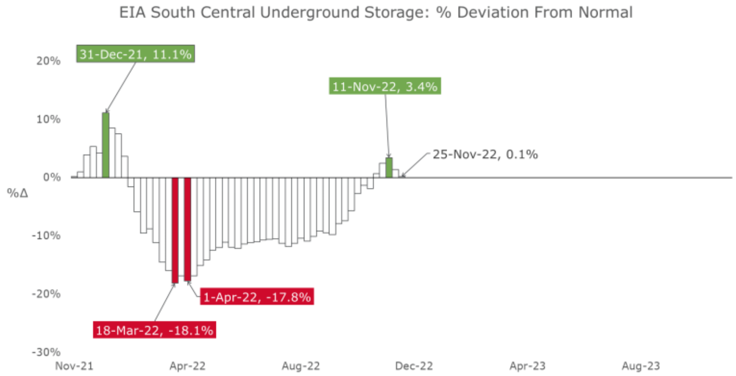
THE SCHORK REPORT

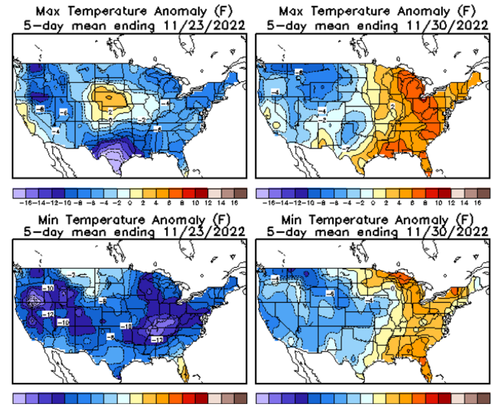
FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, Dec 02, 2022

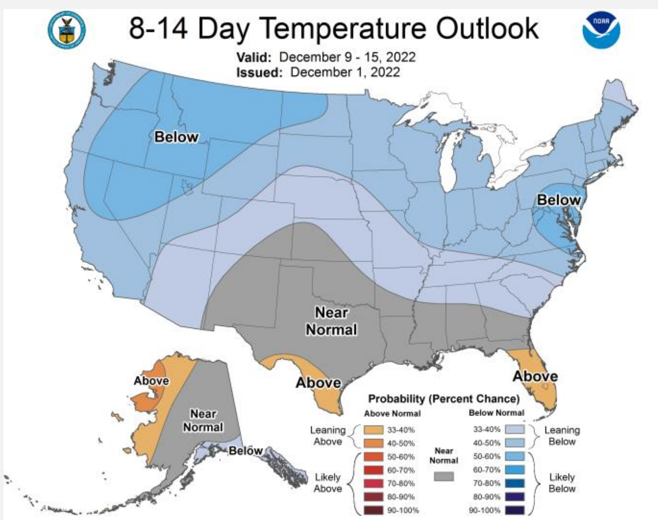
www.schorkgroup.com



Through the first five days of the current EIA Week, week-over-week temps are much warmer east of the Mississippi.



Nota Bene: Rail strike averted! Natural gas bears dodge one threat. Now, they must contend with Mother Nature.



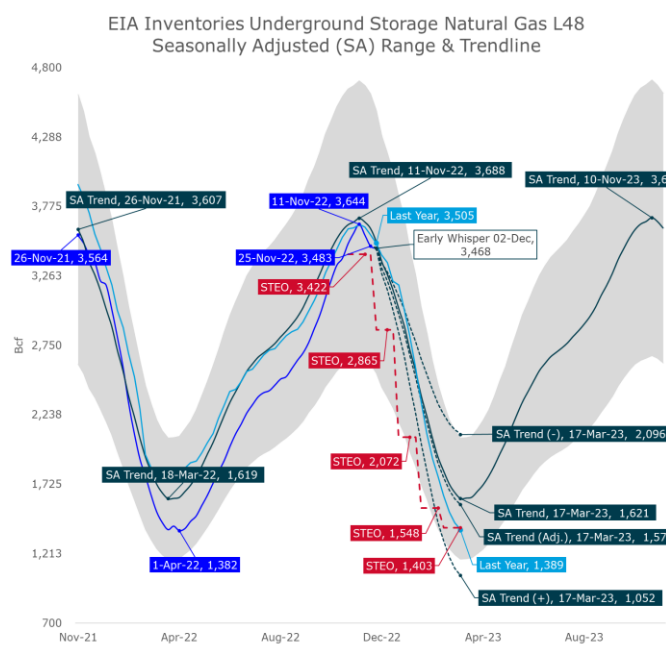
Source: NOAA

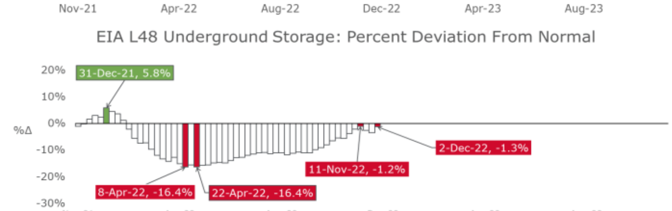
Omnium Gatherum

ENERGY PRICES WERE SOFT YESTERDAY… NYMEX natural gas traders shrugged off a second straight above normal delivery from underground storage. Oil peaked early, faded late. In spite of the late session weakness, both NYMEX WTI and ICE Brent flipped back to backwardation. Just in time for this weekend's OPEC+ meeting.

EIA Natural Gas Review

Yesterday the EIA reported a large 81 Bcf delivery of natural gas from L48 underground storage. Therefore, it is a good thing that storage refills ended in stellar fashion with an unprecedented 873 Bcf injection in the final nine weeks of the season. Over the last two EIA reports, a total of 161 Bcf of natural gas was delivered from L48 natural gas underground storage. This two-week withdrawal is 79 Bcf (96%) above the five-year average for the corresponding weeks and 63 Bcf (64%) above normal.

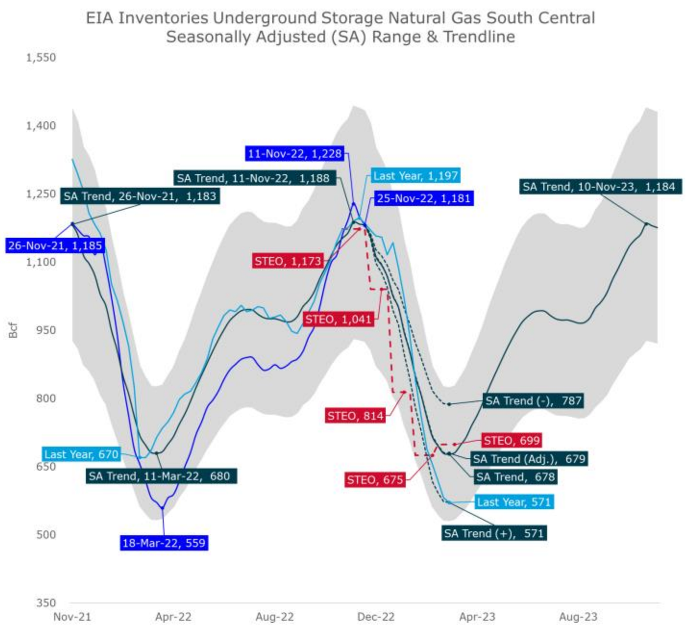




As of November 25th, storage was 3.468 Tcf. Over the last two reports, the deficit to our model's seasonally adjusted time series nearly trebled from -44 Bcf (a 43-week low) to -128 Bcf.

The South Central area reported a heavy 19 Bcf delivery. Over the last two weeks, deliveries sum a substantial 47 Bcf which is 6× the five-year average of 8 Bcf and 6× the 9 Bcf upper limit of the seasonally adjusted time series.

As of last Friday, storage was 1.181 Tcf. Over the last two weeks, the surplus to the seasonally adjusted time series shrank from a 41-week high of 40 Bcf to 2 Bcf.



On the South Central breakdown, storage in the Salts fell by 4 Bcf, one week after falling by 9 Bcf for a two-week combined delivery of 13 Bcf. The seasonal normal is a 9 ±2 Bcf injection.

Storage fell to 314 Bcf. Over the past three reports, the comparison to our model's seasonally adjusted time series flipped from a 20 Bcf surplus (a 43-week high) to a 5 Bcf deficit.

In the Nonsalt portion of the South Central market area we saw a heavy 15 Bcf delivery, one week after a heavier 19 Bcf delivery. Over the last two reports a total of 34 Bcf was delivered. The seasonal norm is a 5 ±2 Bcf injection. Storage dropped to 867 Bcf and the comparison to the seasonally adjusted time series—which stood at a 44-week high surplus of 37 Bcf—flipped to a 2 Bcf deficit.

The Midwest posted a solid delivery of 23 Bcf which brings the season-to-date withdrawal to 44 Bcf. This is on the upper limit of our model's seasonally adjusted time series. As of last Friday, stocks fell to 1.040 Tcf and the deficit to the seasonal norm moved out from 26 Bcf to a three-week high of 33 Bcf.

The East reported a large delivery of 26 Bcf which brings the season-to-date withdrawal to a heavy 42 Bcf. Stocks now stand at 840 Bcf with a 51 Bcf (a three-week high) deficit to our seasonally adjusted time series.

Bottom Line

Gas-fired space heating demand eased this week. Therefore, storage will receive a reprieve. The early consensus is a delivery in the teens, whereas the normal delivery is 97 ±27 Bcf. At this early stage in the season, storage is on trend to end winter at ≈1.574 Tcf in the ground, well above the EIA's current forecast of 1.403 Tcf and last year's balance of 1.389 Tcf.

As the heating season now ramps up, the market will keep a close eye on the return of Freeport LNG exports. On the Friday prior to the holiday, the company posted a letter on its website that it was targeting initial production to commence in mid-December. "It is expected that about 2 Bcf/d of production will be achieved in January 2023. Full production utilizing both docks remain anticipated to begin in March 2023."

This remain to be seen, especially now that the lawyers appear to be entering the fray. The Sierra Club filed a motion with FERC seeking access to Freeport LNG's filings related to the June 20222 explosion at the Quintana Island, TX facility. This is a fishing expedition. Natural gas bulls beware, if the Sierra Club hooks Freeport, you can kiss goodbye any shot of a speedy return to exports.

As far as the weather goes, per NOAA's Climate Prediction Center (CPC), the Arctic Oscillation (AO) is currently negative and is forecast to trend strongly negative into the first half of December. This is important. A negative AO (polar jet stream) allows artic air to slip down into the L48 Midwest and East.

There is a good chance for a significant cold event (polar vortex) through first half of this month, especially since NOAA expects the North Atlantic Oscillation (NAO) to tack into deep negative territory. A negative NAO is linked to frigid conditions in the L48 East, as well as Northern Europe.

If you are bearish gas (and power), you are going to have to dodge Mother Nature through at least the first half of this month.