THE SCHORK REPORT

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, February 02, 2024

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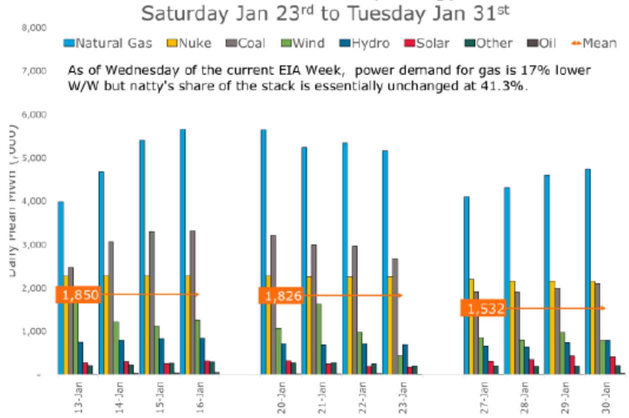
Probability Today's Close Will Finish Below/Above Previous Session's Low/High Prints			
NYMEX NG, Mar-24	Prev Close $ 2.050	Close < $2.033 45%	Close > $2.168 16%
NYMEX WTI, Mar-24	Prev Close $ 73.82	Close < $73.70 49%	Close > $76.95 11%
ICE Brent, Apr-24	Prev Close $ 78.70	Close < $78.57 48%	Close > $81.55 11%
NYMEX RBOB, Mar-24 (13.5 RVP)	Prev Close $ 2.1948	Close < $2.1568 32%	Close > $2.2607 20%
NYMEX ULSD, Mar-24	Prev Close $ 2.7129	Close < $2.6848 38%	Close > $2.8183 12%
ICE Gasoil , Mar-24	Prev Close $ 837.00	Close < $803.75 12%	Close > $845.25 38%

EIA U.S. Net Generation by Energy Source
Saturday Jan 23rd to Tuesday Jan 31st



Nota Bene: As of Wednesday, of this EIA week, electricity demand was 13% lower w/w and 6% lower y/y at a five-week low of 10,883 GWhs.

3-Week Directional Momentum & Money Flow As Of Wednesday, January 31, 2024		NYMEX NG	NYMEX WTI	ICE Brent	NYMEX RBOB	NYMEX ULSD	ICE Gasoil
Price	Trend	Falling	Rising	Rising	Rising	Rising	Rising
Volume	Trend	Falling	Falling	Falling	Falling	Falling	Rising
	Bias	Bullish	Bearish	Bearish	Bearish	Bearish	Bullish
Open Interest	Trend	Rising	Rising	Rising	Rising	Rising	Rising
	Bias	Bearish	Bullish	Bullish	Bullish	Bullish	Bullish
Market Signal		Neutral	Neutral	Neutral	Neutral	Neutral	Bullish
Market Volatility		Rising	Falling	Falling	Rising	Falling	Falling

Omnium Gatherum

PRICES WERE WEAK YESTERDAY... oil collapsed as traders await Biden's well-telegraphed 'powerful' response to last weekend's Iranian-linked drone attack in Jordan that killed three U.S. troops. We guess the IRGC (Iran's Islamic Revolutionary Guard Corps) needs more time to vacate their bases in Iraq and Syria before the White House can get on with its 'powerful' response. Spot NYMEX natural gas has now posted a new life-of-contract low in each of the first four sessions of this week.

Whiting

Yesterday, in response to Wednesday's petroleum update from the EIA, we commented that you cannot swing a cat throughout the Midwest without hitting a gallon of gasoline or diesel. For instance, since November, i.e., for the entirety of this winter, gasoline stocks in PADD 2 (Midwest) have ballooned by a record 16.92 MMbs. Current inventories of 60.70 MMbs are more than comfortable for this time of the year.

Midwest distillate stocks are just as comfortable at 34.93 MMbs. Since Thanksgiving, №2 oil stocks have risen by 10.08 MMbs, the second largest build ever, and 1.4× greater than the seasonal norm.

So, as of last Friday, the Midwest was awash in petroleum.

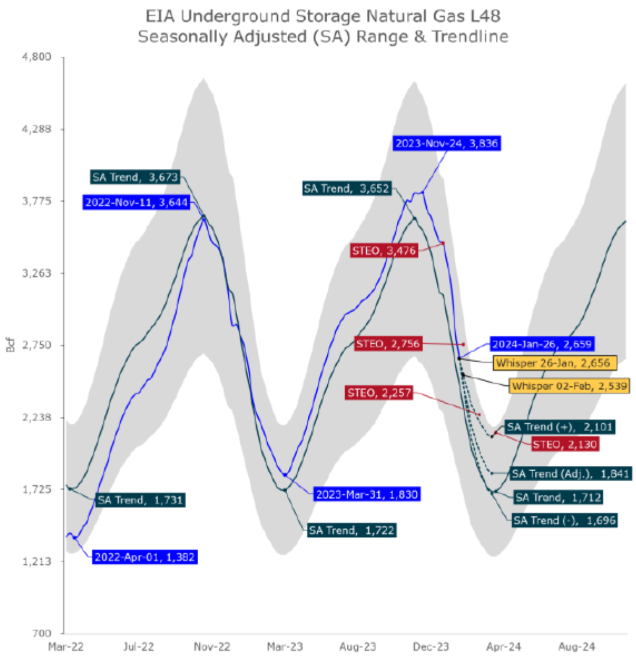
That is a good thing because yesterday, BP's Whiting refinery in northwest Indiana, the largest refinery in the Midwest was knocked offline due to a power outage.

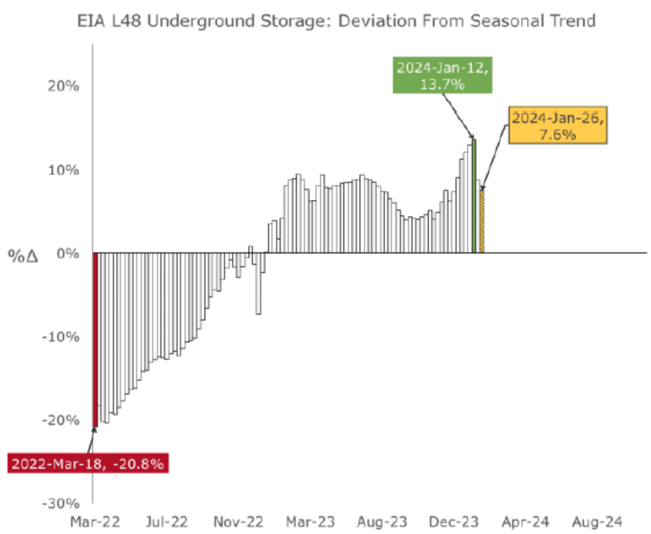
Whiting capacity is 435 Mb/d, inclusive of a massive 170 Mb/d of catalytic cracking capacity. In addition to the shut-in, excess product at the refinery must be flared (burned off) as a safety precaution.

There is no word yet when the refinery will ramp operations back up. An extended outage will impact Cushing and likely send Midwest cracks surging.

EIA Gas Update

Yesterday, the EIA reported a strong update on L48 underground inventories. For the week ended January 26th, a total of 197 Bcf of natural gas was delivered (withdrawn) from storage. Over the past two reports, a total of 523 Bcf was withdrawn. The season-to-date delivery is now up to a solid 1.177 Tcf. The typical withdrawal for next Thursday's update is 171 ± 43 Bcf, however, the mean of the early consensus is a lowly ≈120 Bcf.





We are now well past the midpoint of the season and inventories are down to 2.659 Tcf. Storage is on pace to finish this winter at ≈1.841 Tcf. Our probability of ending this season at/above the EIA's 2.130 Tcf forecast is unchanged week-over-week at 6% (odds 16:1) and we handicap the probability of finishing the season above last year's 1.830 Tcf balance at 46% (odds of 7:6). Finally, there is an approximate 67% probability (odds 1:2) that storage will end winter in between 1.898 Tcf and 1.740 Tcf, with a 50/50 line of 1.817 Tcf.

How Low Does Natty Have to Go?

Last year, spot Henry Hub natural gas futures on the NYMEX bottomed March 29th at the lowest level, $1.944 per MMBtu, since the height of COVID mitigation diktats in September 2020. For all of 2023, spot NYMEX gas averaged $2.665 per MMBtu, the lowest yearly average since 2020 and the fourth-lowest average since 2000.

According to a recent article by the EIA, these levels are not low enough to encourage natural gas producers to tap on the brakes. Citing data from S&P Global Commodity Insights, the EIA notes that U.S. monthly dry natural gas production set a record for December 2023 of 105.5 Bcf/d.

Dry production in the fourth quarter was 3.8 Bcf/d higher than the average of the first three quarters of 2023. For all of 2023, dry production grew by 3.6 Bcf/d (3.7%).

Production out of Appalachia, the Permian, and Anadarko lead the way higher, accounting for roughly 90% of the year-over-year increase. This is a rather peculiar rise given that prices at these hubs dropped from a 2022 mean of ≈$5.68 per MMBtu to a mean in 2023 of ≈$1.90 per MMBtu.

On one hand, average basis 'improved' from −$0.86 per MMBtu to −$0.76 per MMBtu. On the other hand, this is hardly the kind of improvement to encourage record production.

So, there you have it. In addition to coming off back-to-back-to-back bearish seasons (Winter 2022-23, Summer 2023, and this winter), natural gas bulls have had to navigate producers' inexplicable degree of supply inelasticity (i.e., their lack of response to the plunge in price).

The only logical takeaway from producers' insouciance is prices have yet to hit rock bottom. So, at what point will the producers respond?

Only their CFOs can say, and right now, their collective silence says a lot.

At some point, producers will cry (in writhing agony) uncle. Until that occurrence, the future is now for hedging. Take advantage of the current environment and lock in exposure.