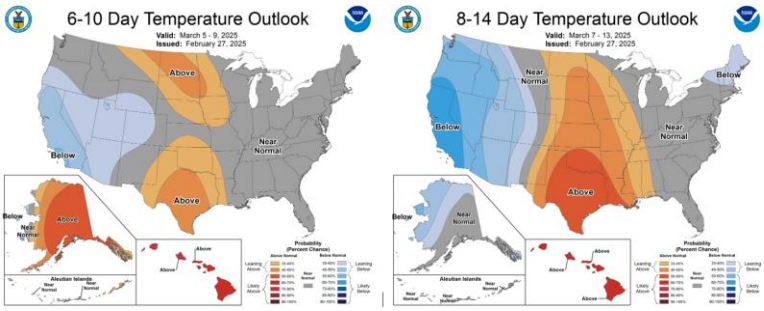
THE SCHORK REPORT

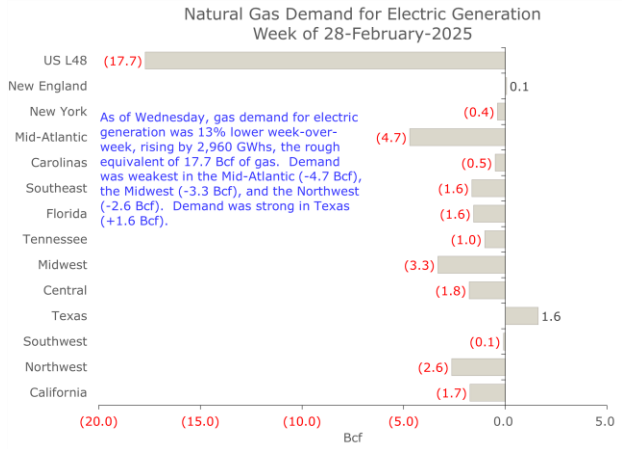
FUNDAMENTAL + TECHNICAL ANALYSIS OF THE ENERGY MARKETS

Friday, February 28, 2024

www.schorkgroup.com



NOAA: Warmth in the Midwest remains a problem for bulls.



Nota Bene: As of Wednesday, average electricity generation was 10% lower on the week, 8% higher on the year, and 6½% higher than the 2021-2023 mean at a three-week low of 11,119 GWhs.

Directional Momentum & Money Flow
As Of Wednesday, February 26, 2025

		NYMEX NG	NYMEX WTI	ICE Brent	NYMEX RBOB	NYMEX ULSD	ICE Gasoil
Price	Trend	Falling	Falling	Falling	Falling	Falling	Falling
Volume	Trend	Rising	Falling	Rising	Rising	Rising	Falling
	Bias	Bearish	Bullish	Bearish	Bearish	Bearish	Bullish
Open Interest	Trend	Rising	Falling	Rising	Rising	Rising	Rising
	Bias	Bearish	Bullish	Bearish	Bearish	Bearish	Bearish
Market Signal		Bearish	Bullish	Bearish	Bearish	Bearish	Bearish
Market Volatility		Rising	Falling	Falling	Falling	Falling	Falling

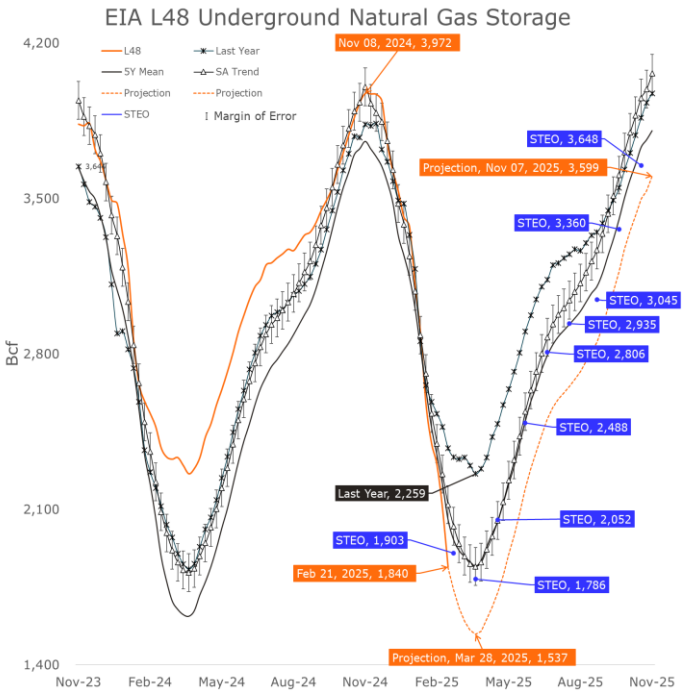
Omnium Gatherum

PRICES WERE MIXED YESTERDAY… oil popped after two days of strong selling and NYMEX natty inched lower despite last week's massive draw on inventories.

What We Are Watching

Yesterday, the EIA reported this season's fifteenth delivery (withdrawal). As of Friday, February 21st, L48 natural gas storage fell by a massive 261 Bcf to 1.840 Tcf—the normal delivery for the middle of February is 140 ± 49 Bcf.

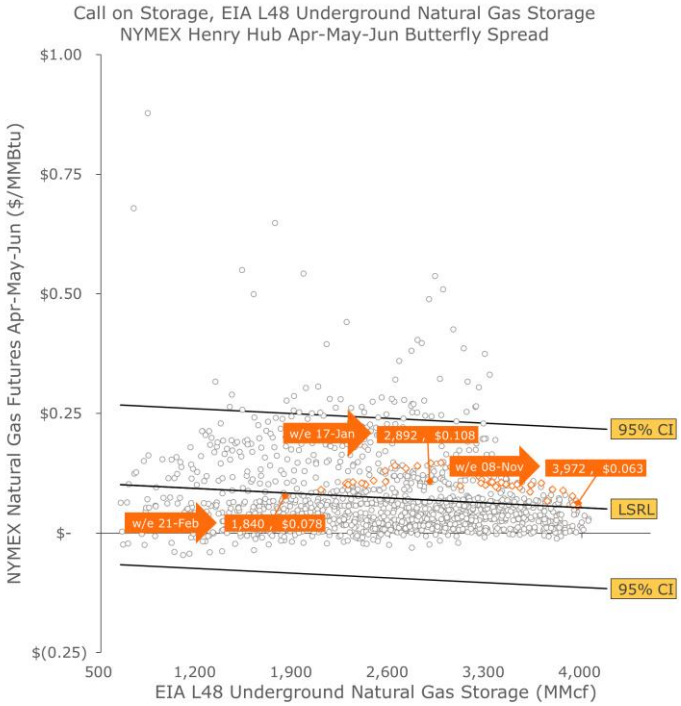
The season-to-date delivery is 2.132 Tcf, the second largest on record, behind a gargantuan delivery in 2014 of 2.486 Tcf. Storage is now 419 Bcf below last year's ending balance of 2.259 Tcf, with approximately five more deliveries remaining. At the current pace, the market is on pace to finish this winter in the 40th percentile since 2011 at a four-year low of 1.537 Tcf, which is quite an accomplishment given that last winter finished at an all-time high of 2.259 Tcf.



At the start of the refill season last November, with 3.972 Tcf in the ground, the NYMEX Henry Hub April-May-June butterfly spread traded at +$0.063/MMBtu: (April traded at a $0.094 discount to May, and May traded at a $0.156 discount to June).

A regression analysis of the spread against storage showed that it aligned closely with the least-squares regression line (LSRL). In practical terms, this suggested that, based on historical relationships, the spread was fairly valued given the level of gas in the ground. In other words, there was no significant deviation above or below the expected value from the regression, implying that the market priced the spread in line with typical inventory levels rather than signaling unusual tightness or weakness at the start of the heating season.

> A butterfly spread involves three different contract expirations. It consists of buying one near-term contract, selling two middle-term contracts, and buying one longer-term contract. This structure creates a "wings and body" effect, resembling a butterfly. The strategy profits from small price movements and is often used to gauge market expectations for seasonality, supply-demand shifts, or volatility changes. In the context of natural gas, butterfly spreads help traders assess pricing relationships between consecutive months and detect potential tightness or oversupply in future inventory levels.

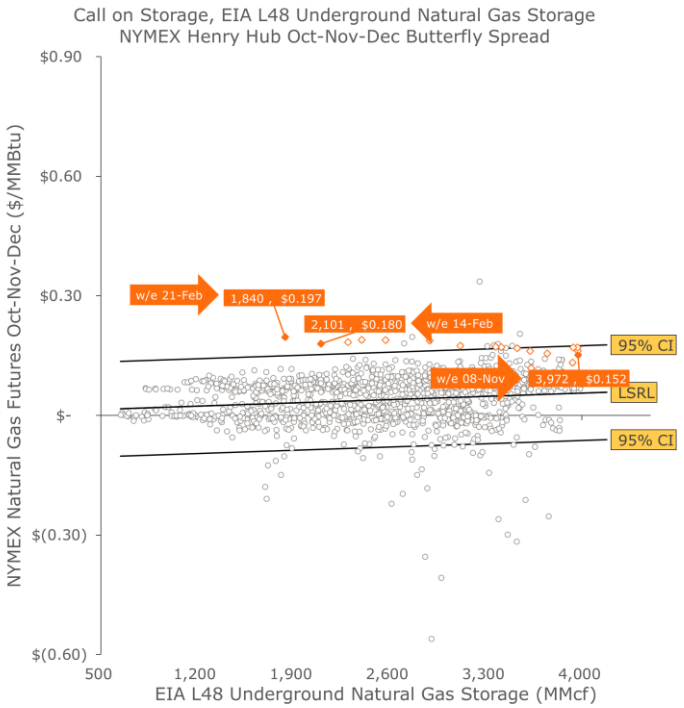


A regression analysis of the spread against storage showed that it aligned closely with the least-squares regression line (LSRL). In practical terms, this suggested that, based on historical relationships, the spread was fairly valued given the level of gas in the ground. In other words, there was no significant deviation above or below the expected value from the regression, implying that the market priced the spread in line with typical inventory levels rather than signaling unusual tightness or weakness at the start of the heating season.

Interestingly, despite the sharp drop in stocks, the spread remains aligned with the LSRL, suggesting that traders do not anticipate tightness at the start of the refill season. As of last week, storage was at the second lowest level on record, but the butterfly spread rallied by a meager $0.015 to $0.078: (April's discount narrowed by $0.051 to $0.043, and May's discount narrowed by $0.035 to $0.121).

This is odd.

It is a different tale for the end of refills. The October-November-December butterfly rose from $0.152 to $0.197. This change occurred as the Oct-Nov discount plunged by $0.119 to $0.157, and the Nov-Dec discount narrowed by $0.074 to $0.354. Most importantly, on the regression, the current spread is well above the upper bound of the 95% confidence interval (see below), signaling a significant shift in market dynamics for inventories at the start of next winter.



Traders are prioritizing October contracts over November and November over December, leading to a sharp contraction in both spreads. Takeaway: traders are increasingly concerned about what inventories will look like at the start of the next heating season.