

THE SCHORK REPORT

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

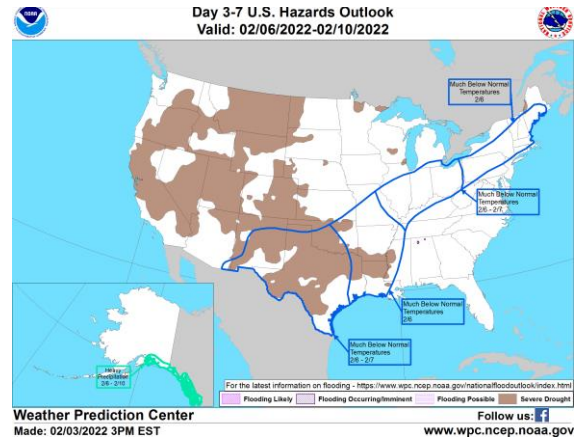


Friday, February 04, 2022

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From Texas to New England, it's about to get interesting.

EIA Weekly Natural Gas Status Report				
Storage Δ (Bcf)	EIA 21-Jan	Seasonally Adjusted Norm	EIA 28-Jan	Bias
L48	(219)	(156) \pm 43	(268)	Bullish
South Central	(81)	(42) \pm 9	(101)	Bullish
Salt	(29)	(10) \pm 2	(48)	Bullish
Nonsalt	(53)	(33) \pm 7	(52)	Bullish
Midwest	(69)	(52) \pm 18	(85)	Bullish
East	(60)	(48) \pm 17	(68)	Bullish
Mountain	(8)	(7) \pm 2	(10)	Bullish
Pacific	0	(6) \pm 1	(5)	Neutral



Note Bene: As of 5:00 PM EST, the NWS notes a winter storm over the Central U.S. is moving its way into the Northeast...

Key Messages for Feb. 1-4 Winter Storm Updated February 03, 2022 5:00 PM EST

Significant snow and ice from the Central U.S. through the Northeast

- An expansive winter storm will shift into the Northeast tonight with heavy snow, sleet, and freezing rain.
- Freezing rain and sleet over the Mid-South will progress northeastward into the Northeast this evening. Significant ice accumulation is possible from Pennsylvania eastward to Southern New England. This could make for difficult travel conditions along with some power outages and tree damage.
- Heavy snow totals are expected from the eastern Great Lakes through much of interior New York state eastward into central and northern New England. Snowfall rates could reach 1-2 inches per hour tonight and early Friday.
- Locations impacted by snow and/or ice from this storm will experience below freezing temperatures into the weekend.

Forecast snowfall through 7AM EST Saturday

Forecast ice accumulation through 7AM EST Saturday

National Oceanic and Atmospheric Administration | For more information go to www.ncep.noaa.gov and www.weather.gov | Weather Prediction Center College Park, MD

Omnium Gatherum

ENERGY PRICES WERE MIXED YESTERDAY... Henry Hub gas futures for March delivery made another historic run, this time to the downside. Oil markets, led by N^o2 oil, screamed higher.

The Volatility Monster Has Returned

Last week's expiry of the NYMEX Henry Hub natural gas futures for February delivery was one for the record books. The contract bottomed on the open at \$4.230/MMBtu and rallied in the final thirty minutes of trading to a \$7.356/MMBtu high for a trough-to-peak rally of 73.7%, i.e. \$31,160 per contract! By the time the dust

settled last week, the market posted the second largest intraweek rally, 89½% (inclusive of contract rolls) in the 30-plus year history of trading on the NYMEX!

It is more of the same this week, on Wednesday, March gas surged to 1.5 cents above our \$5.557/MMBtu third weekly resistance and settled \$0.750/MMBtu higher at \$5.501. More to the point, the contract rallied 12.4% (\$0.608/MMBtu) from open to close, the 20th largest intraday rally since 1990 (i.e. 20 out of 7,992 trading days, 99.8th percentile)!

Yesterday, the market gave back nearly all of Wednesday's gain. The contract opened at \$5.420/MMBtu and settled at \$4.888/MMBtu, down from the open by \$0.532/MMBtu which is the 19th largest decline of the last 7,993 trading days, 99.8th percentile!

Market volatility has since spiked to levels not seen since Hurricanes Katrina and Rita decimated Gulf of Mexico production in 2005. Thus, once again trading in the natural gas markets makes [lumberjacking](#) look safe. Last February, daily volatility on the spot NYMEX Henry Hub market averaged 102.4% which equated to an approximate one standard deviation daily change of \$0.187/MMBtu (\$1,867 per contract). Over the last week, volatility has averaged \$0.722/MMBtu (\$7,215 per contract), 3.9x riskier than a year ago and 2.6x the risk in today's WTI crude oil market.

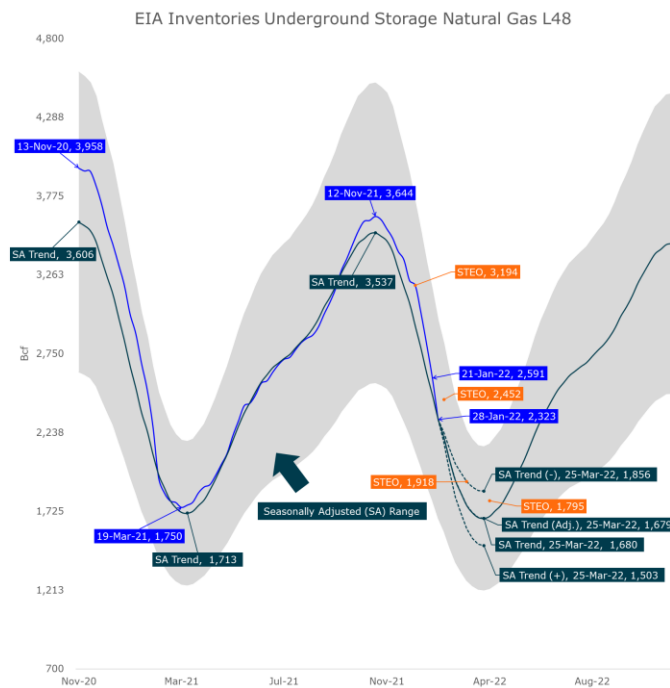
What makes the spike in market volatility so intriguing is the lack of a compelling fundamental story.

Yes, it is cold, and we have had freeze-offs at the wellhead, but it's January for crying out loud. This is what happens in January. Besides, the freeze-offs we have seen pale in comparison to last February's Winter Storm Uri disruptions... and, even Uri could not hold a candle to what Katrina and Rita accomplished in 2005.

The lack of a significant fundamental driver behind the volatility sets the table for a wild transition from winter into the shoulders.

Natural Gas Review

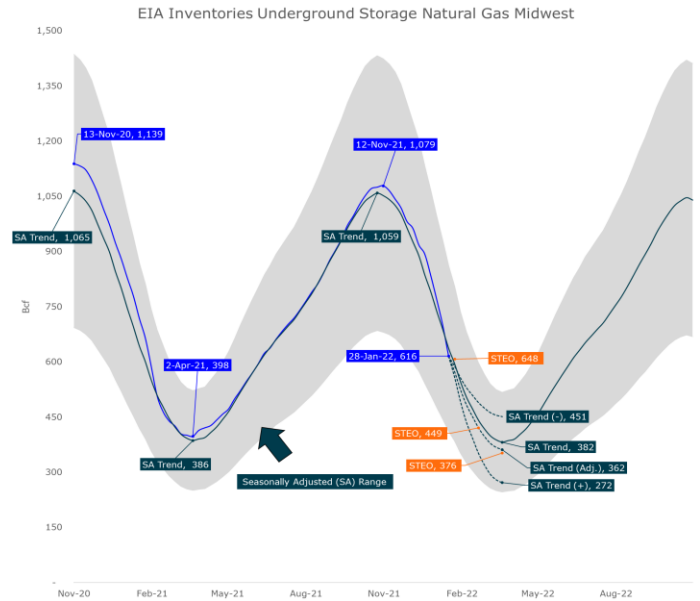
Yesterday, the EIA reported the eleventh delivery of the winter, a massive 268 Bcf of natural gas was withdrawn from L48 underground storage. For the week ended January 28th, storage dropped to 2.323 Tcf and the surplus to a year ago completely evaporated. Since the start of the heating season, the market has delivered a total of 1.321 Tcf from storage, which is 9% (107 Bcf) greater than the seasonally adjusted time series and 4% (52 Bcf) greater than last year's pace.



The South Central market area reported a massive 101 Bcf delivery, the largest withdrawal since last February's Winter Storm Uri. The market's surplus to the seasonally adjusted norm was slashed by three-quarters to a **four-month low** of 1.9% (16 Bcf).

The Midwest reported a heavy delivery of 85 Bcf. Storage fell to 616 Bcf and the comparison flipped to a deficit (20 Bcf) for the first time in four months. This season's delivery is up to 463 Bcf which is 9% (40 Bcf) above the seasonally adjusted trend and 10% (43 Bcf) above last

year's pace. The area has now burned through 68% of last summer's refill.



Storage in the East fell by a firm 60 Bcf to 541 Bcf. The surplus to the seasonally adjusted time series narrowed by 326 basis points to a two-month low of 1.2% (6 Bcf). Last month, the cushion to the seasonal norm hit an 18-month high of 9.3% (62 Bcf). This season's hitherto delivery is 359 Bcf, 1% (3 Bcf) above the seasonally adjusted time series and 3% (12 Bcf) below a year ago.

Bottom Line

We are now around three-fifths of the way through the heating season and the market has consumed 7 out of the 10 molecules injected over the summer.

Over the last three weeks, the EIA has reported a total delivery of 693 Bcf, one of the largest (96th percentile) three-week draws ever. The early consensus for next Thursday's update is a fourth straight delivery in excess of 200 Bcf. We have only seen four consecutive 200-plus Bcf deliveries once, in the polar vortex winter of 2014. As of yesterday's update, we reckon the probability of ending winter at the EIA's latest forecast (1.795 Tcf) is just 9.1% (odds of 10:1). The 50/50 line on end-of-season storage is \approx 1.38 Tcf.

