2/4/11

Natural Gas Market Summary

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This week, the March contract opened trading near last week's closing price, then rallied about $.14/dt higher before losing momentum. On Tuesday and Wednesday, the prompt month traded in a relatively tight $.10/dt price range between $4.35 and $4.45/dt. Before the Weekly Storage Report was released on Thursday, March rallied above Monday's high price but quickly lost momentum when the Report was released. On Friday, March once again traded lower to post a weekly closing price of $4.31/dt, down $.013/dt from last week's closing price.

Below is a weekly continuation chart showing this price activity. Notice that for the second consecutive week, the prompt month posted a weekly closing price below the bottom (blue line) of the ascending trend channel that contained all prompt- month price movement from Oct 10 through mid-Jan 2011. Notice also this is the second consecutive week the prompt month closing price has been equal to long-term price support drawn from the second and third quarter 2010 price highs (green line).

Strip prices:

1. Mar - Dec 11 - $4.535/dt, up $.015/dt from last week.

2. Apr – Oct 11 - $4.48/dt, up $.02/dt from last week.

Bearish price factors:

1. Storage – Working gas in storage was 2,353 Bcf as of Friday, January 28, 2011, according to EIA estimates. This represents a net decline of 189 Bcf from the previous week. Stocks were 69 Bcf less than last year at this time and 5 Bcf above the 5-year average of 2,348 Bcf.

2. 10-week moving average – after posting a weekly closing price above this moving average for 13 consecutive weeks, this is the second consecutive week the prompt month has posted a weekly closing price below it.

Bullish price factors:

1. Moving average – this is the eleventh consecutive week the prompt month has posted a weekly closing price above the 20-week simple moving average.

2. Weather – the 6 – 10 day forecast calls for below normal temperatures for the eastern seaboard.

Neutral price factors:

1. Calendar 2012 strip – since mid-October 2010, the calendar year 2012 has traded in a horizontal trend channel bordered on the upper end by +/- $5.15/dt (red line) and on the lower end by +/- $4.80/dt (blue line) (see chart below).

Technical indicators:

The price path of least resistance appears to be sideways to lower in the near term and lower toward the end of the first quarter of 2011.

Technical price support and resistance (March contract):

Resistance – +/- $4.50/dt followed by +/- $4.65/dt followed by +/- $5.00/dt.

Support – +/- $4.25/dt followed +/- $4.12/dt followed by +/- $4.00/dt followed by +/- $3.75/dt.

Summary:

After the huge price volatility last week ($.63/dt spread from high to low), this week the market took a 'break' as volatility decreased to a more normal $.21/dt. As for near-term price movement, it appears the price path of least resistance is sideways with a lower bias. However, as stated in last week's Summary, since I don't expect the 1st quarter low to occur until sometime in calendar March, we could continue to see rapid price reversals higher and lower much like we've seen in the past few weeks. If You still need price protection for March, I would consider times of price weakness to acquire that protection.

As a side note, I do think it's worth mentioning the 'percieved value' of natural gas on the NYMEX at +/- $4.25/dt. As a reminder, the expiration prices of the last three months are $4.267/dt, $4.216/dt and $4.316/dt……all within a dime. I know it's several weeks away, but to reinforce my feeling that we could see a significant price move lower as the first quarter price low is printed, I'd like to see the expiration price of the March contract be below $4.20/dt.

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.

Mar 11 - +/- $4.25/dt followed by +/- $4.12/dt

Apr 11 – Oct 11 - +/- $4.30/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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