

6/24/11

Natural Gas Market Summary

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This week, the July contract traded somewhat lower and in the process, posted a weekly closing price below long-term technical price support (bottom blue line on chart below) and below the 20-week simple moving average. Below is a weekly continuation chart showing this price activity.



Strip prices:

1. July 11 - Dec 11 - \$4.36/dt, down \$.10/dt from last week.
2. 12-month strip - \$4.51/dt, down \$.10/dt from last week.
3. 24-month strip - \$4.71/dt, down \$.10/dt from last week.
4. 36-month strip - \$4.88/dt, down \$.08/dt from last week.

Neutral price factors:

1. Storage – Working gas in storage was 2,354 Bcf as of Friday, June 17, 2011, according to EIA estimates. This represents a net increase of 98 Bcf from the previous week. Stocks were 258 Bcf less than last year at this time and 64 Bcf below the 5-year average of 2,418 Bcf.

2. Weather – the 8 – 14 day forecast calls for normal temperatures from Texas to New York.

Bearish price factors:

1. Historical tendency for price weakness the week of July 4th.
2. Open interest – decreased by 27,443 contracts through Thursday as the prompt price declined by \$.13/dt. Technically speaking, declining open interest accompanied by lower prices indicates 'long liquidation' by traders.
3. 20 – week simple moving average – after posting a weekly closing price above the 20-week for 4 consecutive weeks, this week the prompt month closed below it.

Technical price support and resistance:

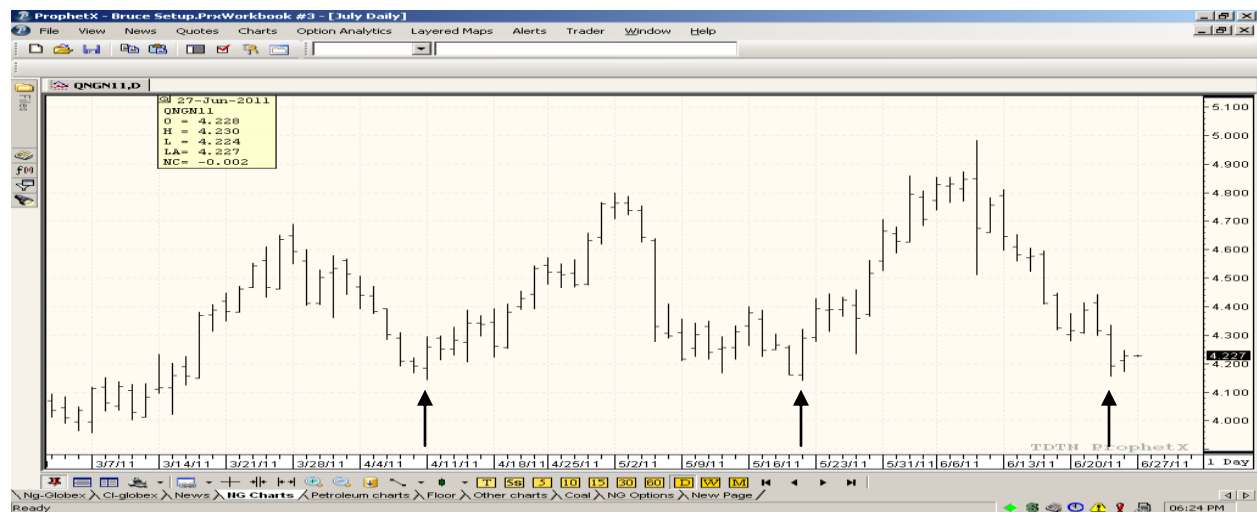
Resistance – +/- \$4.27/dt followed by +/- \$4.40/dt followed by +/- \$4.50/dt.

Support – +/- \$4.15/dt followed by +/- \$4.00/dt.

Short and long-term technical indicators appear to be negative . The price path of least resistance seems to be lower with a sideways bias.

Summary:

As mentioned on the opening paragraph, this past week the prompt month posted a weekly closing price below significant technical price support and below the 20-week simple moving average. However, of significant importance, at least in the short-term, is the fact that this past Thursday was the third time the July contract has traded as low as +/- \$4.14/dt but in each instance, it has failed to trade or close below it (see black arrows on the chart below).



I think it's worth mentioning that the more times this technical price support is 'tested' but 'holds', the more significant it becomes. This past Thursday's test could provide the springboard for a corrective

price rally into expiration of the July contract. However, if this occurs, I expect the overall increase to be somewhat limited due to the fact that the week of July 4th is traditionally one of the weakest price periods of the year.

Considering this week's closing price was below \$4.35/dt, my market bias has now shifted to 'neutral'. However, I still need a July closing price below \$4.14/dt or an August closing price below \$4.19/dt to shift my overall market bias to negative.

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 and Aug 11 - +/- \$4.15/dt followed by +/- \$4.00/dt

Twelve-month strip - +/- \$4.20/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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