THE SCHORK REPORT™
FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, October 06, 2023
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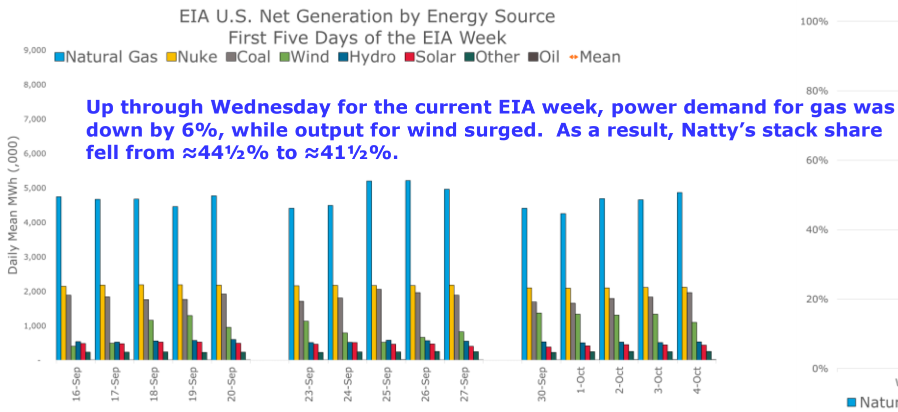
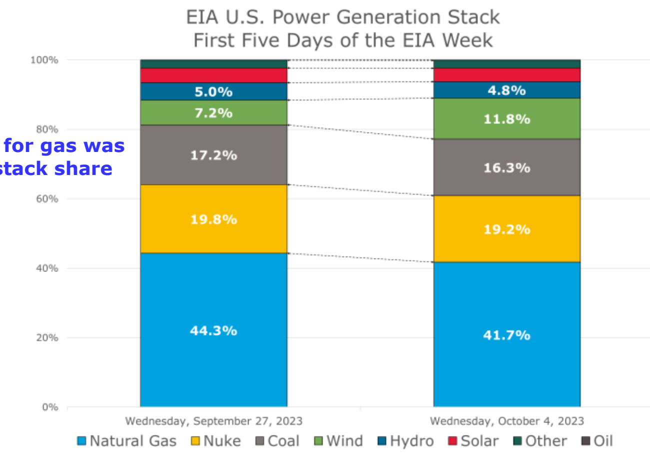
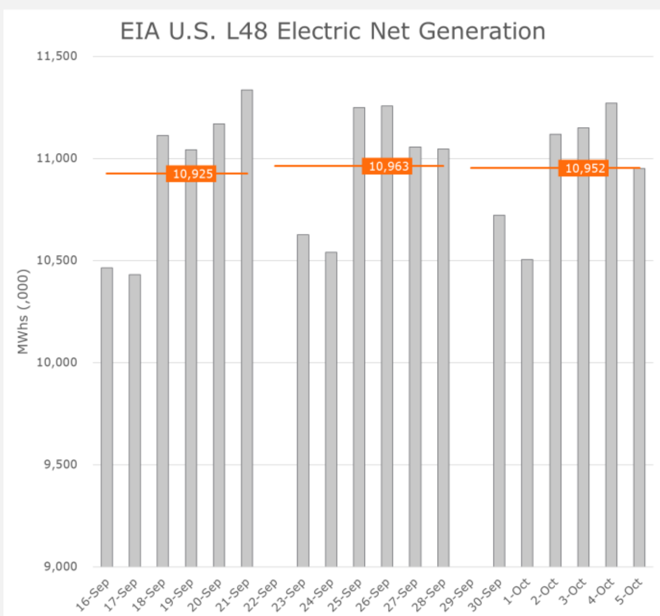


Up through Wednesday for the current EIA week, power demand for gas was down by 6%, while output for wind surged. As a result, Natty's stack share fell from ≈44½% to ≈41½%.



Nota Bene: Up through yesterday for the current EIA week, demand for electricity was 0.1% higher at 10,952 GWhs. On a year-over-year basis, demand was 11.8% higher.

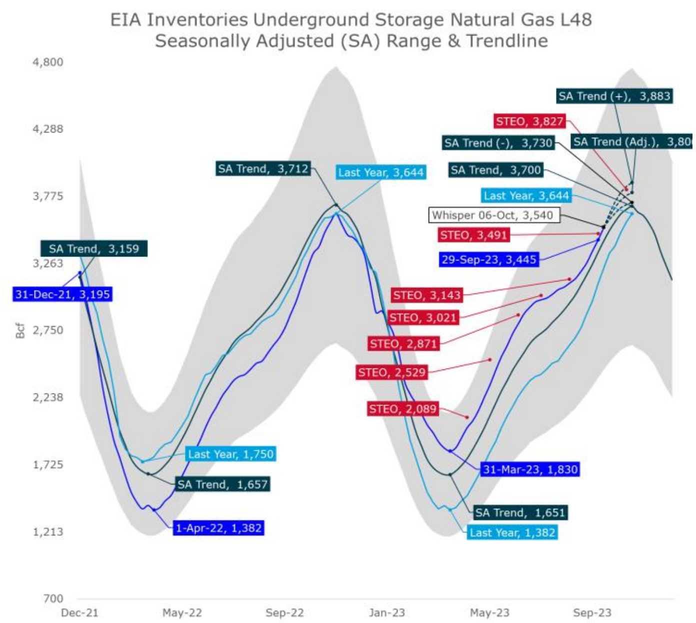


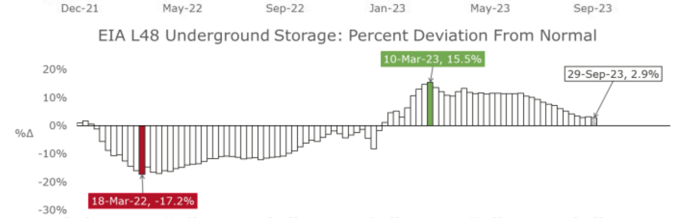
Omnium Gatherum

ENERGY PRICES WERE MIXED YESTERDAY… NYMEX gas blasted off, while oil markets went into a nosedive.

EIA Natural Gas Highlights

Yesterday, the EIA reported the 26th injection (addition) of natural gas into L48 underground storage. A total of 86 Bcf was added last week. The cognoscenti was looking for an injection in the middle 90s Bcf. So, from this perspective, the report was a miss to the bullish side. However, from a seasonal perspective, you will typically see an injection of 94 ±25 Bcf. So, from this point of view, yesterday's report was neutral. As of September 29th, storage rose to 3.445 Tcf.





Over the past two winters, a 17% deficit to the norm (winter 2021-22), morphed into a 15½% surplus (winter 2022-23). As we look ahead to this winter, last winter's abundance has dwindled to 3%.

A couple of the factors behind the lower-than-expected injection was the fact that the U.S. wind power generation was lower than average, while gas-fired power burn was up by a decent clip, particularly in Texas.

NYMEX Henry Hub natural gas for November delivery surged yesterday by $0.204 per MMBtu. This was one of the largest gains for spot gas (97th percentile), inclusive of rolls since the contract was introduced in 1990. **Let's be clear, an 86 Bcf EIA report hardly justifies yesterday's spike**. C'est la vie or more to the point, telle est la vie sur le marché du gaz naturel! We are now in the midst of the typical pre-winter rally, which will then be followed by the typical winter correction.

Current EIA Week

Through Wednesday, utility demand for dispatchable Btus (natural gas, nukes, and coal) fell week-over-week by 6%, 3%, and 5% respectively. Output from solar and hydro fell as well but, the wind soared by 64%.

ERCOT was—as has been the case since June and, in some weeks, the only case since June—the largest demand driver. However, thanks to a strong breeze, reliance on coal fell to a four-week low, and gas demand fell to a four-month low.

Summary

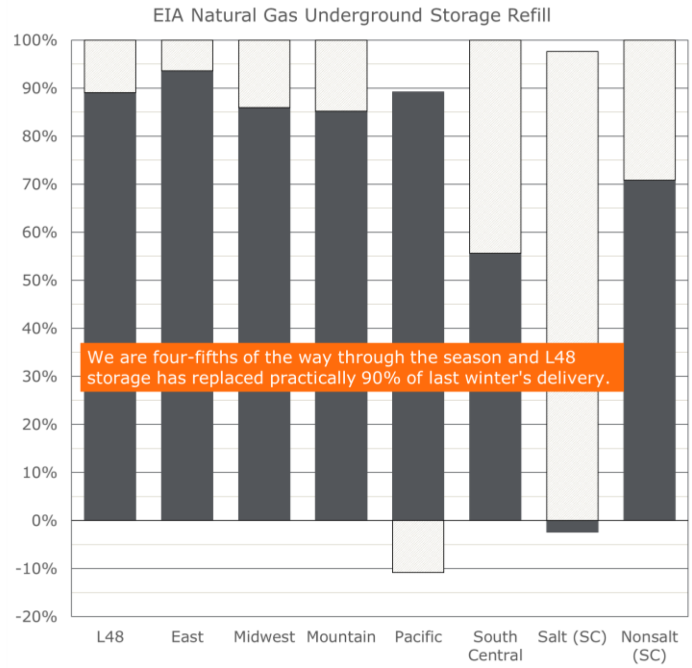
The season-to-date injection is up to 1.615 Tcf, a number that represents quite a turnaround in the outlook. For instance, at the end of June, this year's injection was 120 Bcf (13%) greater than our base case. Since then, the injection is 200 Bcf (26%) below our base case.

In our June 30th update, we figured there was a 50/50 chance storage would finish this season with at least 3.80 Tcf in the ground and, we also liked the odds the market would end above 3.90 Tcf. Our model also spat out a 25% probability (odds of 3:1) that storage could top 4.00 Tcf and a 6% probability (odds of 16:1) we could see record storage topping 4.30 Tcf.

Since then, and even though cooling demand outside of the Southwest was tepid, the odds of finishing this season in grandiose style have faded.

For instance, after yesterday's report, there is virtually no chance—odds of 59:1 (1.7%)—of the market finishing above 4.00 Tcf, along with odds of 2:1 (33%) that the market will finish above 3.800 Tcf.

To add insult to injury, whereas in June it was a virtual lock that storage would finish the season above last year's balance of 3.664 Tcf, today there is an 18% probability (odds of 9:2) that the market will come in at/below this balance.



As of September 29th, storage rose to 3.445 Tcf. The early estimates from Reuters and The Desk for next Thursday's update (week ended today) range from the middle 80s Bcf to the low 100s Bcf. The typical injection for this time of the year is 90 ±25 Bcf. Therefore, the market is expecting a fifth straight normal report.

Take yesterday's report into account, and make the adjustment for seasonality, then storage is on pace to finish the season at ≈3.809 Tcf, down from 3.818 Tcf in last week's report.

Currently, both the Global Forecast System (GFS) and the European (ECWMF) models continue to show seasonably cool temperatures dominating much of the balance of October, particularly for most of the U.S. east of the Great Plains, but also including Texas. This is a considerable about-face from last week's outlook which had implied there might be an extended period of abnormally mild conditions after this present cooldown. As it stands now, the temperatures for the period of October 9-22 are close to long-term averages but have exhibited a notable turn around compared to the lethargic outlook that was seen just a week ago.

While October chilliness isn't anything to write home about, the forecast suggests that some early-season weather-driven heating demand could emerge and add some additional incremental tightness to the underlying supply/demand imbalance, which is already being supported by stout exports and lower supplies. This could, in turn, lead to below-average storage injections through the remainder of this season.