THE SCHORK REPORT™

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, July 01, 2022

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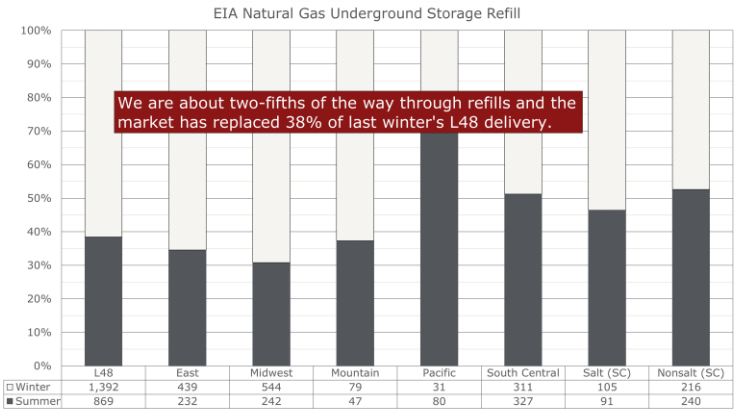


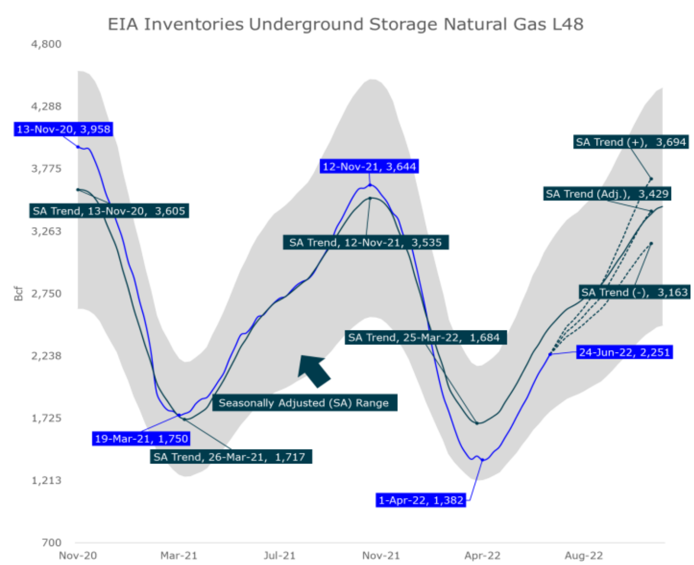
EIA Weekly Natural Gas Status Report				
Storage Δ (Bcf)	17-Jun	Seasonally Adjusted Norm	24-Jun	Bias
L48	74	63 ± 18	82	Bearish
South Central	12	6 ± 1	11	Bearish
Salt	(3)	(4) ± 1	(6)	Bullish
Nonsalt	16	10 ± 3	16	Bearish
Midwest	24	24 ± 9	29	Neutral
East	23	24 ± 9	31	Neutral
Mountain	6	5 ± 1	6	Neutral
Pacific	10	4 ± 1	4	Neutral

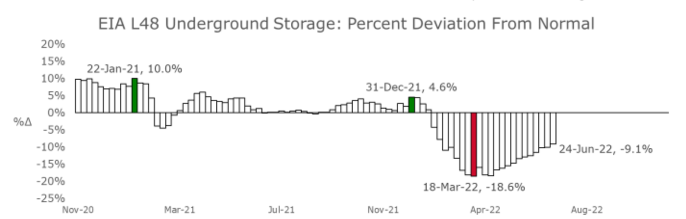
Nota Bene: (AP) — In a blow to the fight against climate change, the Supreme Court on Thursday limited how the nation's main anti-air pollution law can be used to reduce carbon dioxide emissions from power plants…

"Capping carbon dioxide emissions at a level that will force a nationwide transition away from the use of coal to generate electricity may be a sensible 'solution to the crisis of the day,'" Chief Justice John Roberts wrote in his opinion for the court…

But Roberts wrote that the Clean Air Act doesn't give EPA the authority to do so and that Congress must speak clearly on this subject…

"A decision of such magnitude and consequence rests with Congress itself, or an agency acting pursuant to a clear delegation from that representative body," he wrote.





Omnium Gatherum

ENERGY PRICES WERE WEAK YESTERDAY… Spot natural gas on the NYMEX plunged by a historic 16½% ($10,740 per contract). Oil markets also tanked through expirations on the ICE crude oil and NYMEX product markets.

EIA Natural Gas Review

Yesterday, the EIA reported an above-normal injection of 82 Bcf of natural gas into L48 underground storage for the week ended June 24th. As of last week, inventories stood at 2.251 Tcf. Since the start of the season, a total of 869 Bcf has been injected, which is 77 Bcf (10%) above the seasonally adjusted trend and 61 Bcf (8%) above last year's pace. In this time, the deficit to the seasonally adjusted time series has narrowed from 18.6% (316 Bcf) to a five-month low of 9.1% (225 Bcf).

The South Central area reported a fourteenth straight injection. Storage rose by a considerable 12 Bcf last Friday to 886 Bcf. This season's hitherto refill is an impressive 327 Bcf; 61 Bcf (23%) above the seasonally adjusted time series and within 1 Bcf of the top of the seasonal range. Since the start of the season, the deficit to the seasonally adjusted norm has narrowed from 20.3% (142 Bcf) to a five-month low of 7.5% (75 Bcf).

The Salts reported a second straight delivery; a heavy 6 Bcf. The Wimpy phase of the season—that time of the cooling season when gas-fired electricity utilities *borrow* gas from their storage in the Gulf to offset increased cooling demand in the northern latitudes—is kicking into gear. Storage will continue to fall from now until late summer before the utilities repay this gas ahead of the heating season.

The Nonsalt region posted a substantial 16 Bcf injection. Since the start of the season, 240 Bcf of gas has been refilled. This pace is 47 Bcf (24%) above the seasonally adjusted time series and 1 Bcf above the top of the seasonally adjusted time series. As a result, storage now stands at 644 Bcf and the deficit to the seasonally adjusted norm has been cut from 18.6% (95 Bcf) to a four-month low of 6.2% (43 Bcf).

The Midwest reported a solid injection of 29 Bcf. Inventories rose to 535 Bcf and the deficit to the seasonal norm narrowed by 131 basis points to four-month low of 12.6% (77 Bcf). This season's refill is up to 242 Bcf, 12 Bcf (5%) above the seasonally adjusted time series and 17 Bcf (8%) above last year's injection.

In the East, a solid 31 Bcf was injected. The season-to-date refill continued to improve (following an anemic start to the season) and is now within 13 Bcf (5%) of the seasonally adjusted norm. As of last Friday, storage stood at 461 Bcf and the deficit to the seasonally adjusted time series narrowed by 201 basis points to a three-month low 14.4% (78 Bcf).

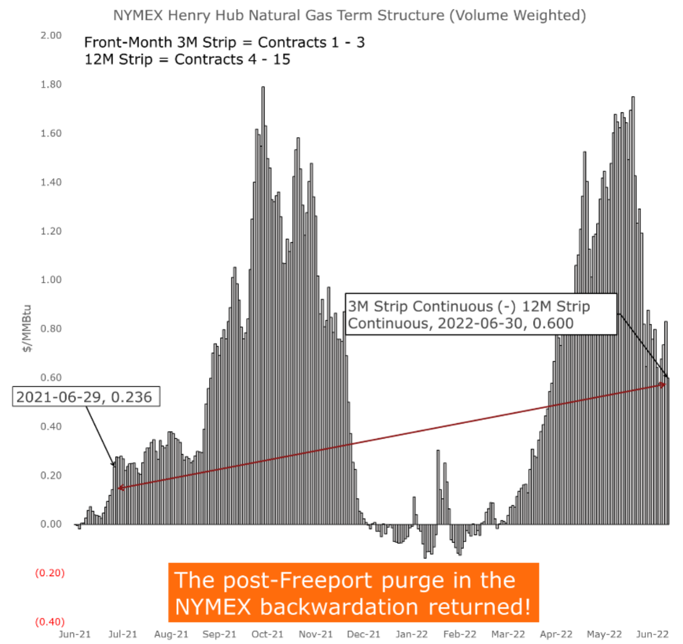
Bottom Line

We are about two-fifths of the way through the season and the market has covered about two-fifths of last winter's delivery. The early consensus for next Thursday's report is another above normal injection in the mid-70s Bcf. Our current forecast for end-of-season storage is about 3.44 Tcf (the five-year average is 3.656 Tcf).

One For the Books On the NYMEX

The bear market that began two weeks ago in the wake of the Freeport LNG disruption took a new leg lower yesterday. The bottom fell out from underneath the NYMEX natural gas complex after the EIA reported that above normal, not to mention well above market consensus, injection.

The spot contact plunged by 16.53% which is the largest crash since the NYMEX introduced the futures contract in 1990… about 8,100 trading sessions ago! Even accounting for contract rolls on backwardations, yesterday's crash was the sixth largest ever!



The strong bid on the front-end of the NYMEX term structure is moving lower now that about one-fifth of U.S. LNG export capacity has been sidelined (as a result of the explosion and fire at Freeport LNG) through the remainder of the refill season.

The price weakness could just be residue of book squaring for the end of the month and thin trading volume ahead of the holiday weekend. We'll have a clearer picture next Tuesday when we all return from our 04th of July BBQs whether or not the price plunge was fundamentally driven (perhaps a combination of surplus domestic LNG and fears of economic contraction… more on that below) or just the normal kind of volatility traders have become accustomed to.

That '70s Show

On Wednesday, the Bureau of Economic Analysis (BEA) reported the final print on Q1 GDP showing the U.S. economy shrank by 1.6% annualized. More troubling than that, the GDP Price Index (the BEA's yardstick on inflation) we revised higher from 8.1% to 8.2%, the highest rate since the Double-Dip recession in 1981.

Yesterday, the Atlanta Federal Reserve Bank released its latest GDPNow model which is now forecasting the U.S. economy contracted by 1.0% annualized in the second quarter. **If the Atlanta Fed's model is correct, then back-to-back declines in GDP means the U.S. is now officially in a recession and with inflation nowhere near being contained, the U.S. is rambling down the road to 1970's style stagflation.**