6/3/11

Natural Gas Market Summary

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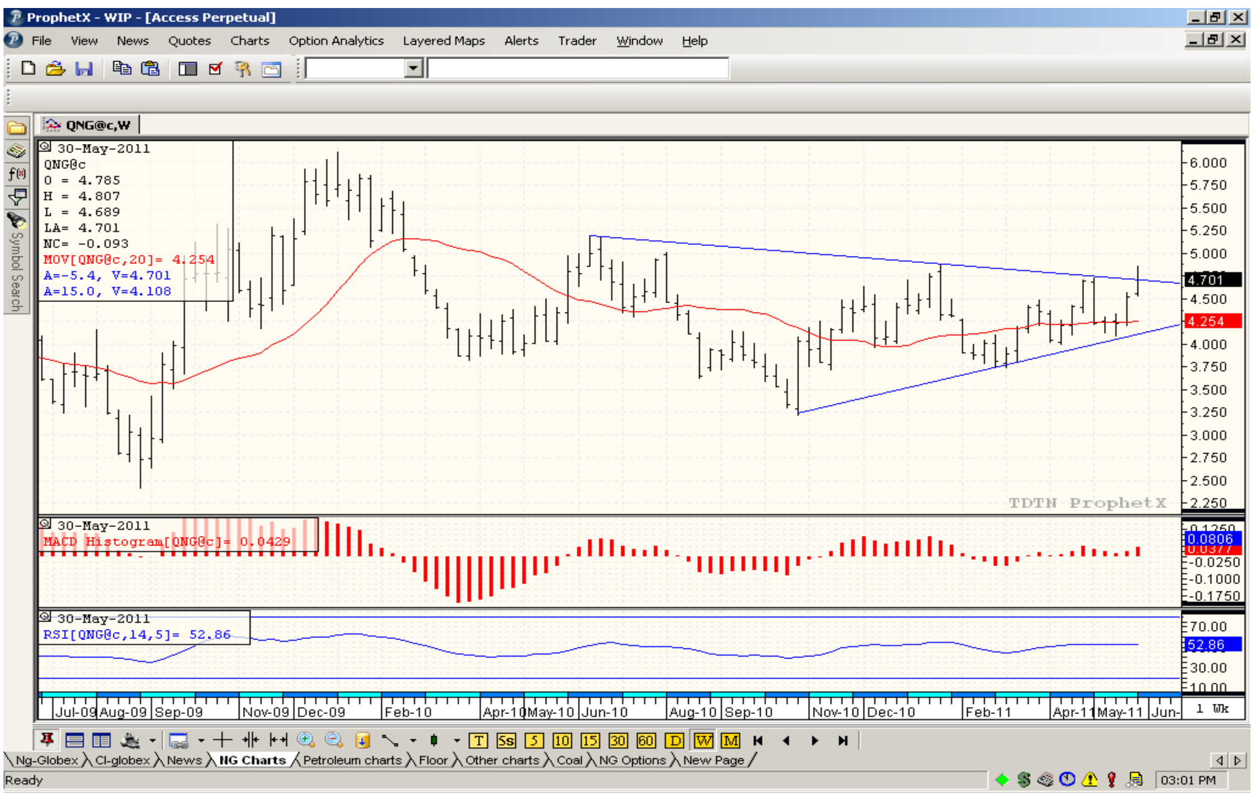
On Monday, the July contract opened trading about $.04/dt above the previous week's closing price, then traded through the first line of technical price resistance at +/- $4.55/dt, then higher to 'test' the next level of price resistance found at +/- $4.72/dt. When the Weekly Storage Report was released on Thursday, the July contract quickly moved higher 'testing' the 2011 prompt month high price of $4.879/dt printed on 1/24/2011, before ultimately reversing lower. On Friday, prices retreated somewhat from Thursday's closing price with the July posting a weekly closing price of $4.707/dt, up $.185/dt from last week's closing price.

Below is a weekly continuation chart showing that price activity. Notice the prompt month posted a weekly closing price at this week's value at the upper trend line ($4.707/dt close vs $4.701/dt trend line value).



Strip prices:

1. July 11 - Dec 11 - $4.81/dt, up $.15/dt from last week.
2. 12-month strip - $4.93/dt, up $.12/dt from last week.

3. 24-month strip – $5.08/dt, up $.08/dt from last week.

4. 36-month strip - $5.22/dt, up $.08/dt from last week.

Neutral price factors:

1. Storage – Working gas in storage was 2,107 Bcf as of Friday, May 27, 2011, according to EIA estimates. This represents a net increase of 83 Bcf from the previous week. Stocks were 237 Bcf less than last year at this time and 42 Bcf below the 5-year average of 2,149 Bcf.

2. Trading Range –the prompt month continues to trade within a well-defined range between $4.88/dt and $3.72/dt, although we are now in the upper quadrant of that range. This trading range has been in place since late October 2010 (see chart below).

Bearish price factors:

1. Significant pricing events – History indicates we may expect a significant pricing event approximately every 11 – 14 weeks. The to-date second quarter price high was printed 14 weeks following the 2011 first quarter price high during the week of May 2nd. 14 weeks from that that May 2nd high calculates to be the week of August 8th – the approximate time of year when history tells us we could expect to see the 3rd quarter price low.

Bullish price factors:

1. Historical price rally from the first quarter price low to the second quarter price high - to date, we've only seen a 30% increase from the first quarter low of $3.731/dt as compared to the historical average of ~50%. An average increase would take the prompt month to +/- $5.50/dt but, I'd be surprised if it goes that high.

2. This is the second consecutive week the prompt month posted a weekly closing price above the 20-week simple moving average.

3. Open interest – increased 37,051 contracts through Thursday as the prompt price move higher by $.272/dt. Technically speaking, increased open interest accompanied by higher prices indicates new buying by traders.

4. Volume – total

Technical price support and resistance:

Resistance – +/- $4.93/dt, followed by +/- $5.00/dt followed by +/- 5.20/dt.

Support – +/- $4.50/dt followed by +/- $4.25/dt followed by +/- $4.15/dt.

Short and long-term technical indicators appear to be bullish but with some potential 'bearish divergences'. The price path of least resistance seems to be higher.

Summary:

In last week's Summary, I mentioned that 'timing' indicated a significant pricing event could occur in the next week or so. It appears that at least 'a' pricing event did occur this week as the July contract first traded above the to-date 2011 second quarter price high, then moved higher to 'test' the next level of technical price resistance found at +/- $4.93/dt before ultimately posting a weekly closing price equal to this week's value of technical trend line price resistance. That trend line has been in place since June 2010.

From what I saw in the way of price action this week, I wouldn't be surprised to see traders make an early-week push to once again take the July contract above $4.93/dt next week. You may recall from last week's Summary, a weekly closing price above +/- $4.93/dt shifts my overall market bias from 'bearish' to 'bullish'. If they are successful in doing so, I would expect new 'buying' to occur, possibly taking the prompt month as high as +/- $5.20/dt. If they are unsuccessful, traders could view this as a 'breakout failure' with the result possibly being lower prices. If you still need price protection for the remainder of the summer, you may want to consider times of lower prices to acquire that protection.

Please be reminded the thoughts conveyed above are based on recent price movement and apparent Market sentiment. Random events that could occur may change the Market sentiment and as such, may result in price movement counter to what is mentioned above.

Hedging:

Depending on your risk tolerance and your need for price protection, below are some prices that may be considered as a possible purchase points.

July 11 - +/- $4.40/dt followed by +/- $4.25/dt

Twelve-month strip - +/- $4.50/dt

Of course, the commodity markets are impossible to predict with accuracy. I hope that you find these views helpful, but I cannot guarantee that my expectations will be accurate or that any particular strategy will be advantageous.

Please call your account manager if you have questions or want to purchase a fixed price hedge.

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