THE SCHORK REPORT

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, January 22, 2021

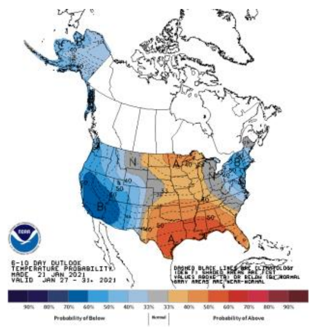
www.schorkgroup.com

BNN Bloomberg

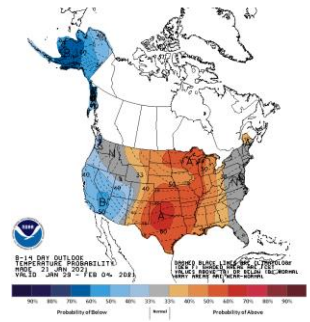
Mr. Schork will be on BNN Bloomberg today with Andrew Bell at 11:00 a.m. to talk EIAs.

API Weekly Petroleum Status Report				
Stocks Δ (Mbs)	API 08-Jan	Seasonally Adjusted Norm	API 15-Jan	Bias
Crude Oil	(5,821)	(500) ± 3,400	2,562	Neutral
Cushing	(232)	(200) ± 1,000	(4,285)	Bullish
Mogas	1,876	3,300 ± 1,400	1,129	Bullish
Distillate	4,433	(400) ± 2,300	816	Neutral

NOAA Outlook

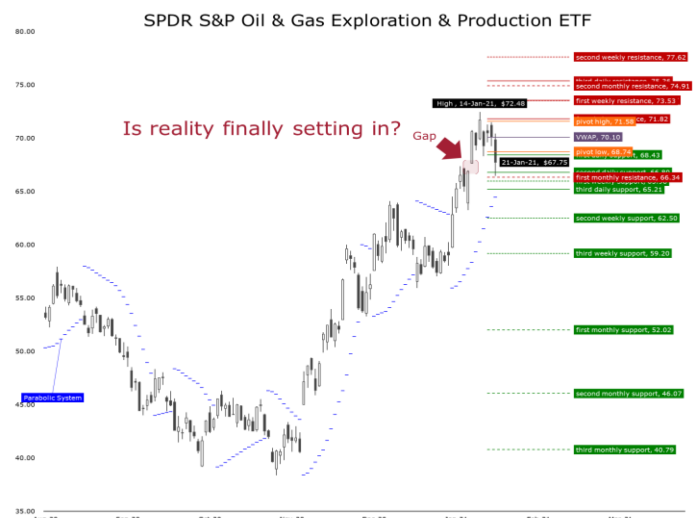


Temperature 6-10 Day



Temperature 8-14 Day

Note Bene: The EIA expects (here) "… global demand for petroleum liquids will be greater than global supply in 2021, especially during the first quarter, leading to inventory draws. As a result, EIA expects the price of Brent crude oil to increase from its December 2020 average of $50 per barrel (b) to an average of $56/b in the first quarter of 2021. The Brent price is then expected to average between $51/b and $54/b on a quarterly basis through 2022".



Omnium Gatherum

PRICES WERE SOFT YESTERDAY… natural gas on the NYMEX for February delivery settled at a 28-day low of $2.491/MMBtu, while oil prices on both sides of the Atlantic meandered aimlessly.

The E&P sector tumbled yesterday on news (here) that the Biden administration issued a 60-day moratorium on new oil and gas leasing and drilling permits on U.S. lands. As illustrated, the SPDR S&P oil and gas E&P ETF fell 3.4% to $67.75/share and closed the gap that was established on January 12th at $66.99. Last week the market peaked at an 11-month high of $72.48.

Why traders thought fit to gap the market higher and bid the ETF to a COVID-19 era high is a mystery. After all, it is not as if it was a secret (see the DNC's 2020 platform here) that the new administration is going to be the most hostile the oil and gas sector as ever seen… just ask our neighbors to the north. According to The Financial Post, Calgary-based TC Energy will eliminate more than 1,000 construction jobs in coming weeks and halt work on the Keystone XL oil pipeline after U.S. President Joe Biden revoked the project's presidential permit, the company said in an email to employees.

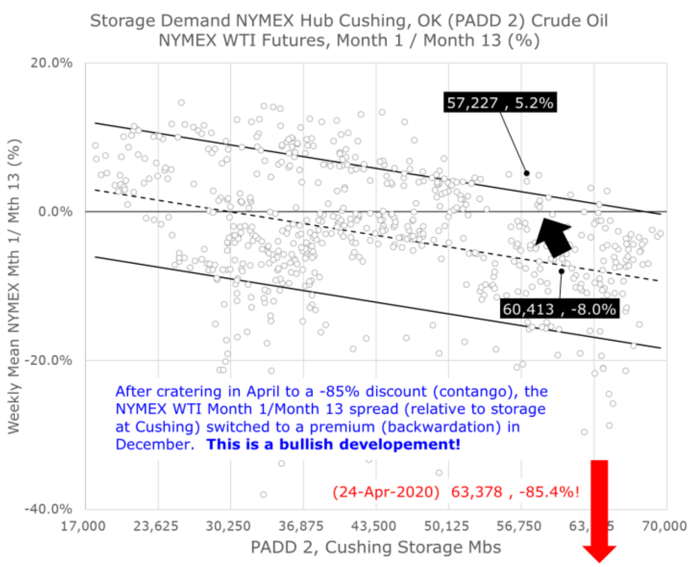
This is just the start of the ugliness.

EIA Petroleum Preview

On Wednesday, the API reported a normal build in crude oil stocks of 2.56 MMbs, inclusive of an abnormally large draw of 4.29 MMbs at the NYMEX terminal complex in Cushing.

In last week's EIA report, crude oil stocks in the refinery epicenter of PADD 3 fell by a normal 1.17 MMbs to 257.46 MMbs. As noted (here), stocks in the month of December always go missing as a result of the annual end-of-year ad valorem tax dodge. In the previous 39 Decembers, PADD 3 crude oil stocks fell 38 times, including the current string of 36 straight Decembers going back to 1984, with an average draw of 8.3 ±1.8 MMbs. This year's preliminary draw for December is approximately 9.39 MMbs.

Last week's reported draw for the week ended January 08th was detritus of this yearly purge. The crude oil that goes missing in December tends to reappear in January. Over the previous 39 Januarys, PADD 3 crude oil stocks rose 32 times—including 14 of the last 15 years—with an average net build since 1981 of 6.6 ±2.1 MMbs. Wait for it.



Bottom line, now that the NYMEX WTI curve has shifted to backwardation, there is no longer an incentive to hold onto inventory at Cushing. Get used to it, Cushing will continue to drain... with a lot of these barrels flowing south into PADD 3 to replace the barrels that went missing last month.

EIA Natural Gas Preview

Today is EIA Day in the natural gas market. In last Thursday's update, L48 underground storage fell to 3.196 Tcf for the week ended January 08th. This season's hitherto delivery is up to a comfortable 762 Bcf, within 11% of the five-year mean (861 Bcf) and within 5% of the seasonally adjusted time series (801 Bcf).

Implied space heating demand through most of the northern latitudes was weak last week. Temperatures in the all-important Chicago market area averaged 32°F (30% above normal) while temps in New York City came in at a 42°F average (32% above normal). As warm as these temps were, they were slightly cooler than the previous week. As is such, degree days in Chicago and New York rose by 1.8% and 0.5%, respectively.

Per preliminary estimates from the EIA, LNG sendout fell by 5.0% to a 9.94 Bcf/d average as of January 14th. On the power front, week-over-week L48 power production from the Edison Electric Institute (EEI) summed 79,427 GWhs, up 1.8% from the prior week and up 6.3% compared with a year ago. Over the last four weeks, production averaged 77,092 GWhs, 5.2% greater than the corresponding four weeks from a year ago.

The cognoscenti is looking for a normal delivery today with a range from -170 Bcf per Dow Jones, -174 Bcf Reuters, -177 Bcf Bloomberg and Platts, and -180 Bcf The Desk Survey. ICE storage futures are bid at -195 Bcf and offered at -175 Bcf. The typical delivery for this report is -169 ±47 Bcf.

For the next two reports, ICE futures are bid at -145 Bcf and -200 Bcf, respectively. Thus, storage could be as low as 2.656 Tcf for the week ended January 29th. Based on this assumption, we venture that there is a 58% probability of coming in at/above the EIA's end-of-season forecast of 1.592 Tcf

Over the last month-and-a-half, the cross-seasonal (delivery season to refill season) March 2021/April 2021 Henry Hub futures spread has traded in contango (March discount to April) more often than in backwardation (March premium to April). Yesterday, March gas closed at a life-of-contract high discount (-0.039) against April gas!

To add insult to injury, yesterday February gas closed at a 6 tick discount to March, which is a 4.5 cent discount to April! **The fact that traders are unwilling to pay a premium to own gas for the final two delivery months of the season is as fundamentally bearish as it gets!**