THE SCHORK REPORT

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, February 03, 2023

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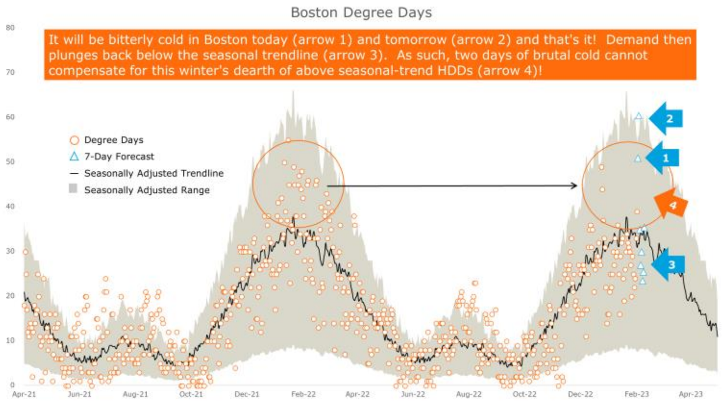
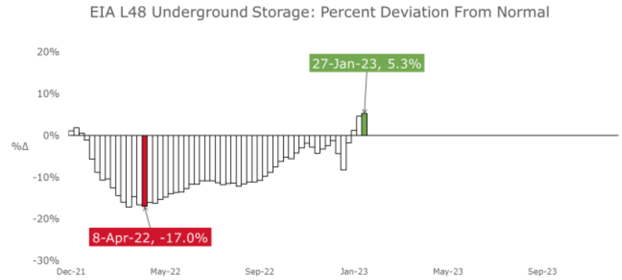
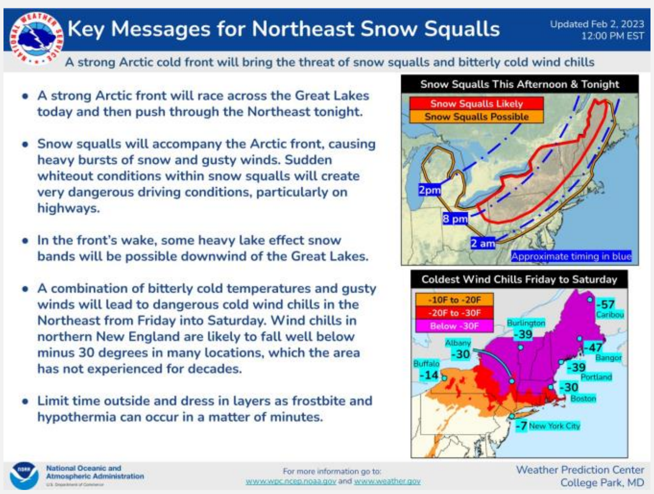




Because last week's injection came in slightly below our seasonal trendline (151 Bcf as opposed to ≈159 Bcf), the market's surplus rose to the fattest cushion (5.3%) to our model's seasonally adjusted trend (2.453 Tcf) since July 2021.

Nota Bene: It will be a bitter cold weekend in the Northeast. Per NOAA's tweet (see below), Albany NY and Boston can expect wind chills of -30°F!



Source: NOAA

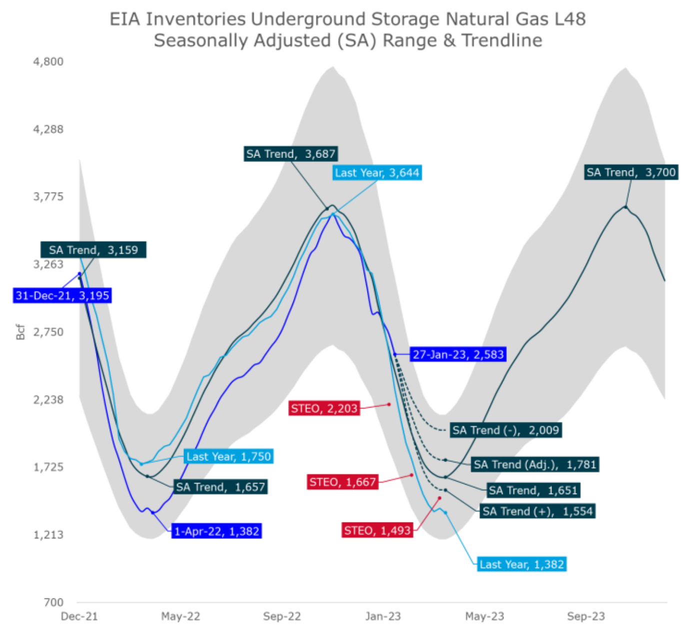
However, as illustrated, this cold event is a one-off. Hence why the gas market is yawning.

Omnium Gatherum

ENERGY PRICES WERE WEAK YESTERDAY… oil fell on carryover weakness from Wednesday's sharp selloff. NYMEX natty posted a second straight life-of-contract low print ($2.431) and a second straight life-of-contract low settlement ($2.456). So much for the bitter cold socking the Northeast today.

EIA Natural Gas Review

For one of the few times this season, we saw a seasonally normal delivery (withdrawal) of natural gas from L48 underground storage of 151 Bcf. For this point in the winter, we typically see a delivery of ≈159 ±46 Bcf for this report.



The report was inclusive of a 5 Bcf revision for the prior week's delivery, instead of withdrawing 91 Bcf as was initially reported, 86 Bcf was withdrawn instead. Therefore, as of January 20th, underground storage was 2.734 Tcf. As of yesterday's report, storage fell to 2.583 for the week ended January 27th.

Gas Bulls are the Max Bialystocks of the Commodities World

On the NYMEX futures market, gas bulls cannot catch a break. Every time it looks like the bears have run out of steam; a new weather forecast comes out that must have bulls asking, à la Max Bialystock, who does a trader have to _____ to get a break in this market.

Since peaking last spring at an **11-year high** of $8.368, NYMEX natural gas futures for March 2023 delivery (the final contract of the winter strip) has settled lower in four out of every seven sessions. Moreover, over the past 164 sessions since that 11-year high was posted, the market fell on average by 0.7% per session to yesterday's **life-of-contract low print** of $2.431 and **life-of-contract low settlement** of $2.456.

The selling kicked into a new gear this past December, on the 21st, the first day of winter for Pete's sake, when the market crossed below the 20-day moving average in the summer 2023 (April 2023 through October 2023) volume-weighted strip.

The market is crashing for a good reason. Aside for a couple of cameos (December's short-lived polar vortex and this weekend's bitter wind chills in the Northeast), the cold has failed to show up this winter.

Given the way the winds are swirling; it does not look like we are going to see any significant gas furnace demand through the middle of this month. As we noted earlier this week, per the latest forecast from NOAA's Climate Prediction Center (CPC), the Arctic Oscillation (AO)—the behavior of the winds (polar jet stream) swirling around the Arctic—is currently positive and is expected to remain positive through the middle of this month.

A positive AO can trap Artic air at the pole, thus preventing it from slipping down into the L48. **This is a problem for all heating Btu bulls** (not just gas, but propane and №2 oil as well). After all, we are in the coldest part of the year. Beginning in the second half of this month, the chance for a significant, lasting cold event greatly diminishes.

To compound the matter, another important wind pattern, the North Atlantic Oscillation (NAO), is positive and is expected to remain so over the next two weeks. This formation can exacerbate a positive AO, thus sequestering Artic air well above the central and eastern U.S.

The final nail in the bull's coffin is the other important North American wind formation, the Pacific North American pattern (PNA). The pattern is currently positive, which can be bullish, but only if it syncs with a negative AO and or a negative NAO, which it does not.

By the middle of this month, NOAA's forecast has the PNA tacking negative. This path tends to trap frigid air in the West and allows warm marine air from the Gulf of Mexico to drift into the L48 east of the Rockies.

As a result of Mother Nature's fury, the NYMEX Henry Hub curve has crashed. Since Thanksgiving, the March 2023/April 2023 spread (the crossover from winter to refills) morphed from a $1.394 backwardation to a $0.068 contango! This is better than a six-fold reversal! Furthermore, the contango on the October 2023/ November 2023 spread (the crossover from refills to winter) nearly doubled with October 2023 falling from a $0.261 discount to November 2023, to a $0.424 discount.

Bottom line, commodity markets that morph from backwardation to contango and contangoes the increase, are the clearest possible telltales of a fundamentally bearish market.

In other words, gas bulls have to lay low and hope for a contrarian rally in the spring. In the meantime, hedgers should be taking advantage of the market's current weakness.

We are nearly three-fifths of the way through the season and the market has delivered 1.061 Tcf, less than half of last summer's 2.262 Tcf injection. Storage is on pace to end winter around 1.78 Tcf, well above the EIA's latest forecast of 1.49 Tcf and leagues above last year's ending balance of 1.38 Tcf.

Through the first six days of the current EIA week (ended today), demand for electricity is running 2.1% higher week-over-week at a four-week high (since last December's polar vortex) at around 11.62 TWhs. As of Wednesday, utility demand for gas was 2.4% higher while coal and wind generation rose by 9.3% and 1.4%, respectively. Furthermore, oil furnace demand shot up by 11.2%. On Wednesday oil generation hit 30.41 TWhs, the highest level since December's freeze. As a result, natty's share of the stack is running slightly lower (27 bps) through the first five days at 38.9%. We will surely see another normal delivery of gas in next Thursday's report. The typical delivery is 157 ±45 Bcf.