Natural Gas: Volatility Breaks Containment

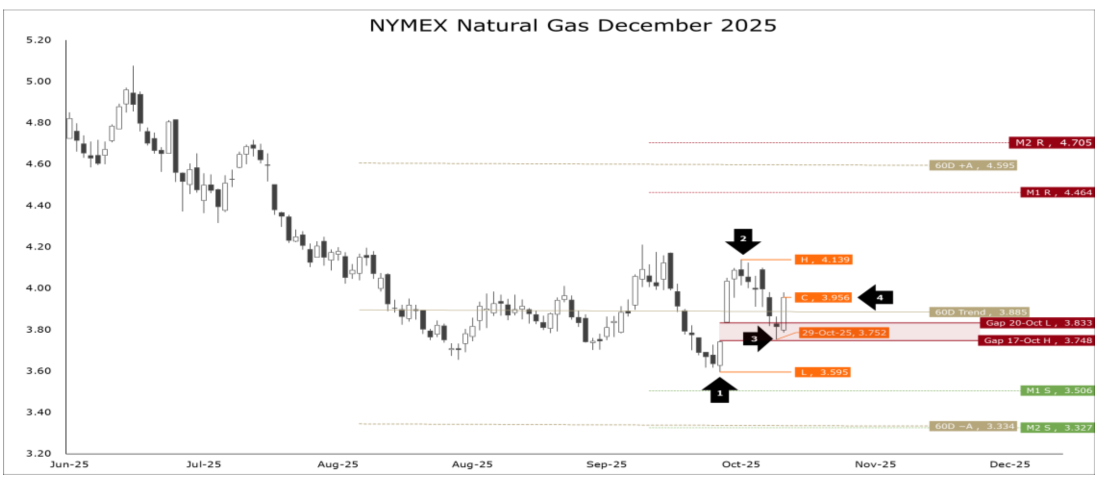
To say that natural gas traders have been on a roller coaster over the past several weeks is an understatement. Two weeks ago, NYMEX gas for November delivery plunged below the $3 psychological threshold, only for the contract to reverse last week after it gapped higher from its October 17th high of $3.024 to an October 20th low of $3.136. The contract eventually peaked on October 27th at $3.469 in an epic squeeze in the options market centered on the $3.500 call strike.

November gas expired this past Wednesday at $3.193. In the December market, the gap between $3.748 and $3.833 is still open after traders fell $0.004 short of closing it yesterday (arrow 3). Yesterday, the contract rallied to a $3.956 settle on overblown hype on alleged cold in the weather forecast (which we don't see).

As a result of the back-and-forth in prices, historical volatility has jumped from around 42.2%, which corresponds to an approximate one-standard-deviation daily price return of ±$0.102 to 65.8%, an approximate daily variance of ±$0.161.

For the week ahead, the primary target for the bears is to close the gap at $3.748, followed by support at our secondary level of $3.647. The initial upside for bulls is this season's hitherto high of $4.138, then our second resistance target at $4.315.

Stay sharp and hedge with confidence.



EIA reports hefty 74 Bcf injection—4.0 Tcf Is back in play.

Today, the EIA reported a strong 74 Bcf injection of natural gas into L48 underground storage—the typical injection for the latter part of October is 65 ± 8 Bcf. To date, 2.184 Tcf has been refilled—the largest injection since 2019, and the fourth largest since 2010. As of October 24th, total L48 storage stood at 3.882 Tcf. Our end-of-season projection jumped from 3.922 to 3.964 Tcf. Given the current weather forecast, we can expect at least two more injections for this season. Our upper projection is 3.983 Tcf and if heating demand fails to materialize in the second week of November, we will undoubtedly see storage greater 4.0 Tcf.