

THE SCHORK REPORT



FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

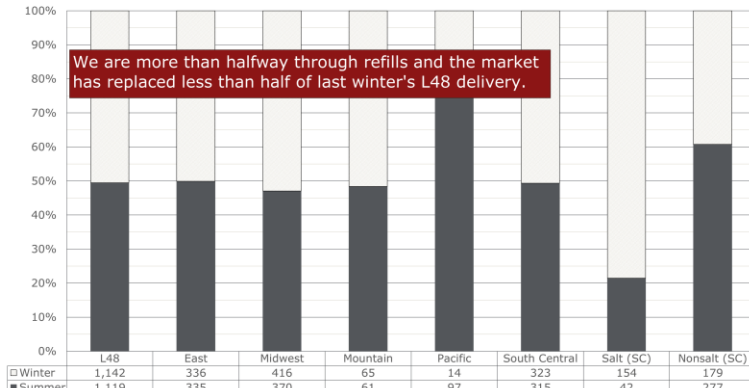
Friday, August 12, 2022

www.schorkgroup.com



Mr. Schork will be on FBN with Stuart Varney today at 9:40am.

EIA Natural Gas Underground Storage Refill



EIA Weekly Natural Gas Status Report

Storage Δ (Bcf)	29-Jul	Seasonally Adjusted Norm	4-Aug	Bias
L48	41	35 ± 10	44	Neutral
South Central	3	(3) ± 1	9	Bearish
Salt	0	(5) ± 1	(2)	Bearish
Nonsalt	4	2 ± 1	10	Bearish
Midwest	18	23 ± 8	20	Neutral
East	17	20 ± 7	15	Neutral
Mountain	3	2 ± 1	1	Neutral
Pacific	0	(0) ± 0	(1)	Bullish

Omnium Gatherum

ENERGY PRICES WERE STRONG YESTERDAY... oil markets continued to forge higher while NYMEX natural gas spiked for no plausible reason.

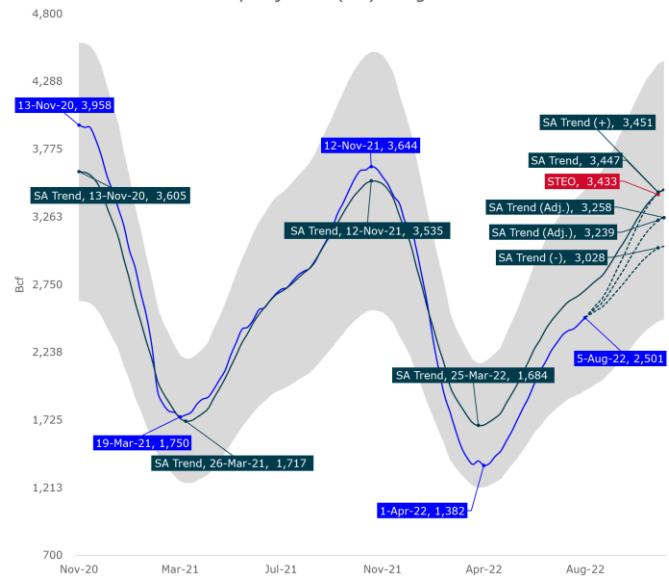
EIA Natural Gas Review

Yesterday the EIA reported a strong 44 Bcf injection of natural gas into L48 underground storage for the week ended August 05th. This report came in on the high end of expectations. The typical addition for this report is 35 ±10 Bcf which means the report fell within the seasonal range, albeit by a whisker.

Inventories rose to 2.501 Tcf as of last Friday and the deficit to the seasonally adjusted time series narrowed for a second straight week, narrowing 43 basis points from -8.09% to -7.66% (208 Bcf). **This was a neutral weekly update.**

Nota Bene: Who are you going to believe? [Seeking Alpha](#)- "The IEA raised its forecast for 2022 global oil demand growth by 380 Mb/d to 2.1 MMb/d, noting that high prices and limited supplies of natural gas in Europe after Russia cut exports have pushed power plants and heavy industries to look to oil as an alternative fuel source. At the same time, [OPEC cut its forecast](#) for demand growth in 2022 by 260 Mb/d to 3.1 MMb/d - contradicting the IEA's outlook - citing worries over COVID restrictions and geopolitical tensions.

EIA Inventories Underground Storage Natural Gas L48 Seasonally Adjusted (SA) Range & Trendline



EIA L48 Underground Storage: Percent Deviation From Normal



The South Central area reported another rare injection. Following up on the previous reports 3 Bcf injection, the EIA showed a 9 Bcf injection in yesterday's report, bringing the two-week addition to 12 Bcf. At this point in the summer, we typically see a delivery of 13 ±10 Bcf. Thanks to these two injections, the deficit to the seasonally adjusted time series narrowed by 127 basis points to a seven-month low of -6.29% (59 Bcf).

The Nonsalt region reported a heavy injection of 10 Bcf. This season's refill is up to a massive 277 Bcf which is 24% (54 Bcf) above last year's pace and 6% (16 Bcf) above normal. As a result of this season's torrid pace, the market's deficit to the seasonally adjusted time series has narrowed to six-month low of -3.2% (23 Bcf).

The Salts reported a weak 2 Bcf delivery. Inventories fell to 193 Bcf while the deficit to the seasonally adjusted time series narrowed for a second straight week. This summer's hitherto delivery is a heavy 58 Bcf. Storage will continue falling into early next month as gas-fired electric utilities in the northern latitudes *borrow* gas from storage in the Gulf to offset peak cooling demand. Most, if not all of this gas will be repaid from around mid-September until the start of the heating season.

The Midwest reported a normal injection of 20 Bcf. Inventories rose to 663 Bcf but the deficit to the seasonal norm moved out for the first time since the start of the season in early April. This season's refill is up to a strong 370 Bcf, 22 Bcf (6.3%) above the seasonally adjusted time series and 27 Bcf (7.9%) above last year's injection.

In the East, a light 15 Bcf was injected. The season-to-date refill is up to 335 Bcf which is 23 Bcf (6.5%) below the seasonally adjusted time series but 11 Bcf (3.4%) above last year's pace. Storage is now up to 564 Bcf with an 88 Bcf (13.5%) shortfall to the seasonal norm.

Bottom Line

Season to date refills now sum 1.119 Tcf. This is a strong addition. For this point in summer, you want to see a refill of at least 1.024 Tcf. However, the strong pace of injections is not strong enough.

Per their latest monthly outlook (STEO), the EIA forecasts end-of-season natural gas L48 underground storage of 3.433 Tcf (6.1% below the 5-year average). As of yesterday's update, L48 storage stood at 2.501 Tcf.

So, the EIA is forecasting a 932 Bcf injection from now until the end of the season. The average injection from this point on is 776 ±54 Bcf. We have assigned a 15% probability (odds of 11:2) of hitting the EIA's forecast.

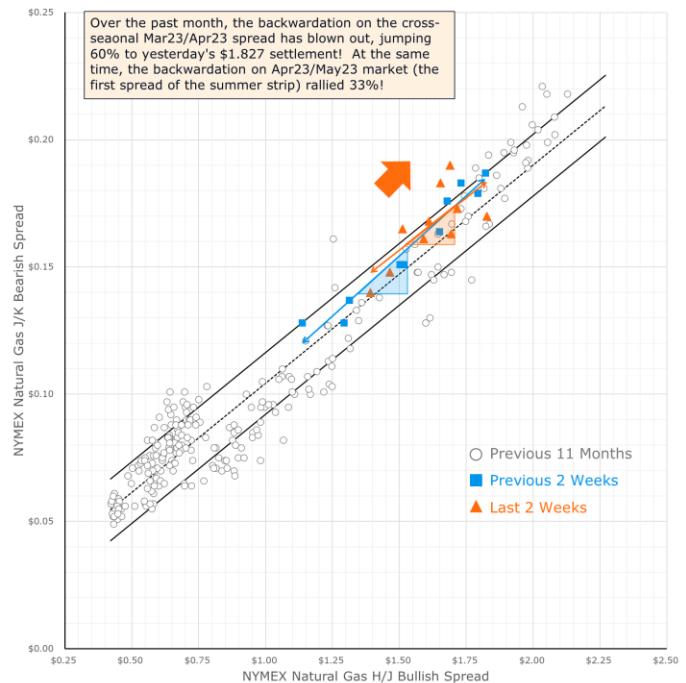
Moreover, the market is highly skeptical that storage will hit the EIA's forecast.

For instance, the NYMEX Henry Hub term structure is blowing out, a clear tell regarding the market's concern about the pace of this summer's refill and next winter's delivery.

Since the 04th of July holiday, the contango (volume weighted) on the Sep-Oct strip (the final two contracts of

summer) to the Nov-Dec strip (the first two contracts of winter) has been cut in half to -\$0.099. Furthermore, the disposition on the Sep-Oct to the winter strip (Nov-Dec-Jan-Feb-Mar) has morphed from a -\$0.149 contango to a +\$0.230 backwardation!

Just as important, the end-of-winter strip is just as bullish. A month ago, the premium on the March 2023 contract (the final market of the winter strip) to the April 2023 contract (the first contract of next summer's strip) was trading at \$1.136/MMBtu. Yesterday, the backwardation surged to \$1.827/MMBtu. At the same time, the backwardation on the next spread, Apr-May, jumped by one-third.



Strength along the curve is indicative of a broken market, i.e. a market where supply is lagging relative to demand.

To compound matters, we are now moving into the peak hurricane season, a situation which could propel the forward curve to unprecedented levels.

