THE SCHORK REPORT

FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, October 11, 2024

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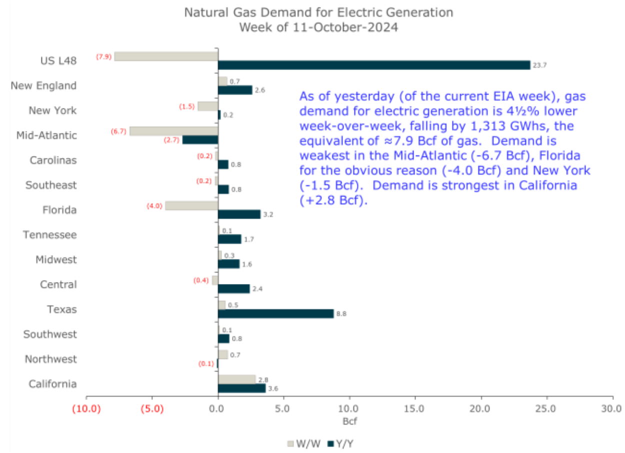
Probability Today's Close Will Finish Below/Above Previous Session's Low/High Prints			
NYMEX NATURAL GAS	Prev Close $ 2.675	Close < $2.588 26%	Close > $2.700 42%
NYMEX WTI	Prev Close $ 75.85	Close < $73.26 23%	Close > $76.24 45%
ICE Brent	Prev Close $ 79.40	Close < $76.72 20%	Close > $79.72 45%
NYMEX RBOB	Prev Close $ 2.1509	Close < $2.0644 16%	Close > $2.1581 46%
NYMEX ULSD	Prev Close $ 2.3509	Close < $2.2770 20%	Close > $2.3599 45%
ICE Gasoil	Prev Close $ 700.50	Close < $691.00 37%	Close > $715.00 29%



Nota Bene: L48 average electric generation was 4% lower last week at a four-month low of 11,302 GWhs.

Omnium Gatherum

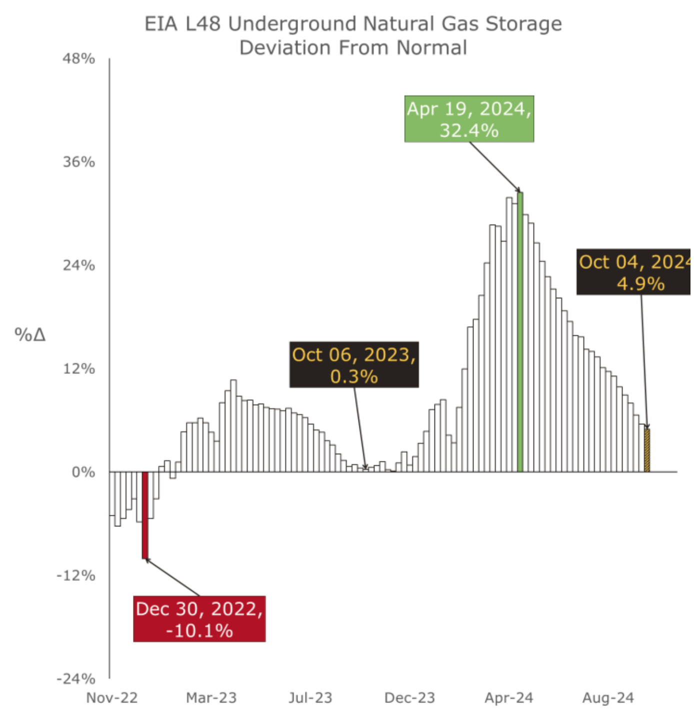
ENERGY PRICES WERE MIXED YESTERDAY… oil bounced back as traders wait to see if Jerusalem strikes Tehran before or after Yom Kippur and gas eked our small gain despite significant demand destruction from Milton.

What We Are Watching

Yesterday, the EIA produced a normal injection (addition) of natural gas to L48 underground storage. Whereas the normal addition for late September and early October is 90 Bcf with a margin of error of ± 24 Bcf, the EIA reported an 82 Bcf refill. This is only the fourth addition to storage since the start of the dog days of summer (14 weeks ago) that fell within the seasonal margin of error.

With that said, yesterday's report was still 8 Bcf below the seasonal norm of 90 Bcf bringing the streak to 12 straight weeks that the EIA has reported an addition below this threshold. Through the first 26 reported injections of this season, only five have come in above the norm, the last one occurring on the week of July 05th.

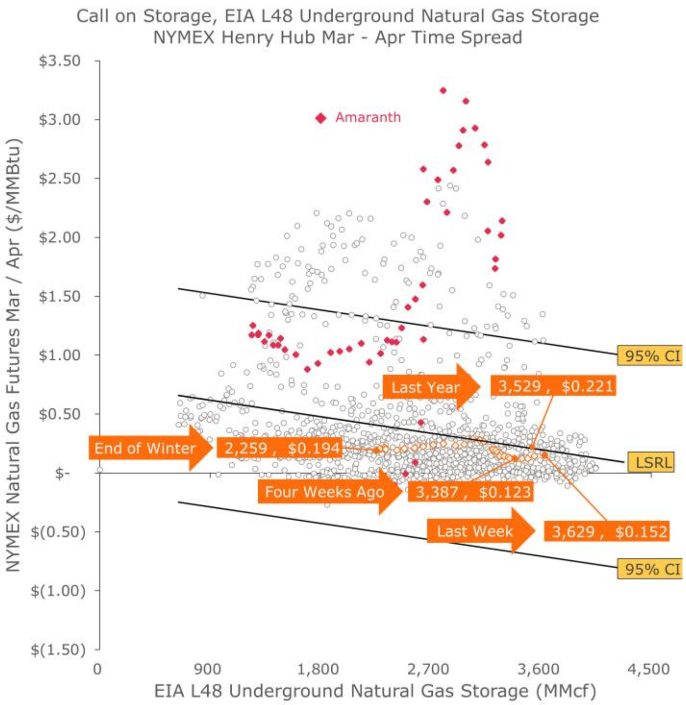
This season's hitherto injection is 1.370 Tcf which is 329 Bcf below a year ago and 357 Bcf below the seasonal norm. However, storage began this refill season at 56% of demonstrated peak working capacity (4.047 Tcf), or 2.259 Tcf. As of last week, storage increased to 3.629 Tcf, or 90% of working capacity. A year ago, at this time, storage was at 87% of capacity and the seasonal norm is 85% of capacity.



At the end of last winter, L48 storage was 32% above the seasonal norm. This surplus has since narrowed to 5%. A year ago, at this time, storage was barely (0.3%) in surplus to the norm.

The key takeaway is that although this season's injection is running 329 Bcf below a year ago and 357 Bcf below the seasonal norm in absolute terms, this year's injection has been more efficient in terms of capacity usage.

As of October 04th, storage was 3.629 Tcf. In a best-case scenario, the market is on pace to finish the season at 3.888 Tcf, which is now 32 Bcf above the EIA's latest forecast of 3.856 Tcf. It is too early to estimate the impact of hurricanes Helene and Milton on demand destruction in the Southeast and how this will affect the end of season balance.

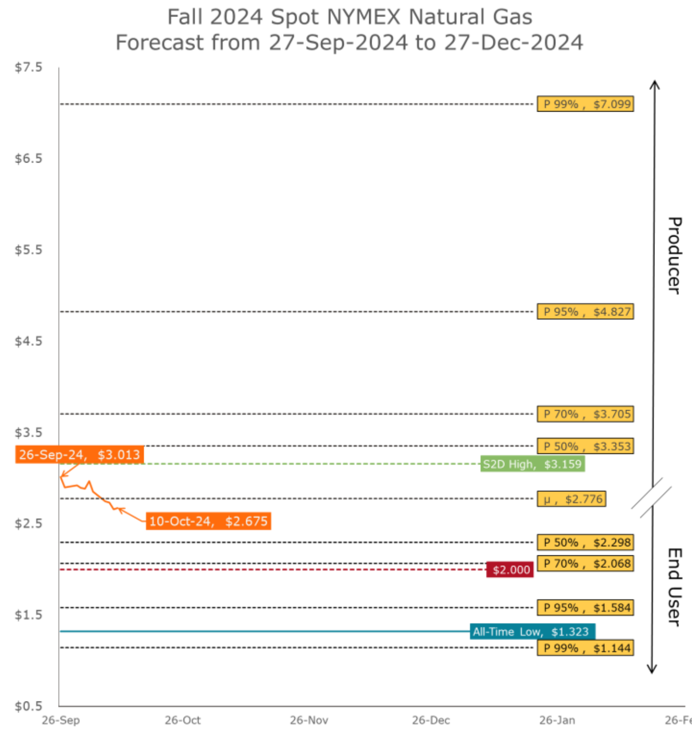


Either way, the market is sufficiently supplied to begin, and to end, the approaching heating season. Through last summer—from the solstice through the autumnal equinox—the average premium (backwardation) on the NYMEX natural gas March 2025 contract to the April 2025 contract (the end of winter cross-seasonal spread) narrowed in 13 out of 14 weeks, falling from a mean of $0.289 per MMBtu to $0.122 per MMBtu.

As illustrated above, as of last week there was 3.629 Tcf in the ground and the average premium on the March 2025 contract to the April 2025 contract rose to $0.152 per MMBtu which is a two-month high, but it is still below the seasonal regression line. Through the first four days of this week, the average backwardation is back down to a three-week low of $0.123 per MMBtu.

A weak backwardation on a cross-seasonal time spread is a textbook definition of a fundamentally bearish market.

Our updated model for NYMEX spot natural gas futures runs through the November 2024, December 2024, and January 2025 contracts—the first three (of five) contracts in the winter strip—and covers the period from September 27th through December 27th.



As shown, the midpoint of potential prices returns for the quarter is $2.776 per MMBtu, so there is a historical negative drift in prices through the fourth quarter. Yesterday, spot gas settled below this midpoint at $2.675 per MMBtu. Based on our volatility estimates, there is a 50% probability gas will finish the quarter in between $3.353 per MMBtu and $2.298 per MMBtu. Take note that this season's hitherto high was posted in June at $3.159 per MMBtu.