

THE SCHORK REPORT

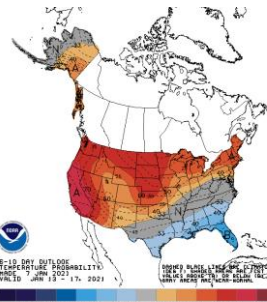


FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

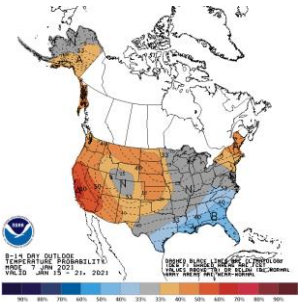
Friday, January 08, 2021

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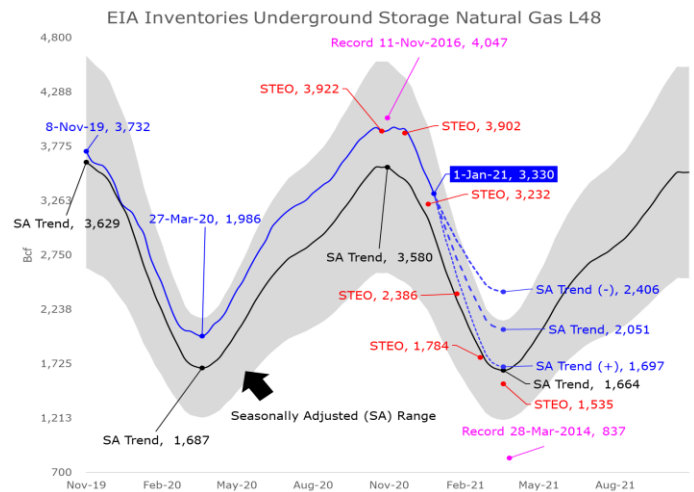
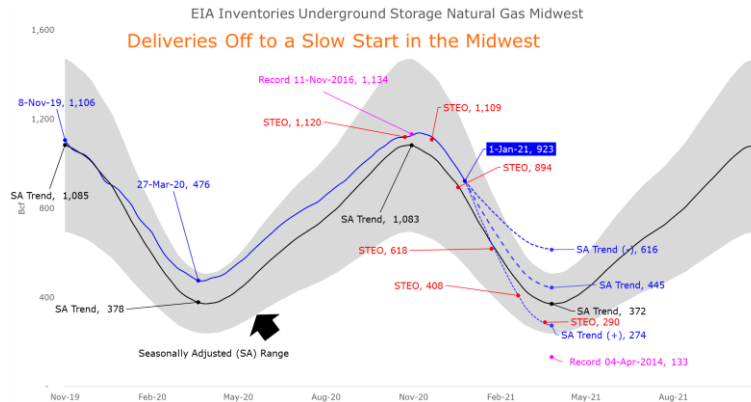
NOAA Outlook



Temperature 6-10 Day



Temperature 8-14 Day



Note Bene: It is not all doom-and-gloom for gas bulls. In a recent note from the EIA, exports of LNG set a new record in December after posting a record in November of 9.40 Bcf/d. The EIA estimates December exports averaging a record 9.80 Bcf/d. After cratering last July to a 21-month low of 3.103 Bcf/d, LNG exports ballooned on average by 25% per month, finishing December more than 3x its July nadir.

Omnium Gatherum

PRICES WERE FIRM YESTERDAY... oil markets and gas markets moved modestly higher on knock-on momentum from the previous sessions.

EIA Natural Gas Review

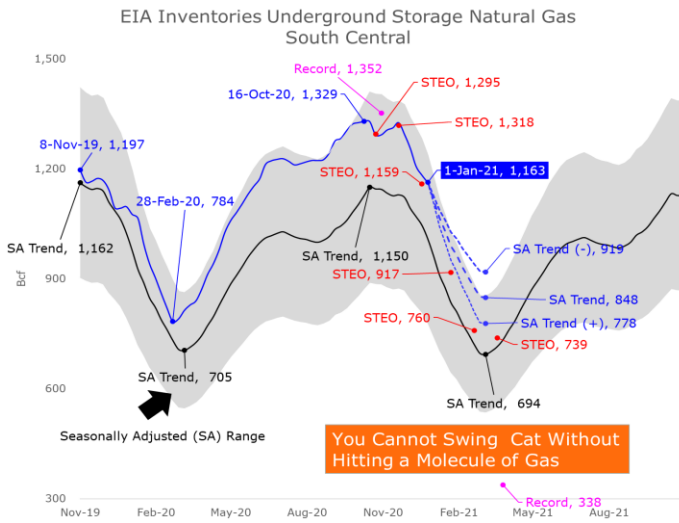
Yesterday the EIA reported a reasonable delivery of natural gas from L48 underground storage. As of January 01st, inventories fell by 130 Bcf to 3.330 Tcf. The seasonal norm is 151 ±42 Bcf and the five-year mean (interpolated) is 180 Bcf.

Per the EIA's estimates, LNG sendout fell by 2.69% to a 10.05 Bcf/d average as of December 31st and according to the Edison Electric Institute (EEI), week-over-week L48 power production summed 74,553 GWhs, up 4.1% compared with the corresponding time series from a year ago. On a week-over-week basis, after the Xmas lighting season peaked, production was 2.3% lower. The EEI notes that for the past 52 weeks, U.S. power production totaled 3,927 TWhs, down 2.8% from the previous 52-week period.

The report came in below the consensus surveys which ranged from 135 Bcf on The Desk and Reuters, 137 Bcf Bloomberg and Dow Jones, and 139 Bcf Platts.

Gas was delivered out of the Salts (South Central Region) for a fifth straight week. As of last Friday, storage fell by 1 Bcf to 333 Bcf. The seasonally adjusted norm for last week was an 8 ±2 Bcf delivery. Storage is comfortable, i.e. 34 Bcf above the seasonally adjusted trend.

For the entire South-Central region, inventories fell by a light 20 Bcf whereas the seasonally adjusted norm is a 37 ±8 Bcf delivery. Inventories dropped to 1.16 Tcf and the surplus to a year ago narrowed by 221 basis points from 8.23% to 6.02% or 66 Bcf. **This season's net delivery is up to a bullish 166 Bcf.** The norm is a 141 ±13 Bcf delivery.



You Cannot Swing Cat Without Hitting a Molecule of Gas

Last week, temps in the all-important Chicago market area averaged a seasonal 29°F. In return, storage in the Midwest fell by a standard 50 Bcf. You normally expect a delivery of 52 ±19 Bcf. **It has been a slow start to winter in the Midwest.** Up through the end of 2020, 216 of gas has been delivered. This pace is 10% below the five-year average, 7% below the seasonal trend, and 4% below a year ago.

A total of 45 Bcf was delivered out of the East. The typical delivery is 34 ±12 Bcf. New York City temps averaged a warm 42°F which was 23% above normal. Given the mild implied space heating demand through the week, inventories fell by a heavy amount. The season-to-date delivery of 188 Bcf is 1% above the five-year mean, 7% above a year ago and 4% above the seasonal trend.

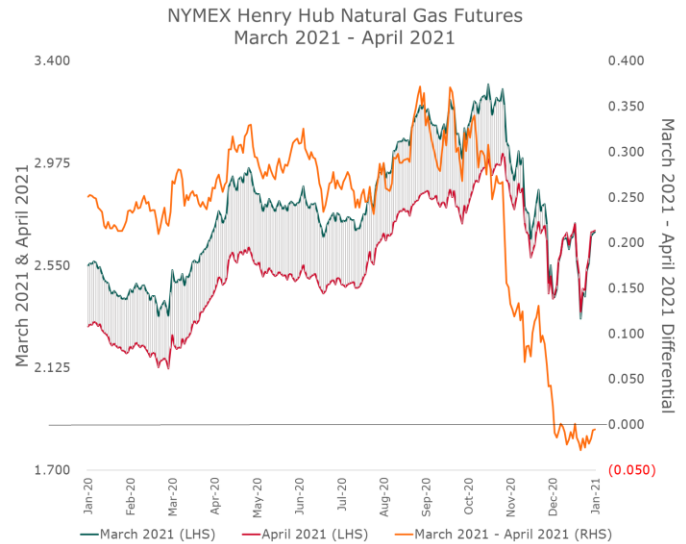
As far as next week's report is concerned (EIA week ended January 08th) the early consensus is looking for a delivery in the high 130s to low 140s Bcf. The typical delivery for this week is 164 ±46 Bcf, the five-year mean is 184 Bcf. In light of this early forecast, we venture that the probability of finishing this season above the EIA's forecast (STEO) of 1.535 Tcf is 58% with a 50/50 line of approximately 1.582 Tcf. There is a 38% chance of finishing above the five-year mean of 1.694 Tcf.

Prices

The market bounced back to start 2021 but, the front-end of the curve remains worrisome.

Since bottoming in the final week of 2020 at a life-of-contract low of \$2.263/MMBtu, NYMEX natural gas futures for February 2021 delivery mounted a strong comeback, hitting a \$2.770/MMBtu high earlier this week for a trough-to-peak rally of 22% or \$5,070 per contract. This recent strength notwithstanding, bulls are not out of the woods.

Through the final quarter of 2020, the disposition of the cross-seasonal March 2021/April 2021 Henry Hub futures spread on the NYMEX collapsed from a peak premium (backwardation) of \$0.340/MMBtu on October 12th to a peak discount (contango) of -\$0.028/MMBtu on December 28th. Since December 08th, the spread has been in contango 19 out of 21 days.



In other words, the March contract (a contract for delivery in a month when we see a net withdrawal of gas from underground storage) finished last year at a discount to April (a contract for delivery in a month when we see a net addition of gas into underground storage). **That is as fundamentally bearish as it gets!**

Looking back over the last thirty years of trading in the NYMEX Henry Hub futures complex, it is not uncommon for the contract for March to trade at a discount to April. However, it is highly unusual for this discount to occur in the month of December... two weeks prior to the winter solstice no less!

Traders are unwilling to bid up gas for nearby delivery, a clear telltale that they have accepted a bearish case for the first half of 2021.

