THE SCHORK REPORT

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, February 05, 2021

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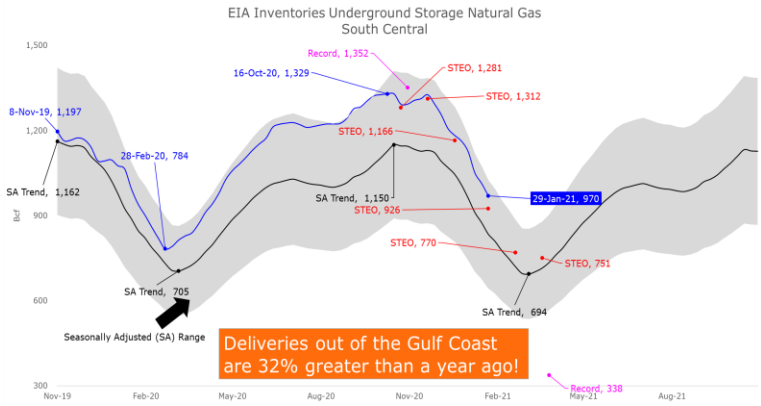
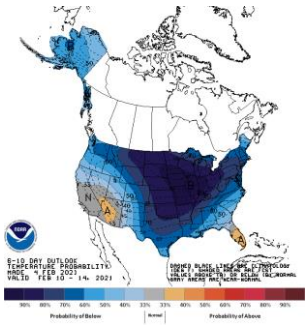
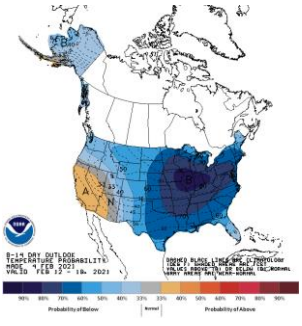


NOAA Outlook



Temperature 6-10 Day



Temperature 8-14 Day

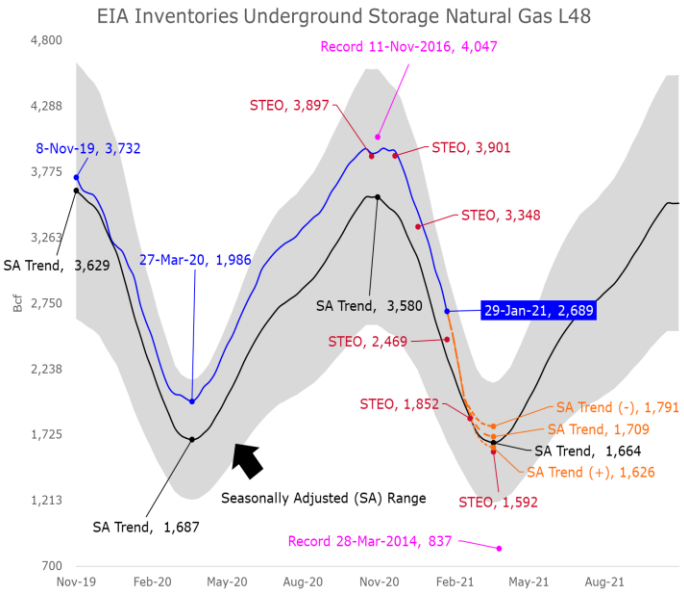
Note Bene: U.S. Factory orders rose for an eighth straight month, surging by 1.1% in December to a BC (Before COVID) high of $493.50 billion. After cratering in April 2020, it has taken the market a mere eight months to recover; this is nothing short of miraculous. For comparison sake, after cratering in April 2009 in the depths of the Great Recession, it took 34 months—until February 2012—for the smokestack economy to recover.

Omnium Gatherum

PRICES WERE FIRM YESTERDAY… bearish momentum in spot natural gas on the NYMEX stalled at the *neckline* of a head-and-shoulders pattern at $2.734/MMBtu. From there, the market spiked in a delayed post-EIA frenzy, peaking at $2.977/MMBtu, and closing 14.6 cents or 5.2% higher. Momentum on the oily side of the market was subdued. The NYMEX WTI contract closed within 1 penny of our daily antepenultimate resistance of $56.22/b and finished 54 cents above Thursday's close.

EIA Natural Gas Review
The Calculus Has Changed

Yesterday the EIA reported a heavy delivery of natural gas from L48 underground storage. As of January 29th, inventories fell by 192 Bcf to 2.689 Tcf. The cognoscenti was looking for a delivery with a range from -192 Bcf on Reuters, -193 Bcf on The Desk, -194 Bcf on Bloomberg and Dow Jones, and -195 Bcf on Platts. The typical delivery for this report is -146 ±41 Bcf. This season's hitherto delivery is a solid 1.269 Tcf which is 5% below the five-year mean but, 1% above the seasonally adjusted time series and 13% above last year's pace.



Gas was delivered out of the Salts (South Central Region) for a ninth straight week; storage fell by a light 7 Bcf to 281 Bcf. A net of 87 Bcf of gas has been delivered thus far this season which is 6% above the five-year mean and 18% above the seasonally adjusted time series. In other words, this is a strong season, and that was before the appearance of Old Man Winter.

For the entire South-Central region, inventories fell by a normal 44 Bcf to 970 Bcf. The surplus to a year ago increased from 19 Bcf to 29 Bcf. This is interesting given that the hitherto delivery is 40% greater than a year ago.

Storage in the Midwest fell by a normal 61 Bcf to 719 Bcf. This season's cumulative delivery is now up to 420 Bcf which is 8% below the five-year mean and 5% below the seasonally adjusted time series. Nevertheless, as of last week, the disposition to a year ago switched from a 19 Bcf surplus to a 6 Bcf deficit. **This is the first time since April 2019 that inventories in the Midwest have been in a year-over-year deficit.**

In the East, storage dropped by 59 Bcf to 582 Bcf. The year-over-year comparison flipped from a 3 Bcf deficit to a 16 Bcf surplus. The season-to-date delivery of 371 Bcf if essentially on par to the five-year average of 373 Bcf and the seasonally adjusted time series of 361 Bcf.

Earlier this week, the EIA observed that underground natural gas stocks for the conterminous U.S. exceeded the five-year average by 244 Bcf at midwinter. Since the 2010-11 winter, underground stocks have exceeded the current stock level at this point in the season only twice: during the relatively warmer winters of 2011-12 and 2015-16.

Up until last week, this winter was shaping up to be another relatively warm season. For instance, in Chicago—the largest gas-fired space heating market in the Lower 48—heating degree days summed 2,006 or 12.8% below normal and in New York City, heating degree days were 9.4% below normal.

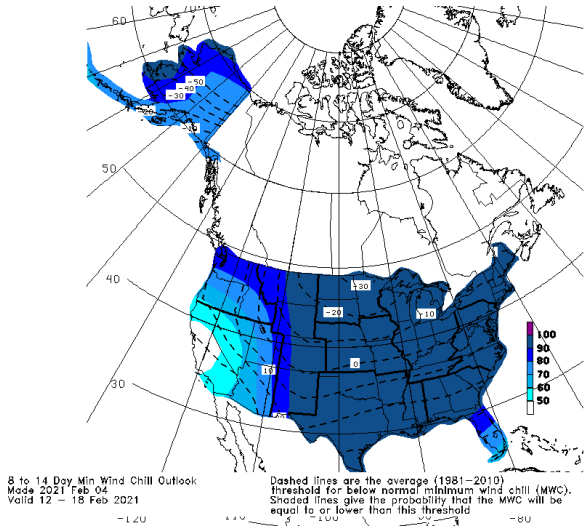
What a difference a week makes. The EIA's observation from the other day is already old news. That is because the abrupt appearance this week of Old Man Winter through the Midwest and East has changed the calculus on the remainder of the season.

Therefore, the complexion of the second half of winter is going to be much different.

For next week's report (EIA week ended February 05th), the early whisper number is another heavy delivery in the mid -180s Bcf, as opposed to the typical delivery of 117 ±33 Bcf. Given the extended weather forecasts, deliveries in the mid-200s (!) Bcf are currently expected for the following two reports. If good, storage could be as low as 2.000 Tcf by Feb 19th

This is significant! After all, Punxsutawney Phil saw his shadow this week.

The bottom line is that the odds of finishing this winter above the 5-Year average have collapsed.



As a result of the surge in space heating demand, we calculate the probability of hitting the EIA's end-of-season forecast of 1.592 Tcf cratered over the week from 58% to 42% and the chance of ending the season above the five-year average (1.694 Tcf) is a mere 22%. Our 50/50 line plunged by 90 Bcf to 1.564 Tcf or 130 Bcf below the five-year mean. This would amount to a 374 Bcf swing in the disposition to the five-year mean since the middle of the season.