Friday, December 01, 2023
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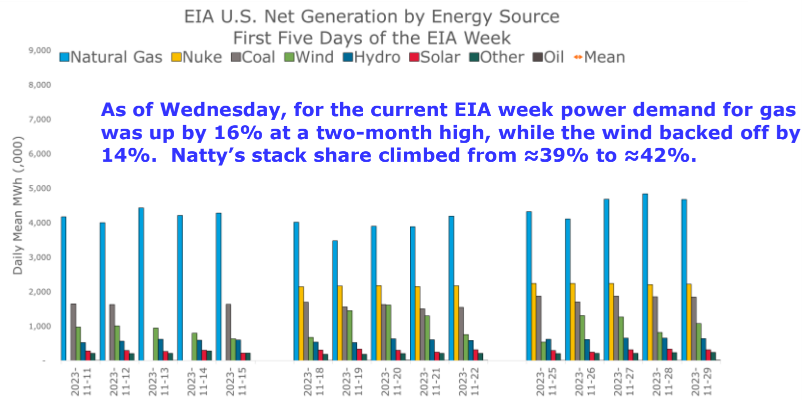
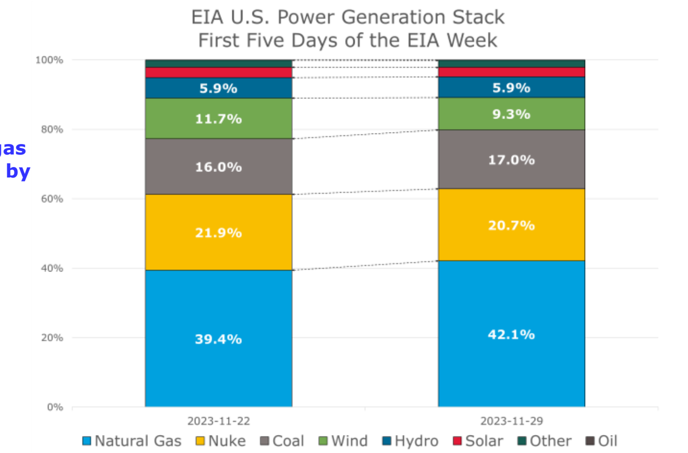
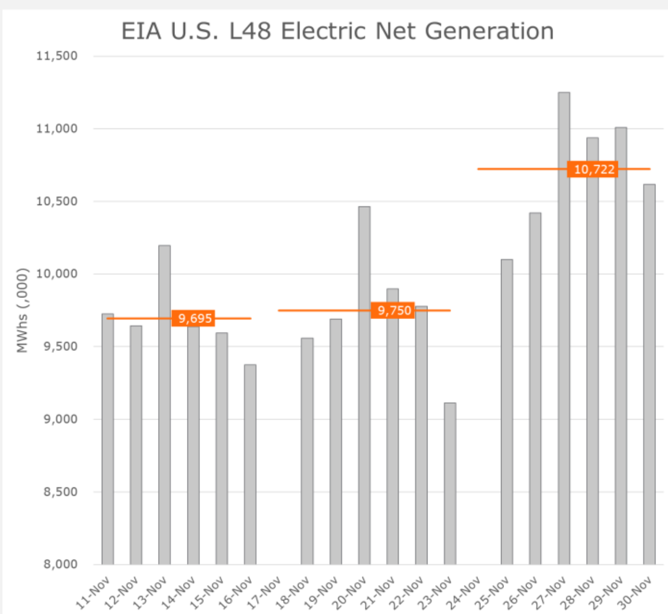
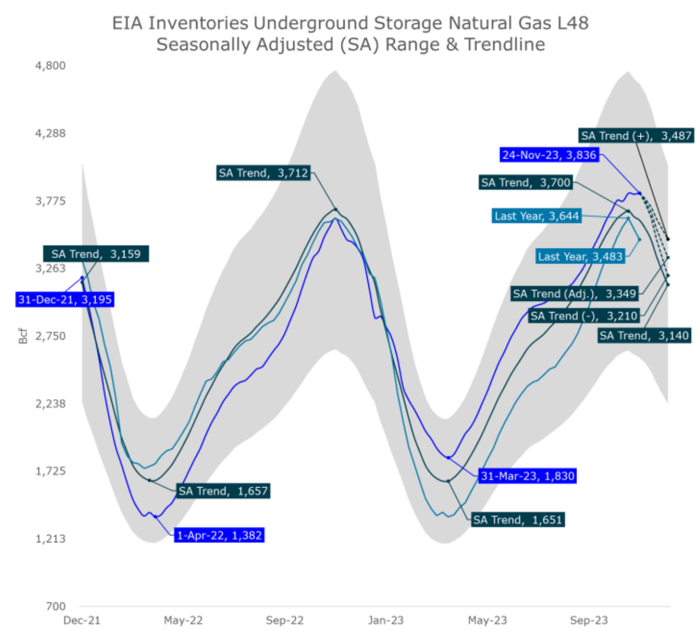




Nota Bene: As of Thursday, for the current EIA week demand for electricity was up by 10% week-over-week and up by 3% year-over-year at a two-month high of 10,722 GWhs.



As of Friday, November 24th, inventories climbed to 3.836 Tcf. This report was bearish. For late November, we typically see a 29 ±7 Bcf delivery (withdrawal). The market has replaced 111% of last winter's delivery with a respectable 2.006 Tcf added to storage this season. For next Thursday's update, we typically see a 64 ±17 Bcf delivery.



A rare last season addition pushed L48 underground gas storage to a season-to-date high of 3.836 Tcf.

Omnium Gatherum

PRICES WERE MIXED YESTERDAY… ICE and NYMEX oil markets faded the OPEC+ headline, while NYMEX natty shrugged off a bearish storage update from the EIA.

EIA Natural Gas Recap

The EIA has reported an injection (addition) of natural gas into L48 underground storage in 32 of the past 34 weeks. A net of 10 Bcf was reportedly added last week.

Is Winter Poised to Flip from Mild to Wild?

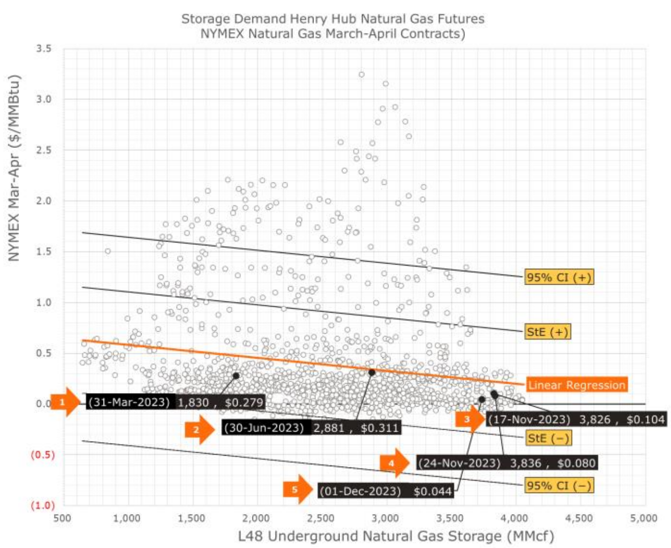
For the most part, the start of the heating season has been tame. Now that we've arrived at the 'meteorological winter' (December, January, and February), some of the longer-range models are pointing to a much colder and snowier outlook.

The warming of the Pacific Ocean from El Niño is expected to continue through this winter. Because of this condition, the direction of the Pacific jet stream changes course. Instead of its usual pat, into the Pacific Northwest, the direction of the jet stream typically tacks into California and Mexico's Baja peninsula. This event will result in a more southerly storm track affecting the Gulf Coast states, and the Southeast.

Given this pattern, the heart of the Central U.S. oil and gas patch—from the Gulf Coast up through Oklahoma and Kansas—could see a greater chance of freezing rain and icy conditions. Consequently, the market is at risk of a double whammy from well freeze-offs and greater space-heating demand.

Additionally, the long-range forecast from the European (ECMWF) model—which is highly regarded by traders—looks colder. Another widely used long-range forecasting tool, known as the JMA (Japan Meteorological Agency), is also pointing to an increased chance for colder weather this winter.

Be that as it may, the market is discounting the risk of increased heat demand.



As illustrated, the NYMEX Henry Hub natural gas futures contract for March 2024 delivery (the final contract of the 2023-24 winter strip) has crashed relative to the April 2024 contract (the first contract of the summer 2024 strip). Since Memorial Day, the March 2024 premium (backwardation) to April 2024 has plunged on average by 7%, from $0.340 per MMBtu to $0.044 per MMBtu.

Backwardations only crash when the market is confident that supply will outstrip demand.

Perhaps the bears are overly confident. If the current weather outlooks come through, then the table is set for a significant short-covering rally.

The Oil Conundrum

Moving on to oil we will once again quote Churchill, the crude oil market… *is a riddle wrapped in a mystery inside an enigma*. We are astonished that Iran's (Hamas, Hezbollah, and the Houthis) war on the West has yet to elicit a risk premium in crude oil. In the latest update, yesterday the U.S. Department of Treasury issued new sanctions targeting Iranian military financial networks.

Yet the market yawned.

The market also ignored OPEC+'s decision to cut an additional 1.0 MMb/d of production, as well as Brazil's decision to join the Cartel.

As we first noted before the holiday, the decision for added cuts by OPEC+ was expected given the collapse of the backwardation in global term structures. Since the start of the quarter, the front end of the WTI curve has been falling on average by 10.0%, Brent has been falling by 3.3% and Dubai has been falling by 2.8%.

As mentioned above in the natural gas weather commentary, backwardations only collapse when the market is betting that future supply will outstrip future demand.

Even with yesterday's announcement, oil markets failed to respond, perhaps on the assumption of a lack of compliance to the new cuts, along with the fact that U.S. production is now at record levels.

Therefore, the Saudi's next move could be to revert to their 2014 playbook and tank the market to force compliance.