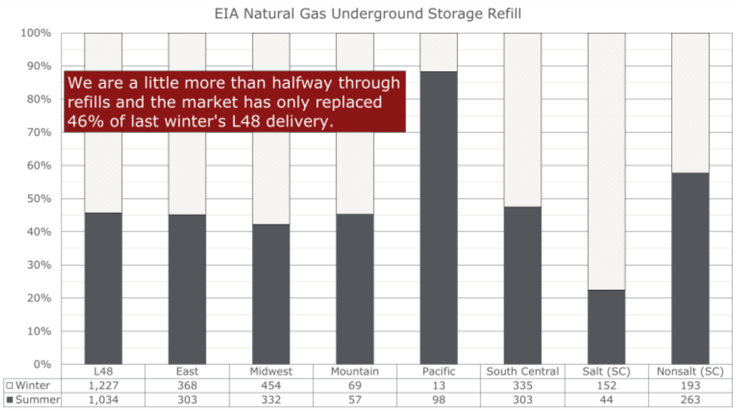
THE SCHORK REPORT

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, July 29, 2022

www.schorkgroup.com

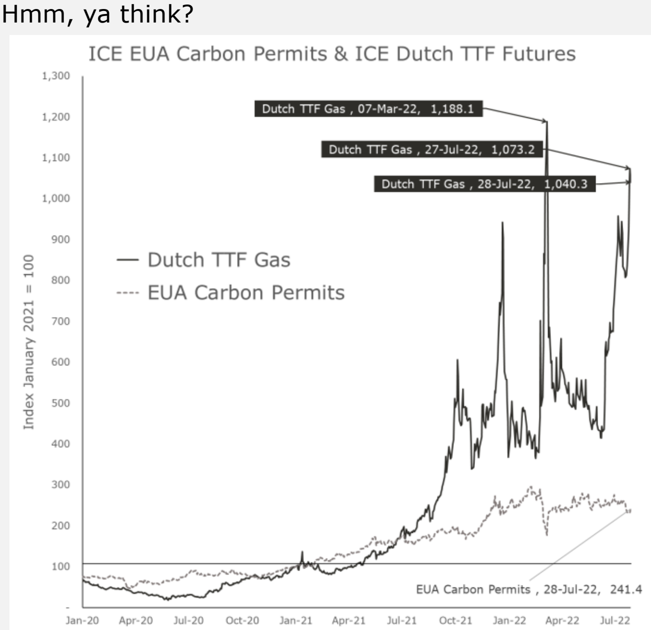
Mr. Schork will be Bloomberg TV this morning at 6:45am.



EIA Weekly Natural Gas Status Report				
Storage Δ (Bcf)	15-Jul	Seasonally Adjusted Norm	22-Jul	Bias
L48	32	26 ± 8	15	Bullish
South Central	(16)	(8) ± 2	(12)	Bullish
Salt	(15)	(8) ± 2	(11)	Bullish
Nonsalt	0	1 ± 0	(2)	Bullish
Midwest	22	18 ± 6	17	Neutral
East	20	20 ± 7	11	Bullish
Mountain	1	3 ± 1	0	Bullish
Pacific	4	(1) ± 0	0	Bearish

Nota Bene: New York Times-"Gazprom, the Russian energy giant, followed through on Wednesday with its announcement earlier this week that it would further restrict the flows of natural gas to Germany and other European countries through the Nord Stream 1 pipeline. It also blamed Siemens Energy, the German maker of turbines used on the pipeline, for causing the cutbacks, prompting a sharp retort from the company… In a statement, Siemens Energy said… it did not receive any damage reports from Gazprom, and so assumed the turbines were *operating normally*… It added that *the actions of the Russian side are more than obviously politically motivated*."

Hmm, ya think?



Gas and carbon in Europe are trading accordingly.

Omnium Gatherum

ENERGY PRICES WERE WEAK YESTERDAY… oil and gas traders might have arrived at the conclusion that a U.S. recession does not bode well for future demand, regardless of how bullish yesterday and Wednesday's EIA updates were.

No Matter How You Spin It… the U.S. is in a Recession

In spite of the White House's Orwellian repudiations regarding the direction of the economy, the U.S. is in recession.

The non-partisan National Bureau of Economic Research (NBER)—the people tagged with the responsibility of labeling when the U.S. economy is officially in a recession—defines a recession as "… a significant decline in economic activity that is spread across the economy and that lasts more than a few months."

Yesterday, the Bureau of Economic Analysis (BEA) reported that Real GDP decreased at an annual rate of 0.9% on its "advanced" (the first of three) estimate for the second quarter of 2022. In the first quarter, real GDP decreased by 1.6%. Therefore, six consecutive months of economic contraction appears to fit the bill for the NBER's definition of recession.

The NBER notes that "most" (11 out of 12 since 1948) of the recessions that it has identified by its own criteria did "… consist of two or more consecutive quarters of declining real GDP."

The only outlier was the 2001 dot.com recession. According to the NBER, the economy went into recession in May of 2001 (Q1 2001) and did not emerge from recession until November 2001 (Q4 2001).

Over this time series, real GDP contracted by 1.3% in Q1 2001, expanded by 2.5% in Q2 2001 and contracted again by 1.6% in Q3 2001.

The bottom line, per the NBER, with the exception of the transition out of the World War Two economy in 1947, the U.S. has officially been in recession EVERY TIME real GDP has been negative for two consecutive quarters.

The White House's desperate attempts at gaslighting voters notwithstanding, should the BEA's final estimate on negative Q2 GDP stand, then the U.S. is in a recession.

Meanwhile, the PCE Price Index, the Federal Reserve's preferred measure of inflation, was unchanged at 7.1% in the second quarter, the highest rate of growth for consumer costs since the double-dip recession from the early 1980s.

We have been calling for a recession (see here, here, and here) since March. The primary driver in our forecast was the fact that the powers that be (the White House, the Fed and a certain NYT's op-ed columnist) refused to acknowledge runway inflation until it was too late.

With inflation now running at levels not seen since the 1970s, the Fed has no option but to continue to raise rates and tank the economy (àla Paul Volcker) until the torrid pace of inflation is tamed.

EIA Natural Gas Review

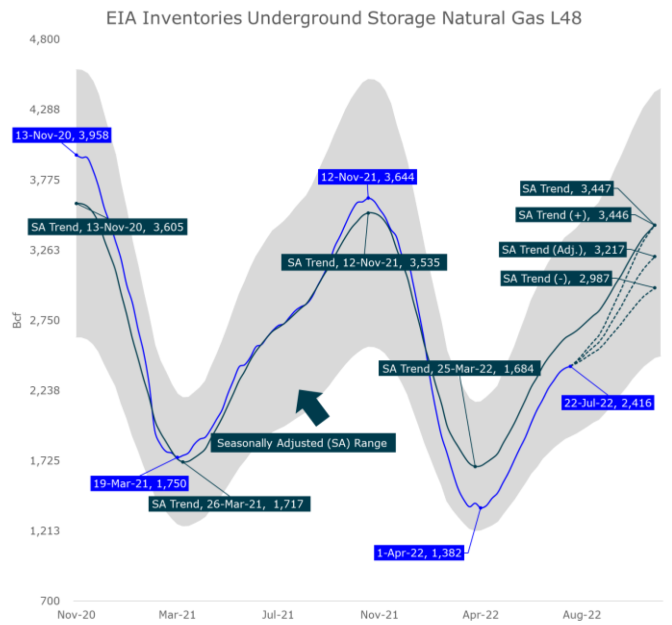
Yesterday, the EIA reported a below normal 15 Bcf injection of natural gas into L48 underground storage for the week ended July 22nd. This report covers what is normally the hottest portion of the season (the fourth week following the solstice) and typically yields the smallest injection of the summer. The seasonally adjusted norm is 26 ±8 Bcf. **This was a bullish weekly update**.

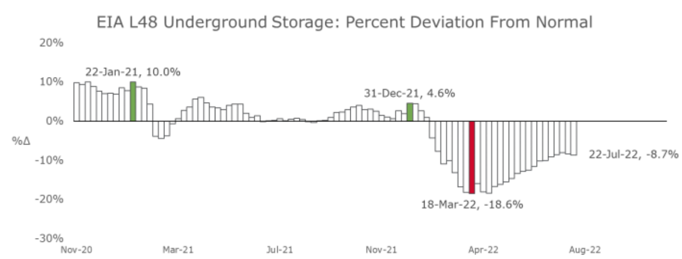
Bottom Line

We are a little more than halfway through the season and the market has covered only 46% of last winter's delivery of 2.262 Tcf. This is not good enough and the market agrees with us.

After tanking in early June on news of the fire at Freeport LNG's liquefaction plant, the backwardation on the front end of the NYMEX forward curve has exploded. On July 05th, the premium on the spot three-month strip (weighted for volume) to the subsequent 12-month strip troughed at a three-month low of $0.570/MMBtu. Since then, the premium nearly quadrupled. On Tuesday of this week—the expiration on the options for the August futures—the backwardation settled at $2.178/MMBtu.

In fact, summer gas is trading as if it was already winter. For instance, yesterday the final two contracts of the summer 2022 strip (Sep, Oct) settled at a mere $0.123/MMBtu contango to the first two contracts of the winter 2022-23 strip (Nov, Dec). Furthermore, the remaining summer strip closed at an $0.824/MMBtu backwardation to the final two contracts in the winter strip (Feb, Mar)!





Imagine where the curve would be trading without the additional molecules from the Freeport LNG outage!

This is the clearest possible telltale of the market's agita regarding the adequacy of this summer's refill pace. This is a bullish thing.