Surging Gas Demand Fuels Massive Storage Draw, but Bullish Momentum Fades

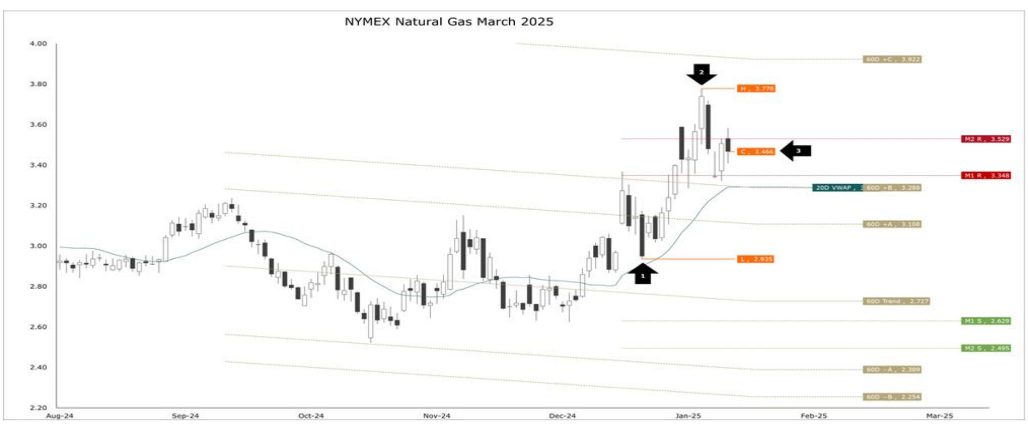
As noted in today's Market View, gas furnace demand is surging this week. This demand coupled with the loss of production from well freeze-offs will set the table for a massive delivery of natural gas from underground storage. The early consensus for next Thursday's update from the EIA averages over 300 Bcf, the seasonal norm is 173 ± 49 Bcf.

Despite strong implied demand, bullish momentum on the front-end of the NYMEX Henry Hub curve is fading. Last week, March 2025 futures (the final contract on this winter's strip) averaged a three-month high premium to the April 2025 futures of $0.047/MMBtu. This week, March is averaging a -$0.006/MMBtu discount.

We have rolled our outlook to the more heavily traded March futures contract. As illustrated, the market bottomed on January 3rd at $2.935 (arrow 1), peaked January 16th at $3.778 (arrow 2), and finished today at $3.466 (arrow 3). Over this period, the market has held support above the 20-day volume-weighed moving average or VWAP ($3.292 as of today's settlement).

On the technical side, the Parabolic SAR has been bullish since January 9th and the MACD has been bullish since December. The nearest level of support is the Fibonacci 50%/62% retracement… 'The Box' as our old friend Dennis Gartman would call it… between $3.262 and $3.140.

As we have noted for the past two weeks, "…if you are long, hold unless the higher of the 20-day EMA or 20-day VWAP is violated, otherwise sit tight…". As of today, the 20-day VWAP is $3.292, and the 20-day EMA is $3.195. If choose to remain long below here (we do not think that is a good idea), then support must hold at the Fibonacci 62% retracement of $3.140.



EIA reports massive storage withdrawal; inventories are stable.

The EIA reported the tenth delivery of the season. As of Friday, January 17th, storage fell by a significant 223 Bcf to 2.892 Tcf. The season-to-date delivery is 1,080 Tcf which is 217 Bcf greater than a year ago and 151 Bcf greater than the five-year mean, but 38 Bcf below the seasonal time series study. As a percentage of working capacity, inventories have fallen by 22.82 percentage points (2,282 basis points or bps) since the start of the season, dropping to 61.11%. On this basis, current inventories are 76 bps higher than a year ago when stocks were at 60.34% of capacity, 136 bps greater than the five-year mean of 59.74%, and 17 bps greater than the seasonal norm of 60.93%. Relative to these benchmarks, current inventories are in stable shape.