Friday, January 05, 2024

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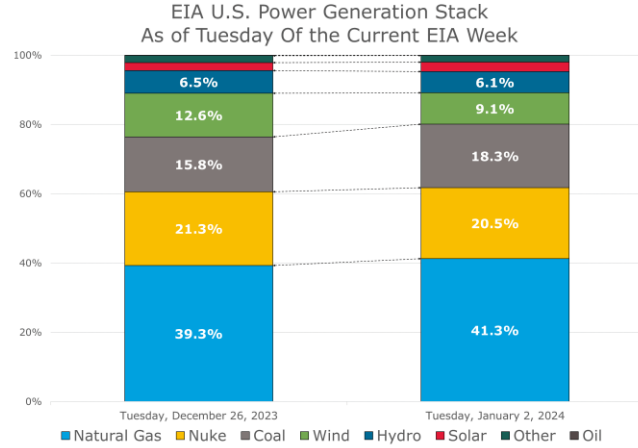
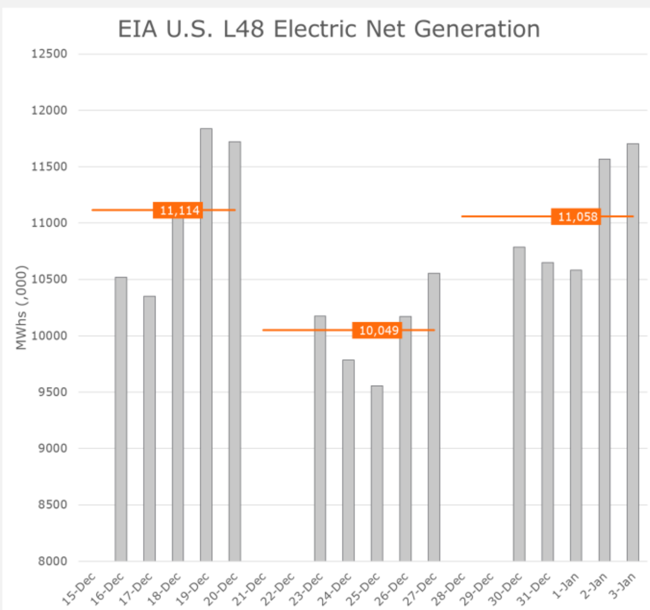
Probability Today's Close Will Finish Below/Above Previous Session's Low/High Prints			
NYMEX NG, Feb-24	Prev Close $ 2.821	Close < $2.681 23%	Close > $2.863 40%
NYMEX WTI, Feb-24	Prev Close $ 72.19	Close < $71.06 35%	Close > $74.00 26%
ICE Brent, Mar-24	Prev Close $ 77.59	Close < $76.50 35%	Close > $79.41 25%
NYMEX RBOB, Feb-24 (15.0 RVP)	Prev Close $ 2.1101	Close < $2.0857 39%	Close > $2.1734 21%
NYMEX ULSD, Feb-24	Prev Close $ 2.5884	Close < $2.5554 36%	Close > $2.6287 32%
ICE Gasoil , Feb-24	Prev Close $ 746.50	Close < $744.50 48%	Close > $766.25 22%



Nota Bene: As of Wednesday, for the current EIA week electricity demand is 10% higher on the week and 12% higher year-over-year at 11,058 GWhs.



Omnium Gatherum

PRICES WERE MIXED ON THURSDAY… oil markets fell after the EIA reported massive builds in petroleum products for last week, while natural gas bulls shrugged off a de minimis weekly delivery in supply.

EIA Natural Gas Recap

Yesterday, the EIA reported a below-normal delivery (withdrawal) of natural gas from storage. For the week ended December 29th, L48 underground storage fell by a de minimis 14 Bcf to 3.476 Tcf. The delivery came in well below the mean consensus (≈40 Bcf) of the major surveys. Storage is now on pace to end 2023 at the highest level since 2015, surpassing 3.341 Tcf.

As horrific as last winter was for bullish natural gas traders, this winter has had an even worse start.

The Good

Temperatures in the Houston market area opened the heating season in November, averaging 61.3°F, which is 2.6% colder than normal. In December, temperatures dropped to a mean of 57.5°F, which is 2.9% warmer than normal. Through the first two months of the season, Houston temps averaged 59.4°F, which is about as normal as it gets.

The Bad

Temperatures in the Big Apple kicked off the season on solid footing. November temps averaged 45.3°F, which is 5.8% colder than normal. However, December averaged a disappointing 42.7°F, which is 9.4% warmer than normal. Therefore, the average for November and December came in at 44.0°F, which is 1.1% warmer than normal.

From a market perspective, warmer temperatures in NYC trump normal temperatures in Houston.

The Ugly

Chicagoland is still waiting for winter to arrive. In fact, the Windy City has been waiting for winter since 2022. This year, the start of the season averaged 42.9°F, which is 3.1% warmer than normal. In December, temps only fell to 39.0°F, which is 31% (!) warmer than normal. The November and December average was a balmy 40.9°F, which is 15% above normal!

From a market perspective, balmy temperatures in Chicago—the largest residential gas-fired space heating market in the U.S.—severely exacerbate warmer NYC temperatures and render normal Houston temperatures irrelevant.

Bottom Line

January is historically the coldest month of the year. While there is strong heating demand in the 6-10 day forecast and the 8-14 day forecast, the all-important Northeast market area is excluded.

Therefore, natural gas storage is still on pace to finish the heating season at a historically elevated level.

We are one third of the way through the meteorological winter and this season's withdrawal (delivery) of natural gas from L48 underground storage is a putrid 360 Bcf. This figure is a massive 393 Bcf (-52%) below last year's pace (!), 191 Bcf (-35%) below the trend in our seasonal times series study, and 44 Bcf (-11%) below the confidence interval in our seasonal study, i.e., **this season's extant delivery is 11% below normal**.

Based on our model assumptions, we calculate a 33% probability (odds 2:1) the market will end the season above 1.920 Tcf. Our probability of coming in above the EIA's 1.998 Tcf forecast is 25% (odds 3:1), along with a 43% probability (odds 4:3) the market will finish above last winter's ending balance of 1.830 Tcf.

EIA Petroleum Recap

Yesterday, the EIA reported a BEARISH update for the week ended December 29th. Total crude oil inventories fell by 5.50 MMbs to 431.07 MMbs. Thanks to tax dodging oil traders (See yesterday's report), a 2.99 MMb draw in PADD 3 accounted for more than half of last week's decline.

Over the past six EIA reports, PADD 3 crude oil stocks have fallen five times by a net of 23.23 MMbs; this represents one of the largest draws in a six-week period ever. Through December 29th, the draw for December 2023 is approximately 20.90 MMbs, a number that, if it holds, will eclipse the record 19.07 MMb draw from December 2013.

This draw, while large, is expected due to the end-of-year Harris County ad valorem tax assessment on onshore oil stocks. This annual flush typically produces a considerable draw in the month of December.

However, what goes out in December, often returns in January. Whereas PADD 3 has now drawn in 41 of the past 43 Decembers, January additions have occurred in 33 of the past 42 years. Of the 33 additions, the average build is 8.82 MMbs, whereas the average decline on the nine draws is 2.87 MMbs. On average, the net January build of the past 42 years is 6.23 ±1.98 MMbs.

Massive builds were reported in the product markets. Total gasoline stocks increased by 10.90 MMbs, marking the largest build since Memorial Day 1993 and the second-largest build ever.

Large builds were reported in the three areas with the potential to impact the NYMEX RBOB contracts. PADD 1 (East) posted a 3.03 MMb increase (97th percentile), PADD 2 (Midwest) posted a 1.95 MMb build (96th percentile) and PADD 3 (Gulf Coast) posted a 4.03 MMb build (99th percentile)— all percentile rankings are as of 1990.

In the case of PADD 3, gasoline stocks have surged in six of the last seven weeks, increasing by a net of 10.56 MMbs. This marks the 15th largest increase in barrel terms and the 5th largest ever in percentage terms.

Distillate stocks surged by 10.09 MMbs, marking the third-largest build ever recorded, dating back to 1982. What is more, over the past six weeks, stocks have surged by 20.29 MMbs. This marks the 29th largest increase in barrel terms and the 21st largest ever in percentage terms.

Similar to gasoline, distillate stocks increased in the three areas with the potential to impact the NYMEX ULSD contracts. PADD 1 stocks rose by 1.81 MMbs to reach a 42-week high of 32.02 MMbs, PADD 2 stocks experienced the third-largest increase ever, rising by 3.57 MMbs and reaching a 14-week high of 32.19 MMbs, and PADD 3 stocks increased by the 19th largest amount on record, totaling 3.14 MMbs and posting a 29-week high of 44.55 MMbs.