



Questionable Fundamentals Persist

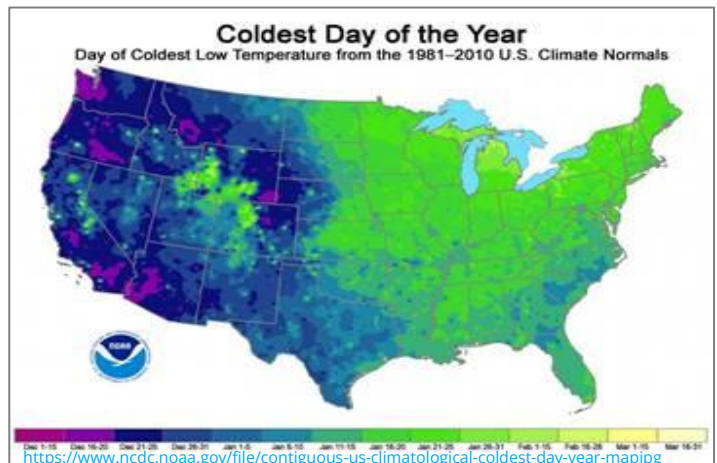
Today the EIA reported a light delivery of natural gas from L48 underground storage. As of January 22nd, inventories fell by 128 Bcf to 2.881 Tcf. The consensus was looking for a normal delivery with a range from -136 Bcf per surveys from The Desk, Platts, Reuters, and -138 Bcf from Bloomberg. ICE storage futures were bid at -137 Bcf. The typical delivery for this report is -139 ±39 Bcf. This season's delivery is up to a reasonable 1.077 Tcf which is 10% below the five-year mean of 1.200 Tcf and 3% below the seasonally adjusted time series of 1.109 Tcf.

For next week's report (EIA week ended January 29th), ICE storage futures are bid at -220 Bcf, offered at -190 Bcf. This is a big delivery; the typical delivery for this report is -146 ±41 Bcf. Nevertheless, we project the chance of hitting the EIA's end-of-season forecast of 1.592 Tcf is 58%, along with a 55% chance of coming in above the ICE storage futures market end-of-season bid of 1.620 Tcf. Our 50/50 line for the end-of-season balance is 1.654 Tcf.

At the end of last week, the NYMEX Henry Hub futures contract for February delivery settled at a \$0.010/MMBtu discount (contango) to the March contract. Given that February tends to produce the coldest days of the winter (as illustrated), it is unusual for a gas contract for delivery in this month to trade at a discount to a contract for delivery in March.

Further, the March contract (the final contract of winter) closed last week at a life-of-contract high discount to the April contract of \$0.047/MMBtu. Keep in mind that March is the last month when we see a net delivery of gas from underground storage.

While there was an expiration-squeeze this week (see below), as stated in last week's report, the fact that traders were unwilling to pay a premium to own gas for the final two months of this winter is a fundamental bearish telltale as we look forward to the spring shoulder months.



Short-term weather patterns are not long-term price predictors.

After trading towards a life-of-contract low last Friday, the NYMEX Henry Hub February 2021 futures contract rallied into this Wednesday's expiration. The surge was a function of traders scrambling to cover shorts after weather forecasts for the first week of February turned bullish. In other words, this rally was an expiration-squeeze, compounded by some cold weather.