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

Friday, October 20, 2023
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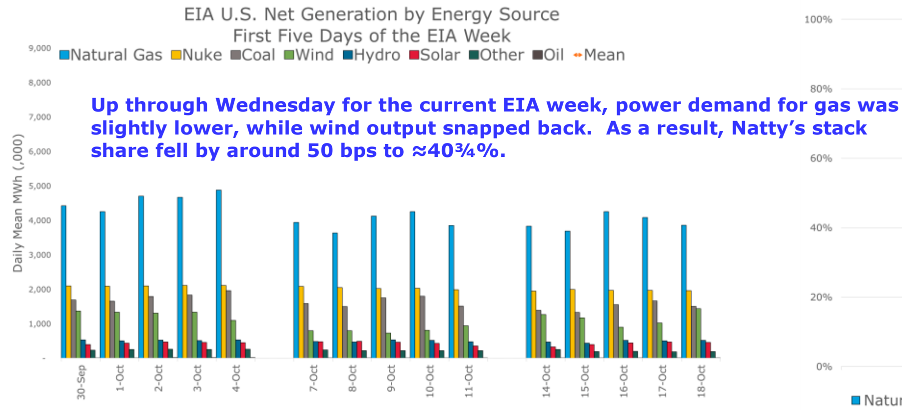
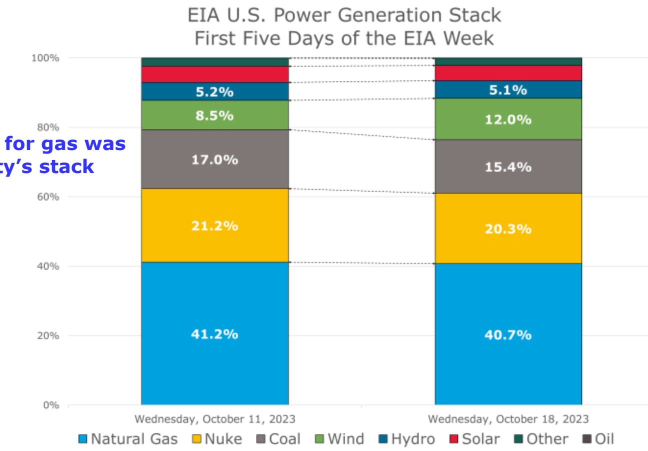
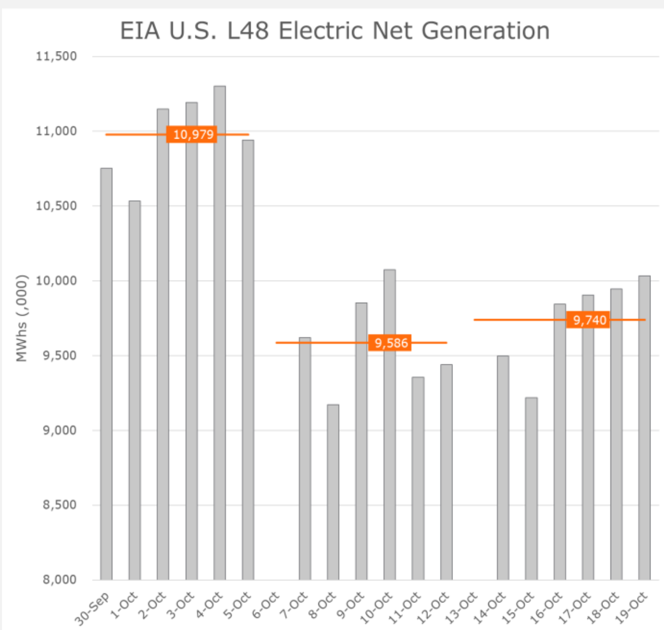




Nota Bene: Up through yesterday for the current EIA week, demand for electricity was 1.6% higher at 9,740 GWhs. On a year-over-year basis, demand was 0.8% lower.



Omnium Gatherum

PRICES WERE MIXED YESTERDAY… NYMEX gas tanked after the EIA reported a whopper, while oil rallied after the U.S. Navy confirmed that one of its vessels (USS Carney) intercepted missiles last week (targeting U.S. troops in Iraq) fired from Yemen by Iranian-backed Houthi terrorists.

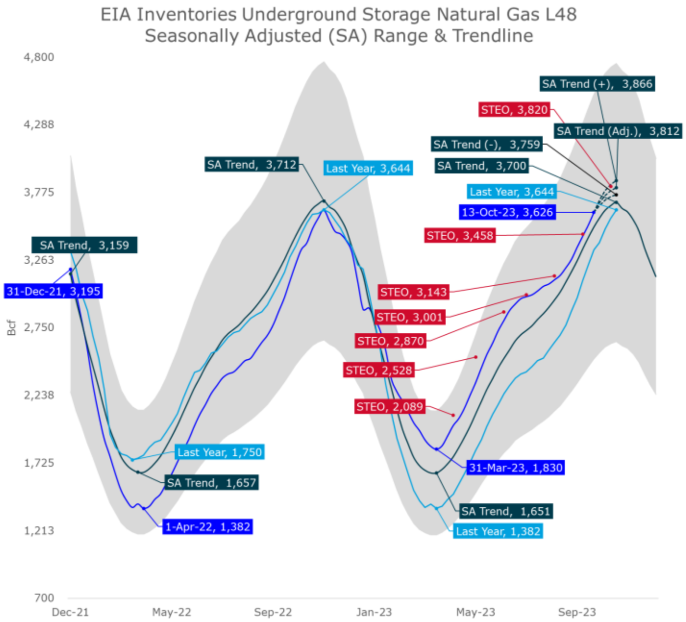
EIA Natural Gas Highlights

Yesterday, the EIA reported the 28th injection (addition) of natural gas into L48 underground storage. A net of 97 Bcf was injected. The report came in well above the mean forecast from market surveys, which was in the low 80s Bcf. The report also came in on the high end of the seasonally adjusted norm of 82 ±23 Bcf. Therefore, the report was viewed as bearish by traders.

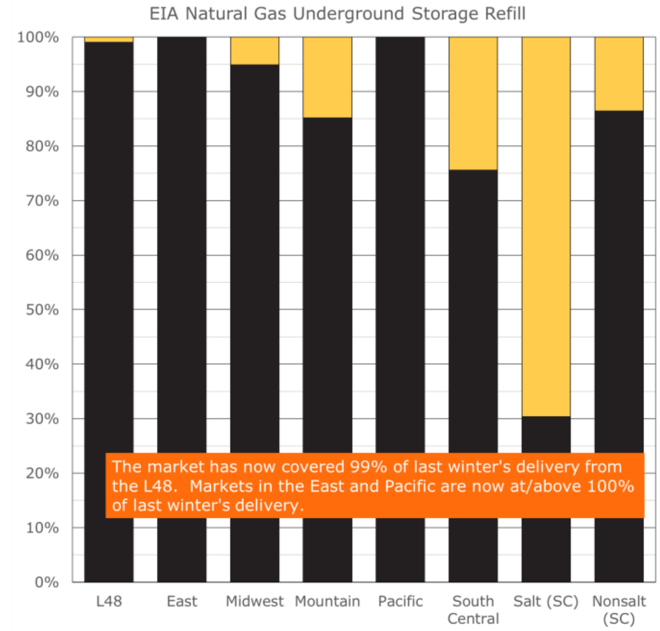
While the reported addition was a swing and a miss by the cognoscenti, it is worth noting that around this time of the year, the market typically does not always account for a seasonal transition in demand, and it often bearishly misses the storage build by a large clip. It is as if the market experiences a sizeable dose of annual amnesia during the climatological changeover.

Though neutral, the prior two storage reports were smaller than expectations, so it is not out of the question that industry soothsayers tweaked their in-house models to accommodate a similar outcome. Nonetheless, last week's addition is bearish for NYMEX gas futures prices.

The larger storage injection appears have at least partially resulted from a decline in gas burns that dropped from the previous week in the power stack. What is interesting is that temperatures during the reflective period where a bit chilly in the northern tier of the U.S. However, because gas burns fell and the bump up in residential & commercial demand was missing in action, this situation leads us to believe that people simply did not turn on their furnaces, which is not unusual during the first bout of colder temperatures.



L48 storage is on pace to finish the season with over 3.8 Tcf in the ground.



Current EIA Week

Through Wednesday, utility demand for dispatchable Btus (natural gas, nukes, and coal) was down by 1%, 3%, and 9% respectively. Output from solar and hydro fell as well, down 1%, and 6% but, wind output soared by 42%. As a result, the wind's share of the stack jumped week-over-week from 8½% to 12%.

Looking ahead to next week's EIA storage data for the week ending today, the preliminary guess is around 90 Bcf. The typical injection for this part of the season is 71 ±20 Bcf. In other words, the market is expecting another bearish update.

Summary

This season is in the right lane and is about to veer onto the exit ramp. The hitherto injection is now 1.796 Tcf, which is 99% of last winter's 1.814 Tcf delivery.

Looking ahead through the end of refills, the ten-year mean injection from this point on is 189 ±67 Bcf. As of October 13th, storage was 3.626 Tcf and at the current rate of injections, storage is on pace to finish the season around 3.818 Tcf, i.e., right around the EIA's 3.820 Tcf forecast.

Taking a probabilistic look at this season there is a 33% probability (odds 2:1) of finishing at/above 3.820 Tcf. There is less than a 7% probability (odds 14:1) of topping 3.900 Tcf and the 50/50 end-of-season line is 3.787 Tcf.

Price Action

NYMEX front-month natural gas futures for November delivery tanked yesterday in the wake of yesterday's EIA release. By the time the smoke had cleared the contract closed at $2.957/MMBtu, down 9.9 cents on the day. The December contract was off 13.7 cents to settle at $3.326/MMBtu.

At the start of this week, the November market gapped lower, from last Friday's $3.203 per MMBtu low print to Monday's $3.185 per MMBtu high print. The contract cratered yesterday to a $2.943 low print. The Parabolic SAR and the MACD each flipped to bearish this week.

Natty bears have reestablished a dominate presence thanks to robust dry gas production that remains situated well over 100 Bcf/d and a dearth of weather demand.

The start of the heating season next month does not look good for bears. The Global Forecast System (GFS) and the European (ECMWF) weather forecast models are both calling for a seasonally normal to slightly above average temperature profile for a bulk of the L48, which is an about-face from a much cooler outlook touted by the models over the past few weeks.

Obviously, model forecast confidence typically improves once the date at hand moves closer on the calendar. Presently, the start of early winter in November appears to be rather lackluster when it comes to gas demand.