

October 7, 2021



# BULLS & BEARS REPORT

## NYMEX OUTLOOK





# OVERVIEW OF FUNDAMENTALS

## Weather – Bearish

- September finished as top 3 warmest.
- October bringing record low weather demand.

## Production – Neutral

- Production levels have rebounded from Gulf.
- Still no signs of increasing production.

## LNG Exports – Bullish

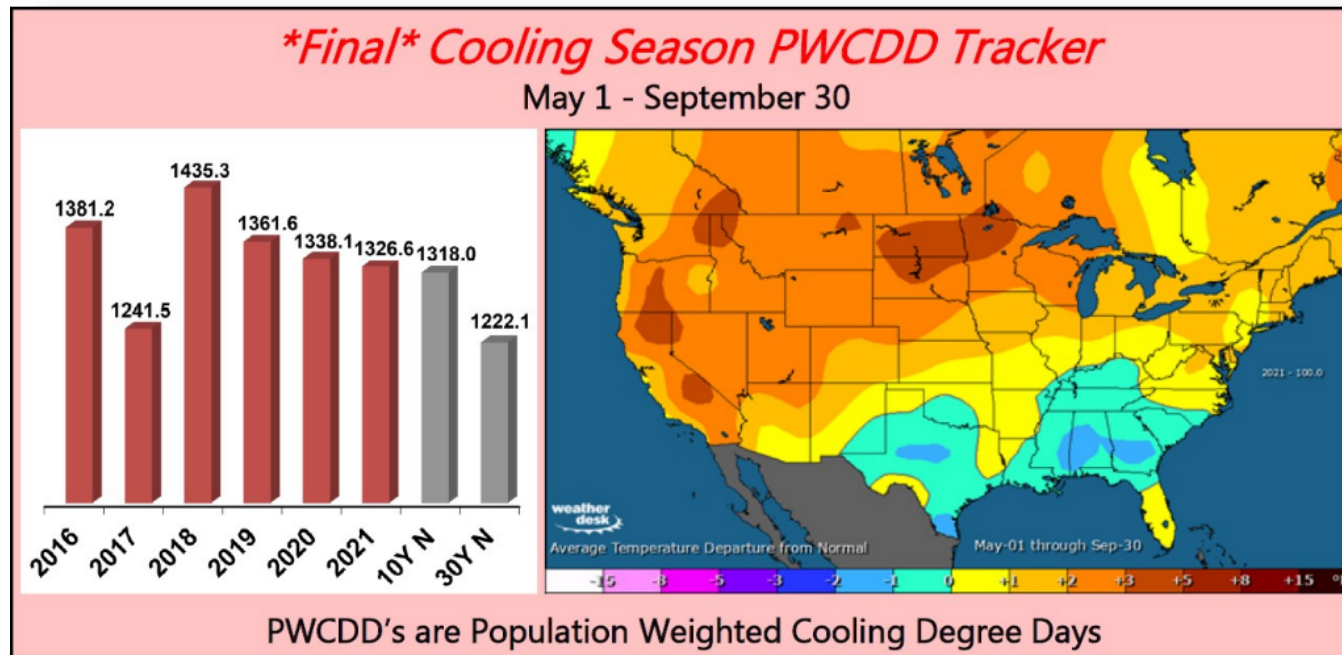
- Exports to grow to 12 BCF/D.
- Global prices now reflecting energy crisis.

## Storage – Neutral

- Mild weather bringing larger injections.
- Storage much less of a concern from last month.

# WEATHER

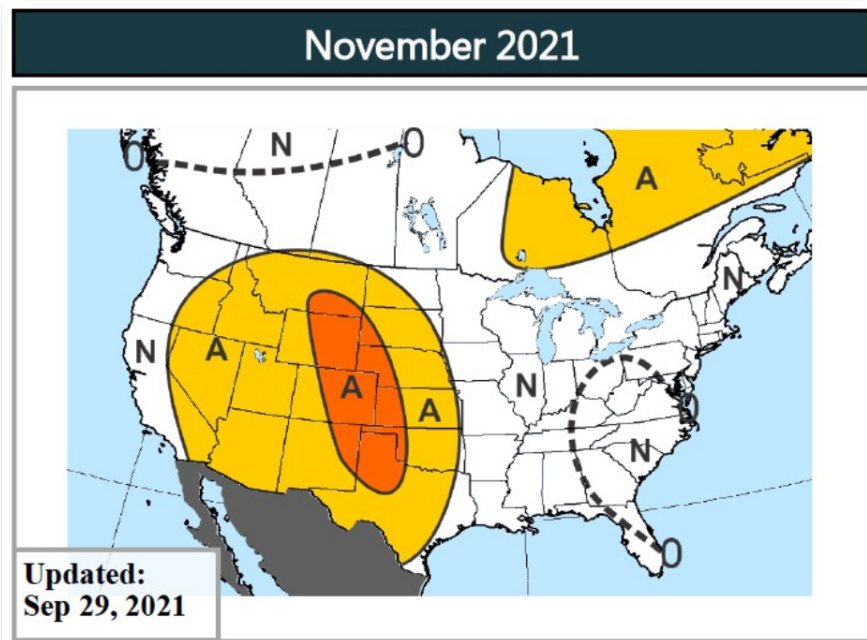
TO DATE



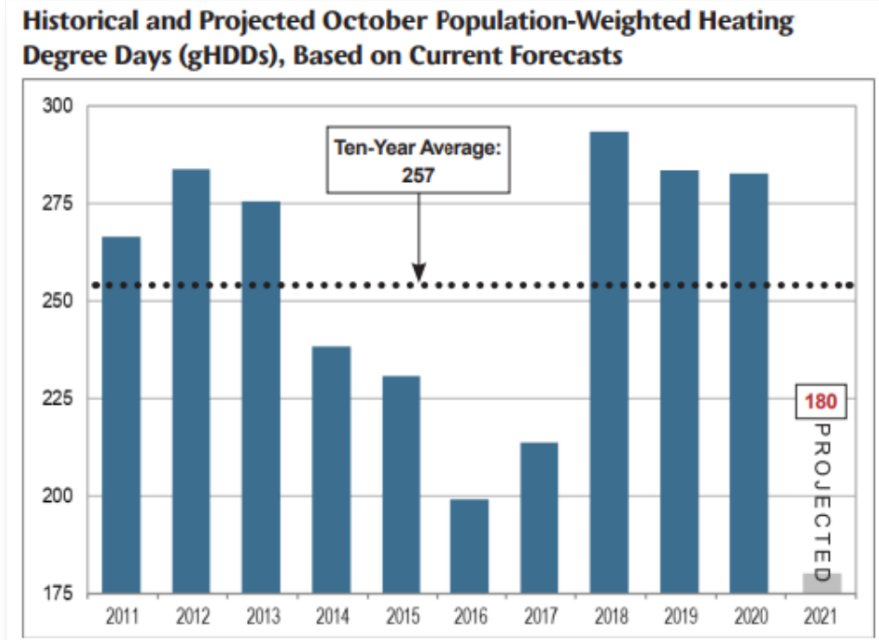
Source: Maxar Weather

- In absolute terms this summer was top 3 hottest, but population weighted demand was lower.
- The Summer finished near the ten-year normal for population weighted cooling degree days.
- Summer heat led to lower-than-normal storage injections even after switching to coal-fired power.
- Drought conditions brought on by this heat could bring lingering heat effects through the Fall.

# WEATHER OUTLOOK



Source: Maxar Weather

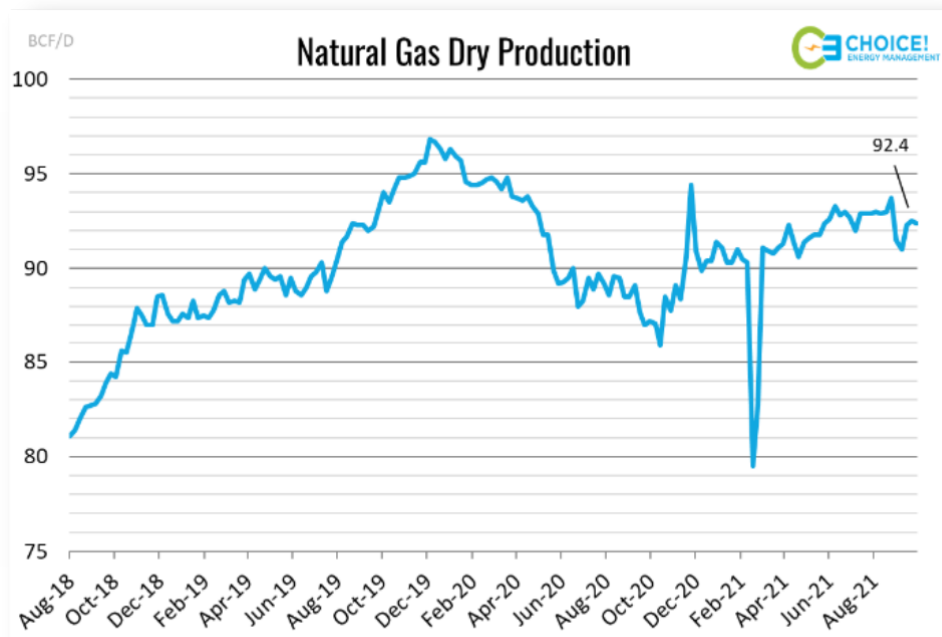


Source: EBW Analytics

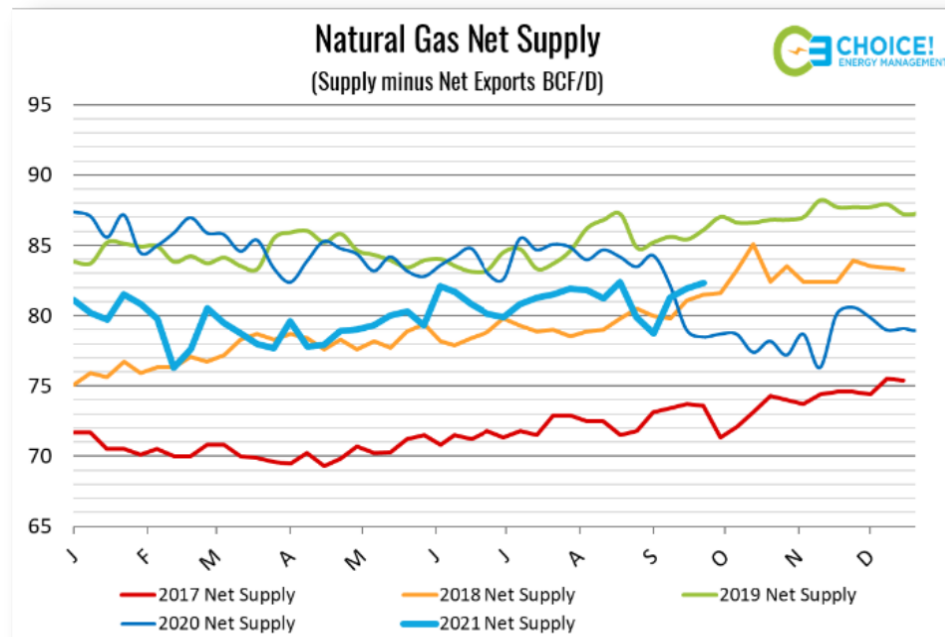
- The first two weeks of October is set to bring near record low weather demand.
- Hurricane season is on its way out and no storms are projected to impact the Gulf at this time.
- The intensity of La Nina this year will be higher than last year, bringing volatile weather patterns to the U.S.
- A cool start to October and a warm finish would suppress heating & cooling demand in this transitional season.



# PRODUCTION UPDATE



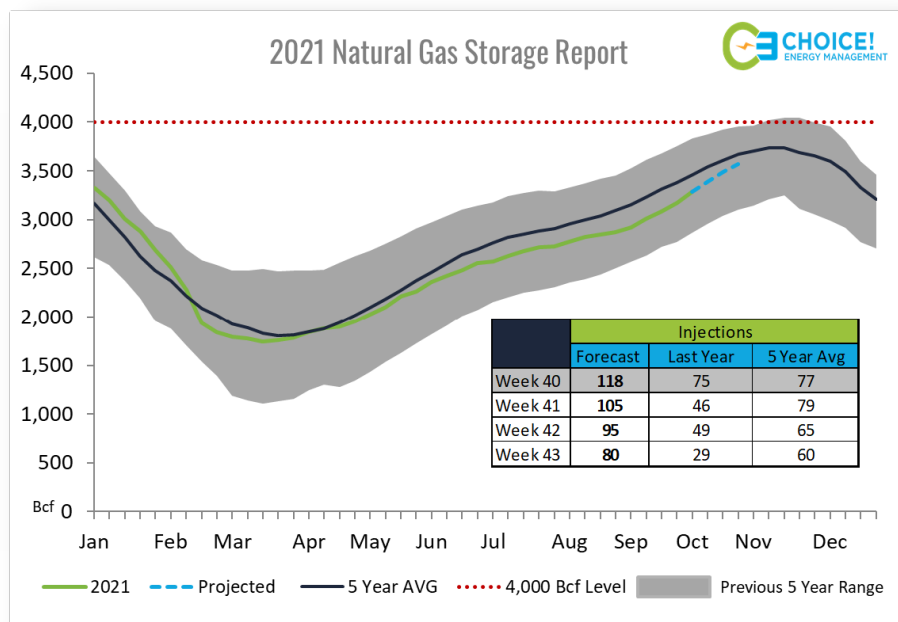
Source: Choice!, EIA Data



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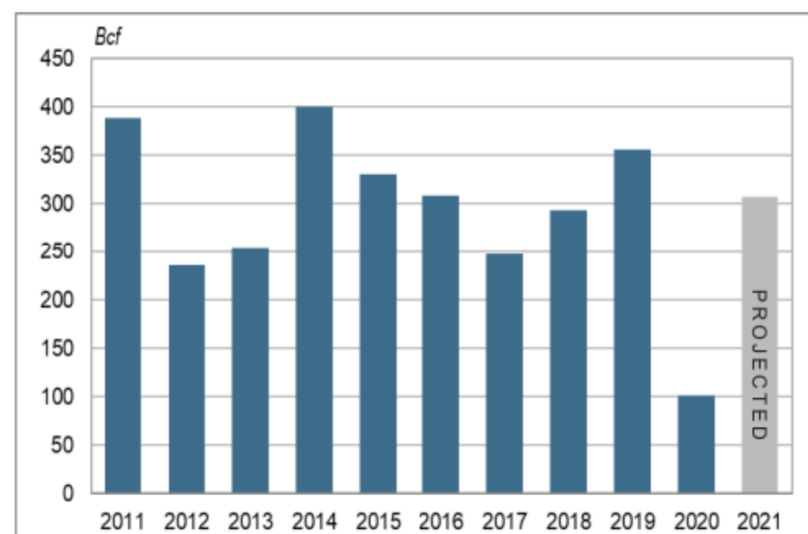
- Gulf of Mexico production has rebounded but is still not at pre-hurricane levels.
- At current NYMEX prices, all shale drilling regions are profitable, likely spurring growth by Spring.
- Oil directed rigs have increased 20% in the last two months, likely bringing associated gas production soon.
- Production remains steady for now, but could grow 1-2 BCF/D in the next 3-4 months given current prices.

# STORAGE UPDATE



Source: Choice!, EIA Data

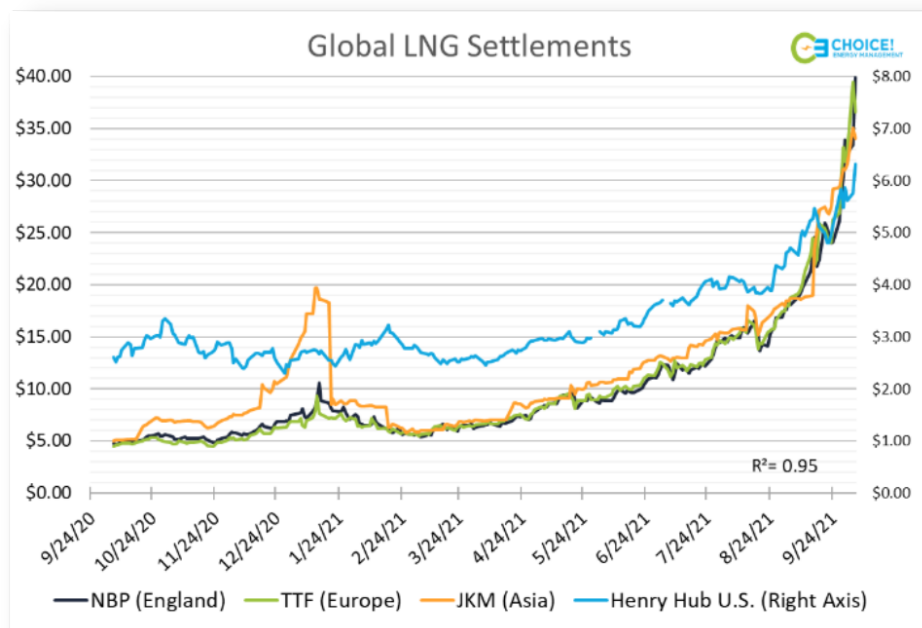
Historical and Projected October Cumulative Storage Change (Bcf), Based on Current Forecasts



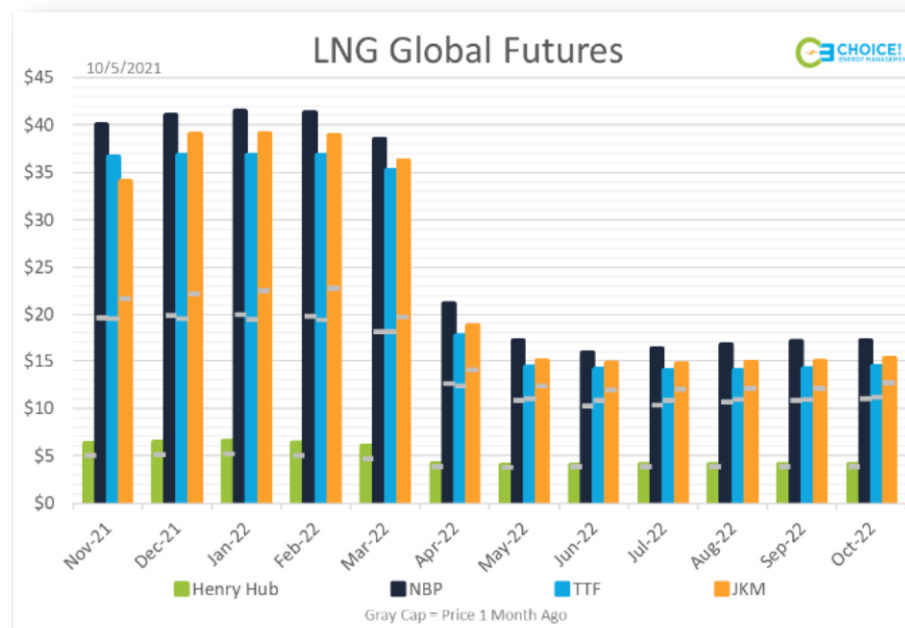
Source: EBW Analytics

- The current storage level of 3,288 BCF is 532 BCF below last year and 176 BCF below the five-year average.
- The gap between the five-year average is now shrinking thanks to favorably mild October weather.
- Beginning of Winter storage expectations have risen to near 3.6 TCF, with end of Winter near 1.7 TCF.
- Storage near the five-year average would be bearish given current prices but other factors are in play.

# LNG EXPORT UPDATE



Source: Choice!, ICIS Data

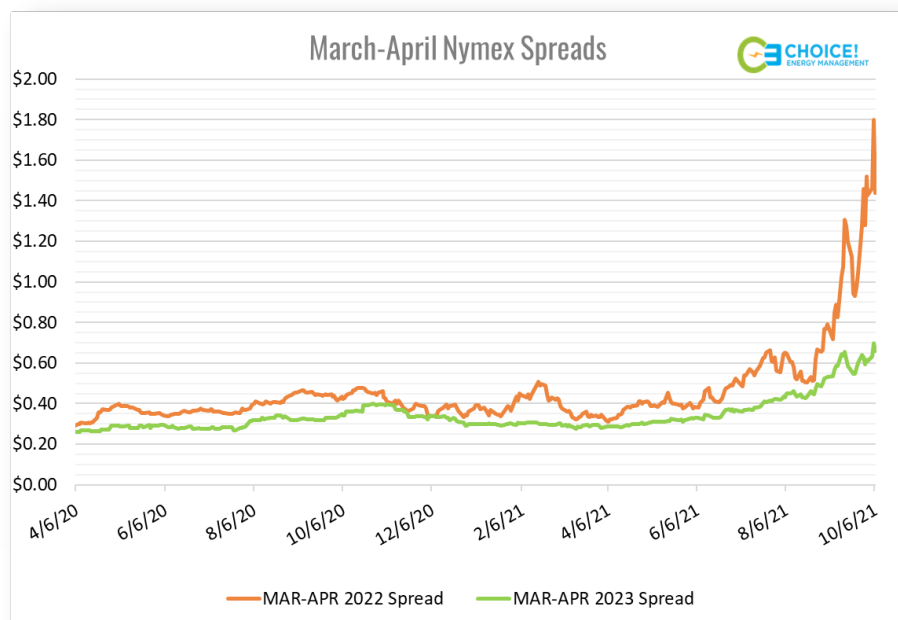


Source: Choice!, ICIS Data

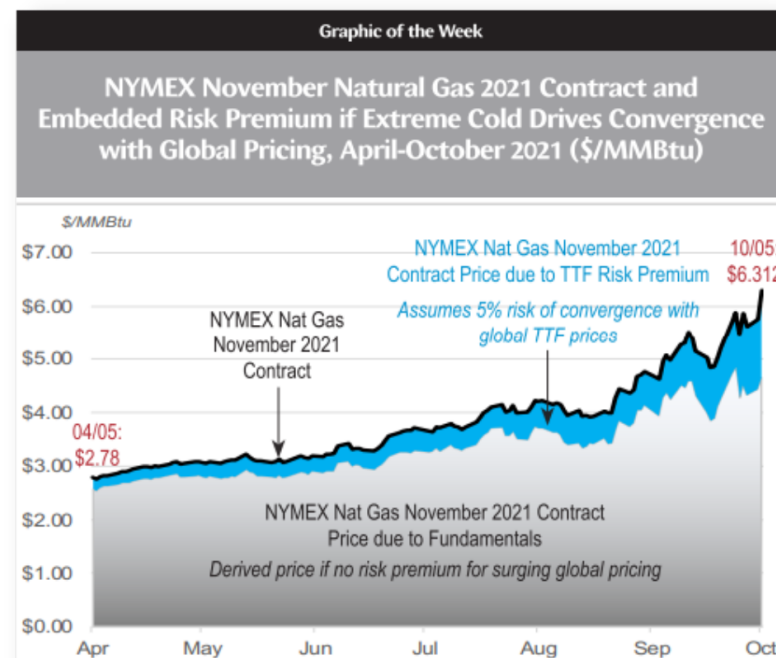
- Global LNG pricing is likely the main culprit for the recent run up in NYMEX.
- Europe and Asia are trying to secure natural gas “at all costs”, and pricing continues to double.
- A 5% assumed risk of needing to shut in LNG exports explains why U.S. pricing is moving higher.
- Global LNG Prices are the most bullish fundamental today, heavily correlating (.95) to Henry Hub.



# PRICING UPDATE



Source: Choice!, EOX Live



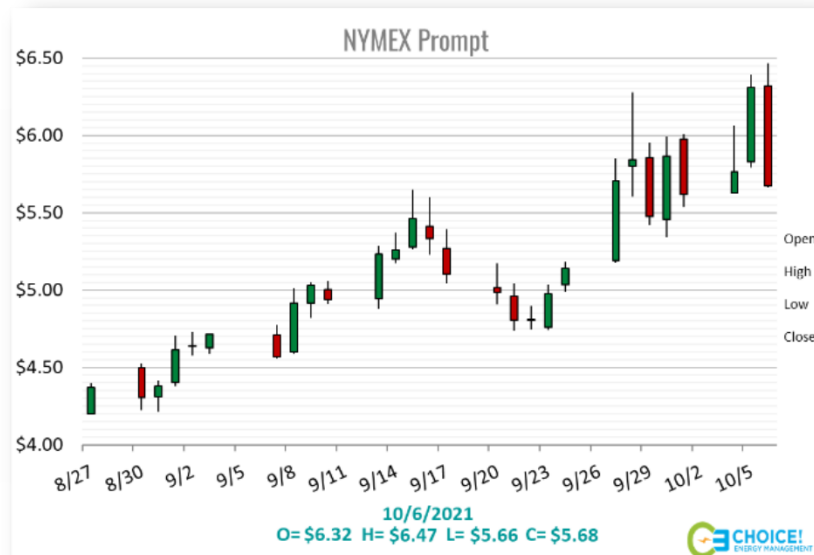
Source: EBW Analytics

- Historical context of fundamentals discussed indicates pricing should be at/under \$4.00/MMBtu.
- This likely explains the reluctance for April 2022 on to move higher, with the March-April 2022 spread up to \$1.40.
- The inelasticity of supply/demand this Winter is causing a price premium and extreme upside risk of \$10+.
- Global demand is very important in the next 2 months, and if a U.S. Winter fails to show, prices could fall quickly.

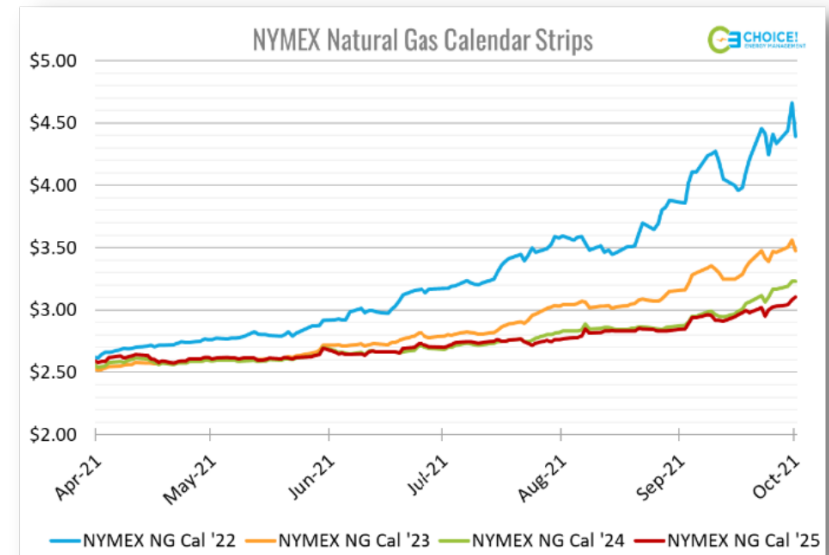


# OUTLOOK

## SUMMARY



Source: Choice!, EOX Live Data



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- NYMEX Natural Gas settled at \$6.31 this week, the highest settle since the late 2008 energy bubble.
- A global energy crisis took prices to \$50/MMBtu. A 5% risk premium in the U.S. can likely be attributed to this.
- Whether fundamentals can reestablish control over the current NYMEX correlation to global prices is unclear.
- NYMEX Calendar strips continue to increase with Cal '22 at \$4.32 and Cal '23 at \$3.47 (up nearly \$.30 each).
- The belief that storage will now reach 3.6 TCF due to a mild October should help calm this market.
- Supply/demand conditions will remain bearish for the next 3 weeks as traders look to Winter forecasts.
- Volatility will be high in the short term as non-fundamental influences are strongly affecting prices.