THE SCHORK REPORT™

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, January 20, 2023

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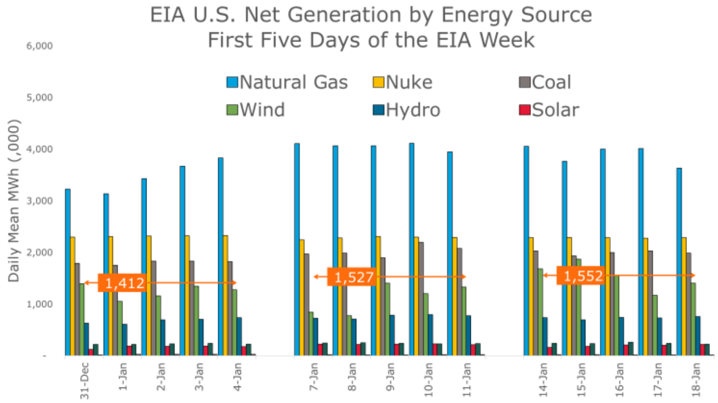
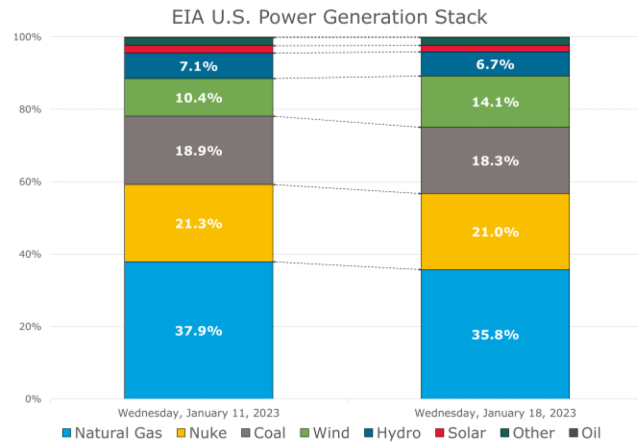




Nota Bene: Texas inches closer to a capacity market. Per our friend, Naureen Malik at Bloomberg… "Texas regulators are throwing their support behind a plan to pay electric plants to be on standby to provide backup power… In a unanimous vote Thursday, the five-member Public Utility Commission of Texas recommended that state lawmakers set in motion a program requiring electricity retailers to pay power plants a fee to ensure they're ready to be online when the grid needs them most. The move is designed to encourage developers to build more plants in Texas and would be a stark shift for the state, which has long relied on market forces to ensure the system has enough capacity to meet demand."

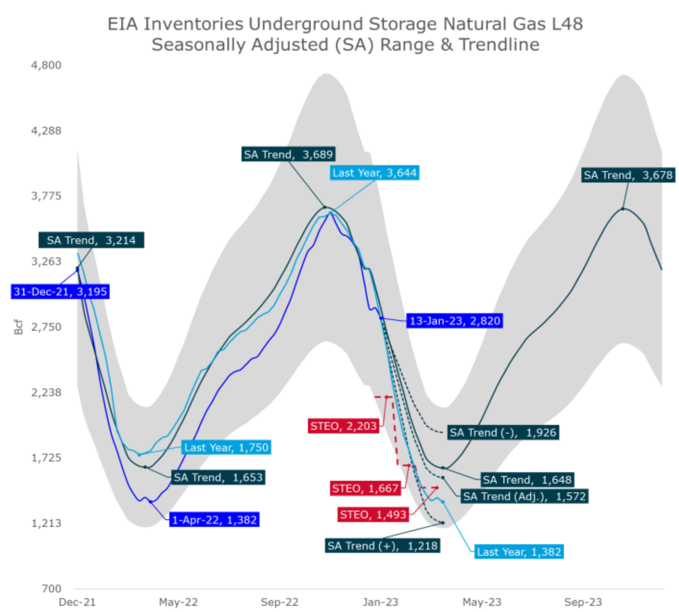
Omnium Gatherum

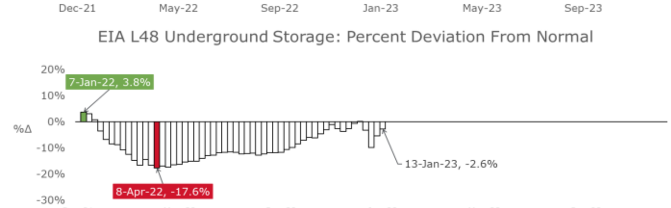
ENERGY PRICES WERE MIXED YESTERDAY… oil markets rallied despite another huge, reported build in crude oil stocks, while natty edged lower in the wake of a somewhat larger than expected weekly delivery from underground storage.

EIA Natural Gas Review

One week after reporting the first ever addition (injection) of natural gas into L48 underground storage, the EIA followed up yesterday with a meager withdrawal (delivery). For the week ended January 13th, 82 Bcf was delivered. Looking back to 1995 (inclusive of AGA and EIA data), the average delivery for the second week of January is 146 ±25 Bcf. On a seasonally adjusted basis, our model's analogs show the typical delivery for this report is 167 ±48 Bcf.

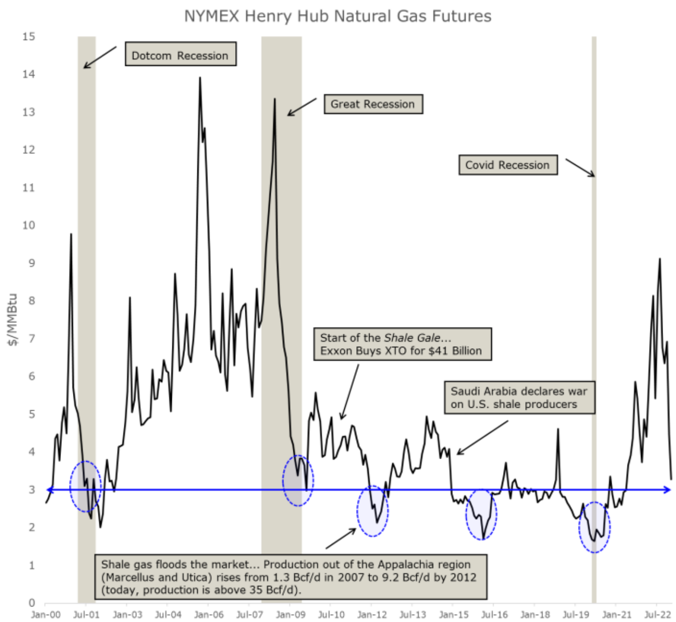
We are about halfway through winter and a total of 824 Bcf of gas (36% of last summer's refill) has been delivered. The hitherto pace of withdrawals is 10 Bcf (1.2%) behind last year's rate, 55 Bcf (6.3%) below the five-year mean (interpolated) but 30 Bcf (3.9%) above our model's base-case seasonally adjusted norm. In other words, halfway through deliveries and this has been a *Goldilocks* kind of a season… deliveries are not too hot, nor are they too cold.





Through the first six days of the current EIA week (which ends today), power demand is about 1.2% higher compared with the corresponding six days from the previous week. However, demand for gas is running 2.1% lower week-over-week as wind generation is running 38½% higher. As a result, natty's share of the power generation stack has fallen by about 2.1 percentage points from 37.9% to 35.8% (see top of page one).

After yesterday's update, storage is on trend to finish the season around 1.572 Tcf, well above the EIA's end-of-season forecast of 1.493 Tcf.

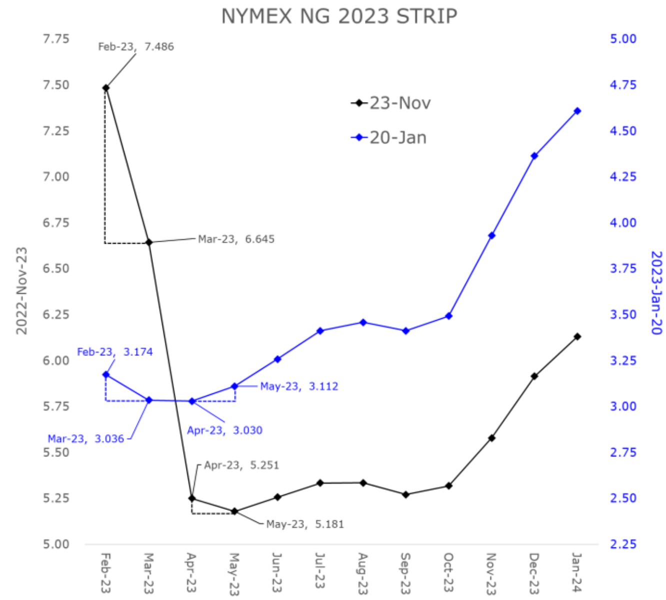


Carpe Diem

As skiers—from Vermont to Davos—can attest, the first half of this winter is a total bust. Therefore, it is not shocking that the NYMEX spreads are screaming winter is over. For example, since the Thanksgiving Day holiday, the backwardation on the Feb-23/Mar-23 spread (the final spread of the winter) plunged from $0.856/MMBtu to $0.151/MMBtu. The backwardation on the Mar-23/Apr-23 cross-seasonal spread fell from $1.250/MMBtu to $0.010/MMBtu, while the Apr-23/May-23 spread (the first spread of the refill season) flipped from a $0.080/MMBtu backwardation to a -$0.077/MMBtu contango.

With the front of the NYMEX forward curve in freefall, the market is now closer to $3/MMBtu than it is to $4/MMBtu. Remember, back in August spot gas topped $10/MMBtu.

As illustrated, the market is now approaching a level where it has only been five times since 2000, three of which occurred during recessions.



NYMEX spreads: winter is over, before it ever began.

In 2009, the market bottomed after the Great Recession, just when money started flowing into domestic production, heralding the start of Shale Gale, an era best defined by Exxon's $41 billion acquisition of XTO, one of largest producers of shale gas in the market.

The market tumbled again in 2012 when shale gas began to flood the market. By 2014, crude oil production from the seven major shale formations was just shy of 6.0 MMb/d, up from 1.4 MMb/d in 2007. Over this same period, natural gas production jumped from about 19 Bcf/d to nearly 50 Bcf/d. In response to this output, Saudi Arabia declared war on U.S. producers.

Of course, prices tanked five years later as Covid mitigation diktats shuttered the global economy.

Regardless of the reasons for the market's current plunge, it is obvious this is an ideal opportunity to hedge at historically low levels.

EIA Petroleum Review

Yesterday, the EIA reported a massive 7.60 MMb build in total crude oil stocks, one week after posting a 14.87 MMb build as markets continue to work through logistical snafus from last month's polar vortex. The combined two-week build of 27.37 MMbs is the largest since Winter Storm Uri in February 2021 and the fifth largest since weekly records were first compiled in 1982.

Refinery utilization rates increased by 1.2 percentage points to 85.3% of capacity. However, media reports suggest utilization (i.e. demand for crude oil) is about to take a severe hit from a heavier than usual winter turnaround (maintenance) season. This is bullish for the products, bearish for crude oil.