THE SCHORK REPORT™

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, July 15, 2022

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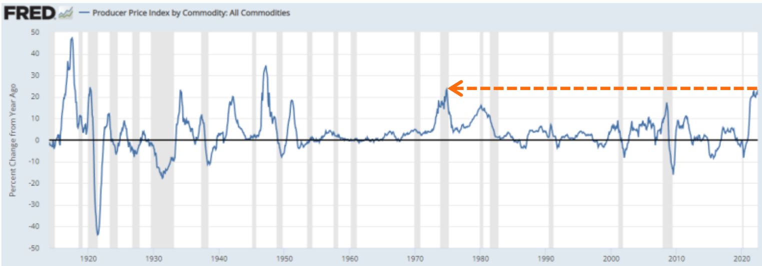


Commodity prices for producers surged by 23.4% (Y/Y) last month, the largest increase since the Arab Oil Embargo in 1974. We'll have more to say, a lot more to say, on this topic in next Tuesday's macroeconomic roundup.

EIA Weekly Natural Gas Status Report				
Storage Δ (Bcf)	1-Jul	Seasonally Adjusted Norm	8-Jul	Bias
L48	60	50 ± 14	58	Neutral
South Central	4	(0) ± 0	0	Neutral
Salt	(9)	(5) ± 1	(12)	Bullish
Nonsalt	13	5 ± 1	12	Bearish
Midwest	27	21 ± 8	24	Neutral
East	21	20 ± 7	19	Neutral
Mountain	4	4 ± 1	5	Neutral
Pacific	5	2 ± 1	9	Bearish

Omnium Gatherum

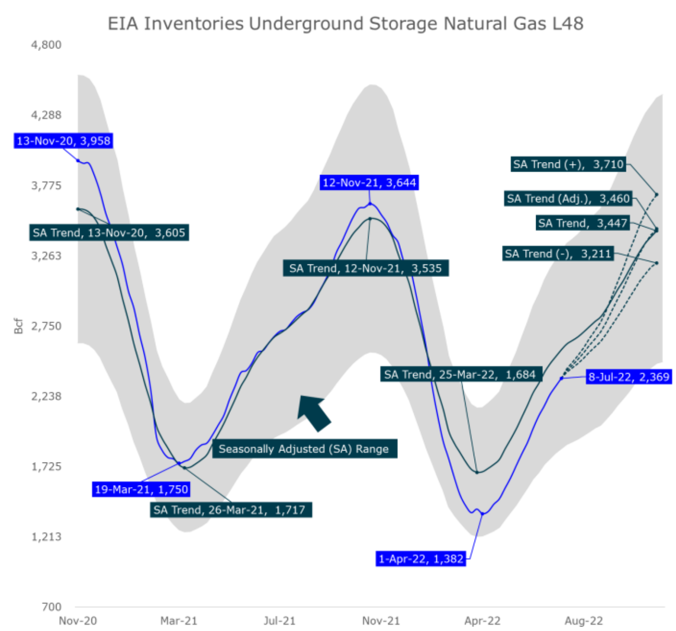
ENERGY PRICES WERE WEAK YESTERDAY… oil and gas sold off as recession fears continue to build. For example, for the first time since the Great Recession, the yield curve (10-year Treasuries minus 2-year Treasuries) inverted for a sixth consecutive day.

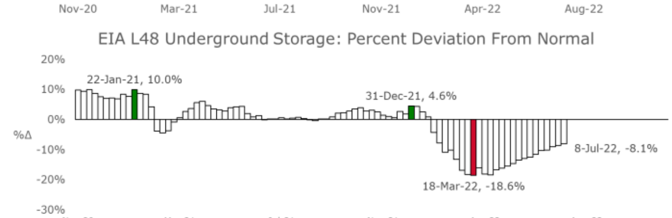
EIA Natural Gas Review

Yesterday, the EIA reported a normal injection of 58 Bcf of natural gas into L48 underground storage for the week ended July 08th. As of last Friday, inventories stood at 2.369 Tcf. Since the start of the season, a total of 987 Bcf has been injected. This pace is 94 Bcf (10.5%) above the seasonally adjusted trend and 108 Bcf (12.3%) above last year's pace.

> **Nota Bene:** LA Times/Yahoo Finance: "California has been a pioneer in pushing for rooftop solar power, building up the largest solar market in the country… Beginning in 2006, the state, focused on how to incentivize people to take up solar power, showered subsidies on homeowners who installed photovoltaic panels but had no comprehensive plan to dispose of them. Now, panels purchased under those programs are nearing the end of their 25-year life cycle. **Many are already winding up in landfills, where components that contain toxic heavy metals such as selenium and cadmium can contaminate groundwater**."
>
> And remember, natural gas is bad for the environment.

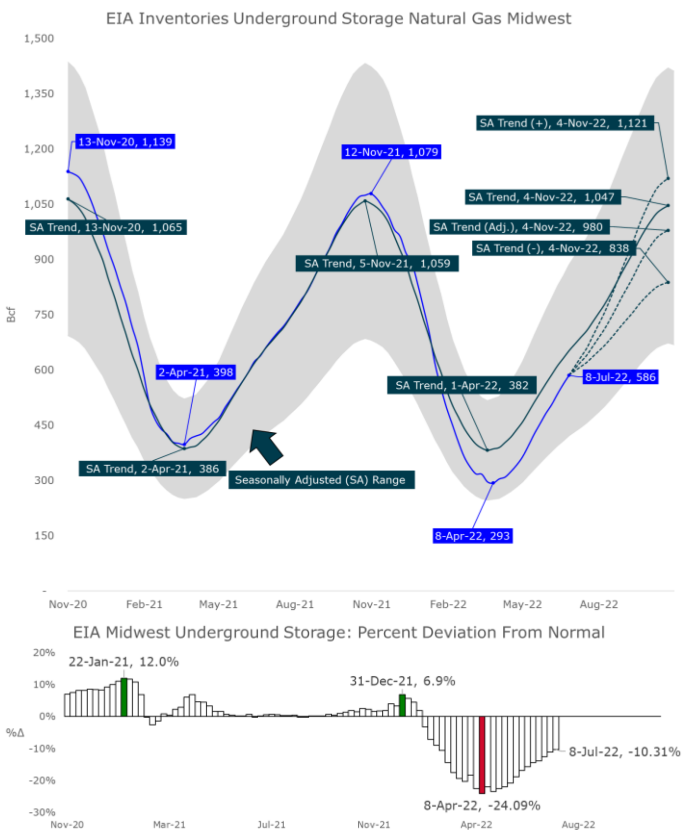
The South Central area reported no change which is typical for this point in the season. Storage held at 890 Bcf. This season's hitherto refill is a massive 331 Bcf, 64 Bcf (24%) above the seasonally adjusted time series and 3 Bcf above normal (i.e. above the seasonally adjusted time series plus the standard error of estimate). Since the end of last winter, the deficit to the seasonally adjusted norm has narrowed from 20.3% (142 Bcf) to a six-month low of 7.1% (68 Bcf).





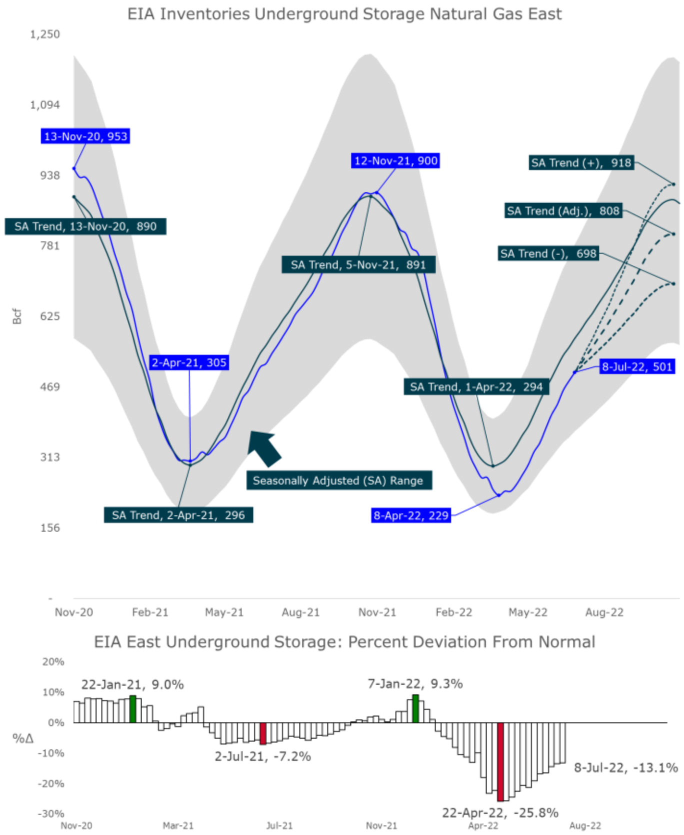
The Salts reported a heavy delivery of 12 Bcf. The Wimpy phase of the season—that time of the cooling season when gas-fired electricity utilities *borrow* gas from their storage in the Gulf to offset increased cooling demand in the northern latitudes—is in high gear. Storage will continue to fall until late summer before the utilities repay this gas ahead of the heating season.

Whereas the Salts reported a heavy delivery, the Nonsalt region posted a heavy injection of 12 Bcf. Since the start of the season, a substantial 265 Bcf of gas has been refilled. This pace is 61 Bcf (30%) above the seasonally adjusted time series and 12 Bcf (5%) above normal. As a result, storage now stands at 669 Bcf and the deficit to the seasonally adjusted norm has been cut from 18.6% (95 Bcf) to a five-month low of 4.1% (29 Bcf).



The Midwest reported a normal injection of 24 Bcf. Inventories rose to 586 Bcf and the deficit to the seasonal norm narrowed by 82 basis points to five-month low of 10.3% (67 Bcf). This season's refill is up to 293 Bcf, 22 Bcf (8.0%) above the seasonally adjusted time series and 29 Bcf (11.0%) above last year's injection.

In the East, a normal 19 Bcf was injected. The season-to-date refill continued to improve (following an anemic start to the season) and is now within 11 Bcf (4.0%) of the seasonally adjusted norm. As of last Friday, storage stood at 501 Bcf and the deficit to the seasonally adjusted time series narrowed by 25 basis points to a four-month low 13.1% (76 Bcf).



Bottom Line

We are about 45% of the way through the season and the market has covered 44% of last winter's delivery of 2.262 Tcf. The early consensus for next Thursday's report is another normal injection of about 40 Bcf. Since the start of the refill season, we raised our end-of-season forecast on storage by 9.9%—thanks to the unexpected addition of gas from Freeport LNG—to above 3.440 Tcf. While that is much higher than the pre-Freeport outlook, it is still 5.9% below the five-year average. As such, the backwardation on the front-end of the curve is holding firm. Yesterday, the first three-month strip (adjusted for volume) settled at a $0.944 premium to the subsequent 12-month strip. This strip is trading at a level last seen at the start of last winter. This is a clear telltale of the market's ongoing angst—Freeport notwithstanding—regarding supply.