/Mar (G/H)—the final spread of the winter strip—was slashed in half. **This is how bear markets trade**.

Looking further out along the curve, 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 -0.54% per session. Yesterday, the strip settled at a **five-month low** of $2.535.

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 0.44% per session, closing yesterday at its own **five-month low** $2.825.

The trend in the discount (contango) on summer gas to next winter has grown over the last two weeks by an average of 0.63% per session. Yesterday the contango closed at a **nine-month low** of -$0.291/MMBtu. **This is the clearest possible telltale that the market is pricing in weaker fundamentals for 2021**.

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.