THE SCHORK REPORT™

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, February 01, 2024

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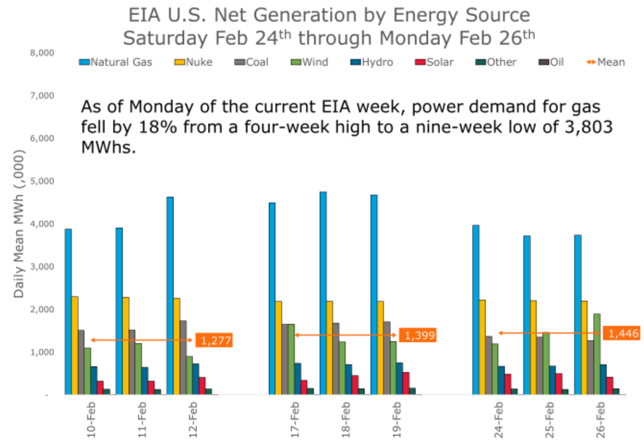
Probability Today's Close Will Finish Below/Above Previous Session's Low/High Prints			
NYMEX NG, Mar-24	Prev Close $ 1.860	Close < $1.829 42%	Close > $1.918 32%
NYMEX WTI, Mar-24	Prev Close $ 78.26	Close < $77.94 44%	Close > $79.28 29%
ICE Brent, Apr-24	Prev Close $ 81.91	Close < $81.51 41%	Close > $82.84 29%
NYMEX RBOB, Mar-24 (13.5 RVP)	Prev Close $ 2.5810	Close < $2.5305 21%	Close > $2.5950 41%
NYMEX ULSD, Mar-24	Prev Close $ 2.6499	Close < $2.5845 21%	Close > $2.6750 37%
ICE Gasoil , Mar-24	Prev Close $ 806.25	Close < $789.25 23%	Close > $813.50 37%



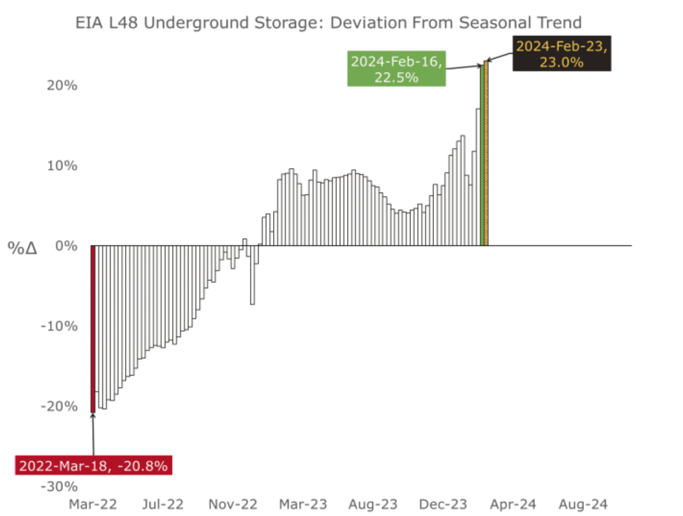
Nota Bene: For the current EIA week, as of Tuesday electricity demand was 9.1% lower w/w and 3.4% lower y/y at a nine-week low of 10,198 GWhs.

Omnium Gatherum

PRICES WERE MIXED YESTERDAY... NYMEX gas pumped in kneejerk fashion following the weekly update from the EIA but dumped just as fast when it dawned on traders that the report was far from bullish. Crude oil futures were soft, while the product futures were firm.

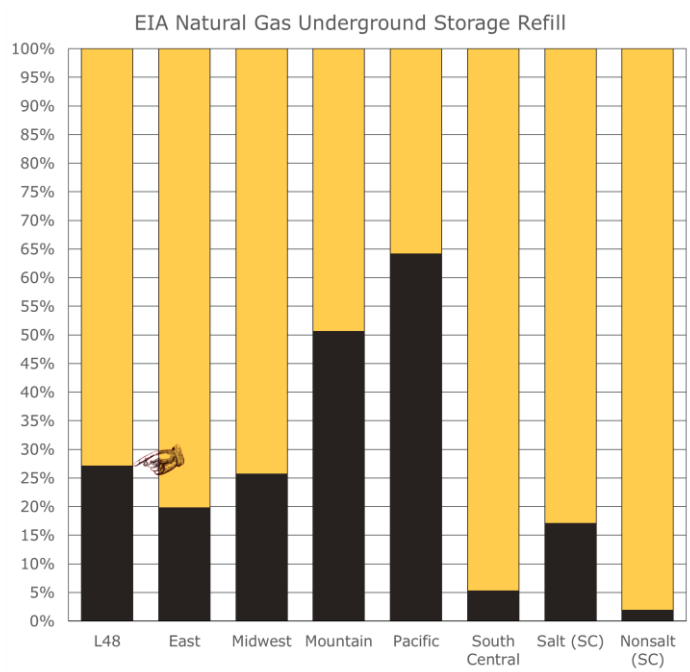
EIA Gas Highlights

Yesterday, the EIA reported a normal delivery from L48 underground storage. For the week ending February 23rd, 96 Bcf of natural gas was withdrawn. The typical delivery for the third week in February is 107 ± 24 Bcf.



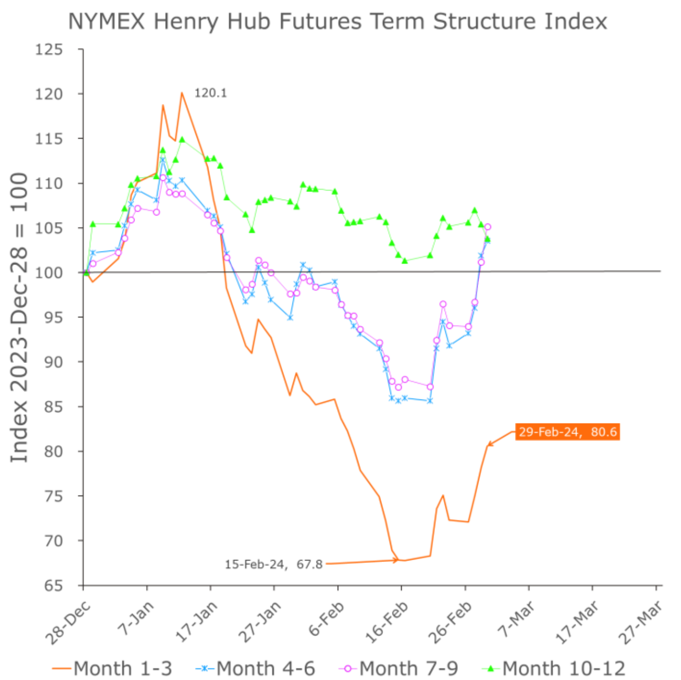
As of last week, L48 gas storage stood at a massive 23.0% surplus to the seasonal norm.

Last week's delivery was the first time since January 26th when a normal amount of gas was withdrawn. In the three prior weeks, a de minimis total of 189 Bcf was delivered. We are about four-fifths of the way through the season and storage is a hefty 2.374 Tcf.

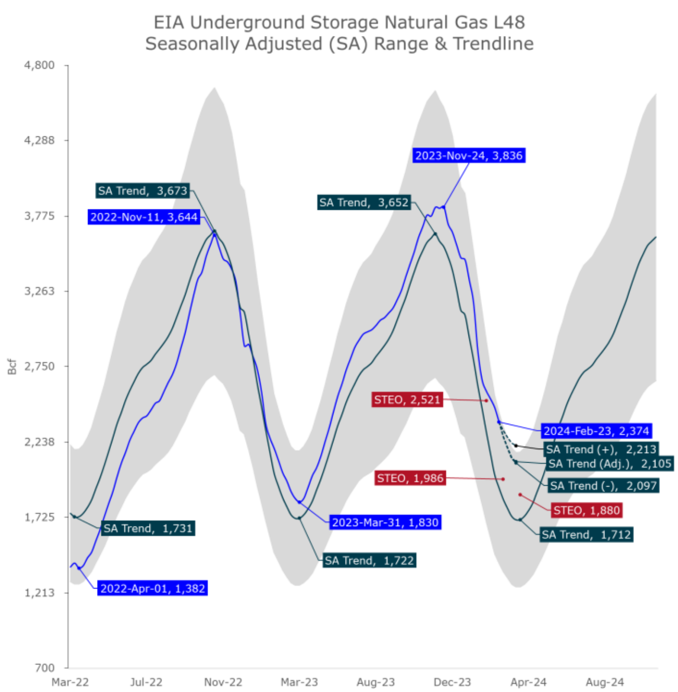


Heading into the final month of the delivery season, the market has only drawn down 73% of last summers' refill.

Given the warmth in the [forecast](#) for the middle of March, we calculate a 71% probability (odds 2:5) that storage will finish the season above 2.0 Tcf! The first confidence interval of our mode pegs end of season storage between 2.176 Tcf and 2.020 Tcf, with a median of 2.094 Tcf.



After cratering two weeks ago, the NYMEX Henry Hub term structure index is beginning to show signs of life. Stay tuned.



Storage is a massive 2.374 Tcf as of two Fridays ago!

Message (Finally) Received?

Last May, we questioned whether natural gas producers would heed bearish signals such as hefty inventories, tight credit conditions, and persistently low prices. From the peak of spot Henry Hub prices at \$9.680 per MMBtu on August 22, 2022, to the close at \$2.266 per MMBtu on May 12th, 2023, the market averaged a daily decline of 0.79% (\$407 per contract).

Despite industry suggestions of change at the time, illustrated by Chesapeake Energy's COO Josh Viets hinting in the company's Q1 2023 Earnings Call of potential rig reductions, the actual response has been lackluster. Since August 2022, the Baker Hughes gas rig count dropped by 38, far from the anticipated 90-rig decline based on historical patterns.

Producers, seemingly unresponsive to price drops, faced repercussions as spot NYMEX gas hit its lowest point since the summer of 2020 (and one of the lowest points in the 30 years of NYMEX trading), reaching \$1.522 per MMBtu two weeks ago on February 20th.

Chesapeake now appears to be taking notice. Per the company's full-year 2023 results and 2024 guidance, 2024 capital expenditure will be slashed through rig reductions and delaying turn-in-line completions (the point at which a new well starts to deliver gas to the pipeline network).
However, it is crucial to recognize that Chesapeake alone cannot bring an end to one of the greatest bear runs in the history of the NYMEX contract. Since the company's headline, the contango on the NYMEX curve has surged, a phenomenon uncommon in markets anticipating a shortage in supply.

As the meteorological winter concluded yesterday, contrarians are poised to initiate gas purchases, sparking a potential counter-seasonal rally through the shoulder months. This is akin to their strategy in the fall, exemplified by last Halloween's winter peak price.

Despite this annual ritual, from a fundamental perspective, there is no compelling reason for owning gas until the NYMEX term structure exhibits behavior in line with a bull market, i.e., a market where product discounts are not necessary for sales.

To all the Chesapeakes out there, the onus is on you. Make significant cuts to CAPEX or risk another year of rock-bottom prices.