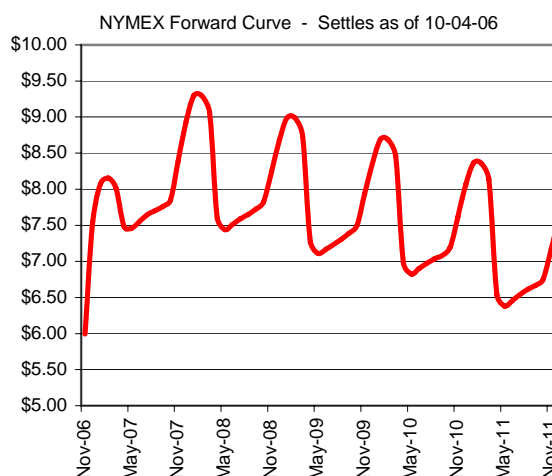


Natural Gas Market Report

October 4, 2006

NYMEX Settle Price As of Wednesday, October 4, 2006			
Nov	\$5.995	May	\$7.463
Dec	\$7.550	Jun	\$7.550
Jan-07	\$8.080	Jul	\$7.643
Feb	\$8.153	Aug	\$7.700
Mar	\$8.013	Sep	\$7.760
Apr	\$7.478	Aug	\$7.850
Strips	Six	Twelve	Nov 06- Mar 07
	\$7.545	\$7.603	\$7.558

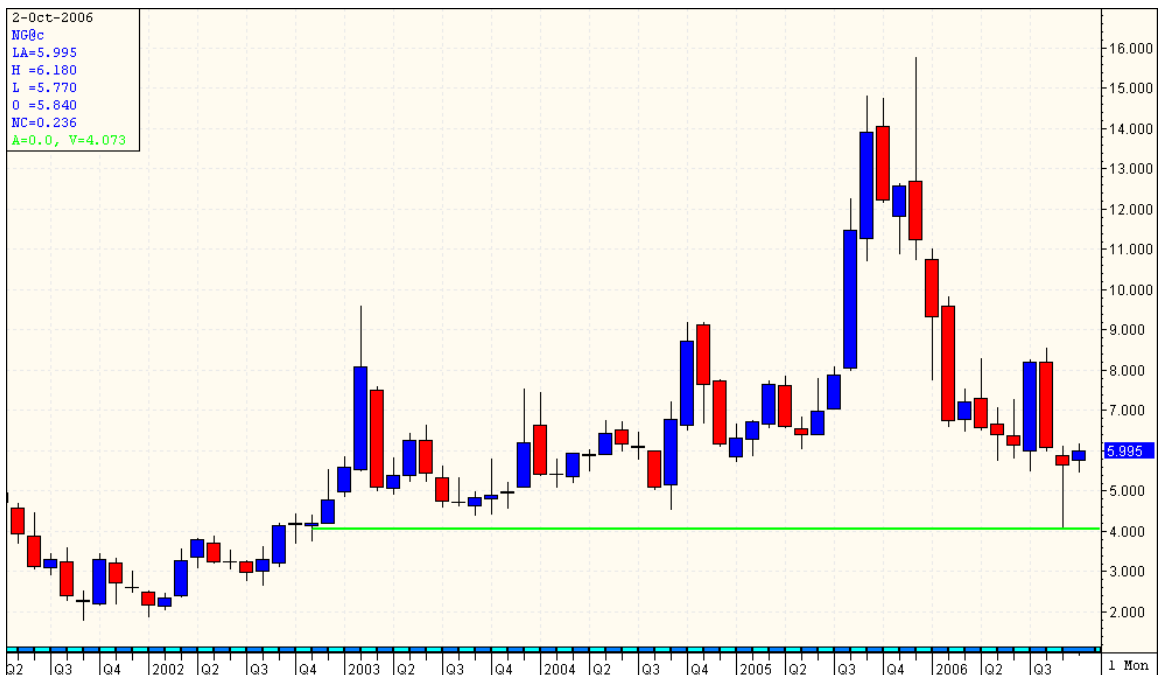


Review and Outlook

Since becoming the prompt month the November contract has set new lows for the contract, held well above the perpetual contract lows and attempted to rally. So far, a weak cash market and rising storage levels have stunted the rally as November was unable to settle above \$6.00 today after trading above it for a good portion of the day session. A significant factor weighing the market down is the day ahead cash market, which for the past couple of days, has been trading at a dollar to a dollar and a half discount to the November futures contract. Either some cold will come to save the futures market or the November contract will slowly give up this premium over the course of the month.

From a purely technical standpoint, the market is overdue for a rally, having dropped by almost half over the past month or so and with winter coming on, fewer traders will be willing to hold large short positions. With this in mind, this mini-rally is not surprising and it may very well be extended. The first key resistance point to monitor is the \$6.20 mark, just above today's high of \$6.18. A settle above this would increase the likelihood that the market has put in a low for at least the medium term outlook. If the market holds this area and reverses, the rally would simply be considered a normal correction. A settle back below \$5.60 would be a sign that a challenge of November's low of \$5.35 is likely.

From looking at the natural gas perpetual chart on the next page one can see that October's low at expiration of \$4.07 was the lowest the front month traded since November of 2002. The month of September candlestick also leaves an impressive formation on the bottom of the move that many would consider a set-up for a move higher.



Pricing Factors

Storage

Injection for week ending September 22, 2006

77 Bcf

Current Gas in Storage

3,254 Bcf

Last Year Gas in Storage

2,877 Bcf

3-Year Average Gas in Storage

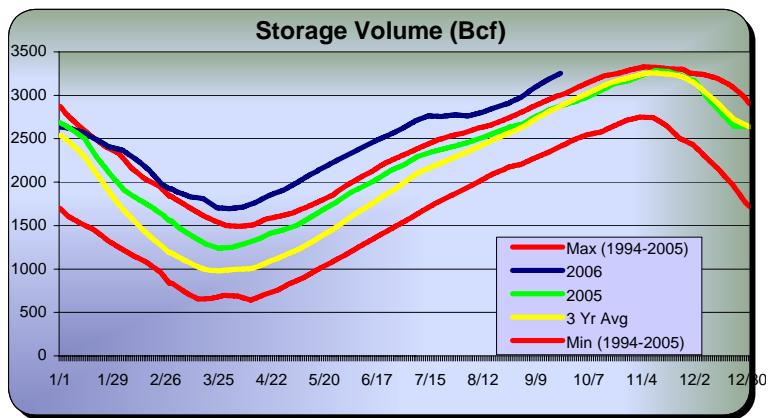
2,877 Bcf

Historical Low

2,412 Bcf (2000)

Historical High (prior to 2006)

3,004 Bcf (2002)



Weather

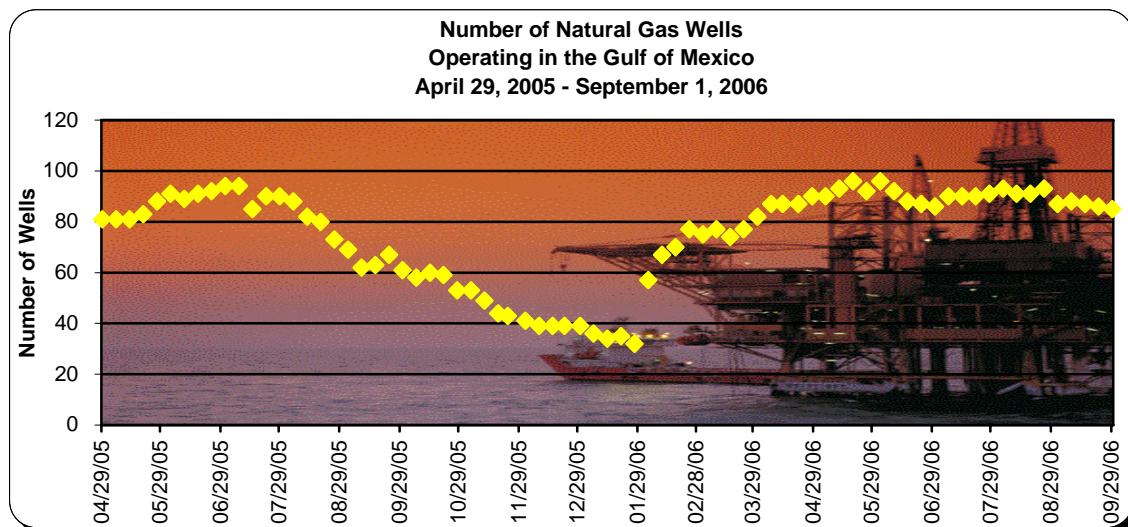
According to WSI’s ten-day outlook: The Northeast will oscillate between a few degrees above average and a few degrees below average with the slight edge to below average. Southeast is similar except that the edge goes to slightly above average.

November’s forecast has warmed considerably over the past month and now shows warmer than normal temperatures in the western two thirds of the country. The December contract brings some cooler than normal temps into the forecast for the upper Midwest and extreme Northeast.

A consensus is beginning to build that there will be an El Nino this winter. Although there appears to be some disagreement as to the affect it will have on U.S. temperatures, with some reports indicating that it may bring cooler than normal temps to the Northeast, but warmer elsewhere. I’ve read other reports that contradict this but the bottom line is,

Baker Hughes Rig Count			
Report Dated 09/29/06			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,445	1,273	172
U.S. Oil Rigs	295	203	92
Total Rigs - North America	2,097	2,020	77

Below, I have updated a graph I included the past few months. It shows, according to Baker Hughes, an equivalent number of natural gas wells operating in the Gulf of Mexico now as one year ago and very near the peak just before the storms of last fall. The amount of gas reported by the MMS doesn't include new wells in the Gulf, just old wells still off-line from the storms.



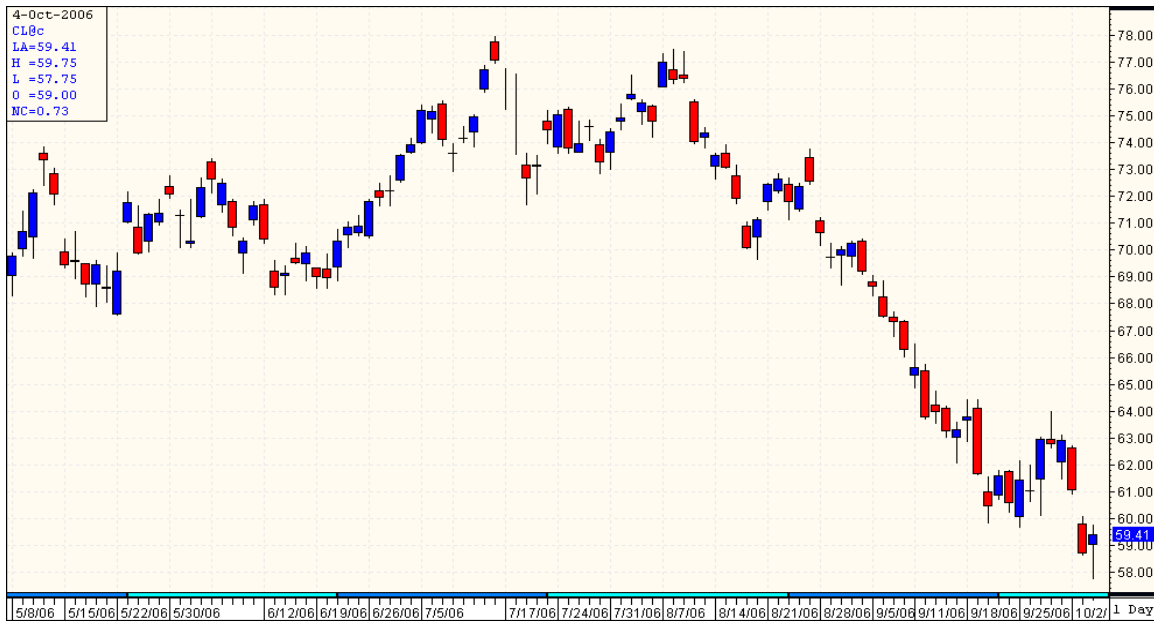
Crude Oil

Crude oil prices continued to drop during the month of September as storage levels for crude and gasoline indicate a well-supplied market. The recent drop in prices has OPEC members scrambling and contradicting each other to the point of being laughable. Two members of the cartel claimed to be reducing output voluntarily as they are becoming concerned about the drop in prices. Another member contradicted them stating that the other two have production problems that are keeping them from supplying higher volumes and that members are not currently contemplating a cut. If prices do continue to fall, the cartel will likely curtail supply but this is not expected before their December meeting. In the meantime it is becoming obvious that some members will likely say anything to help keep prices from falling further.

Today's November crude oil contract low of \$57.75 was as low as the prompt month crude oil contract has traded since February 16th. However, crude oil did manage to settle higher on the day and well off the session low. November crude settled at \$59.41. Even though the market rebounded strongly in today's trading activity, this market is still vulnerable to more downside movement. Inventories are already very high and continue

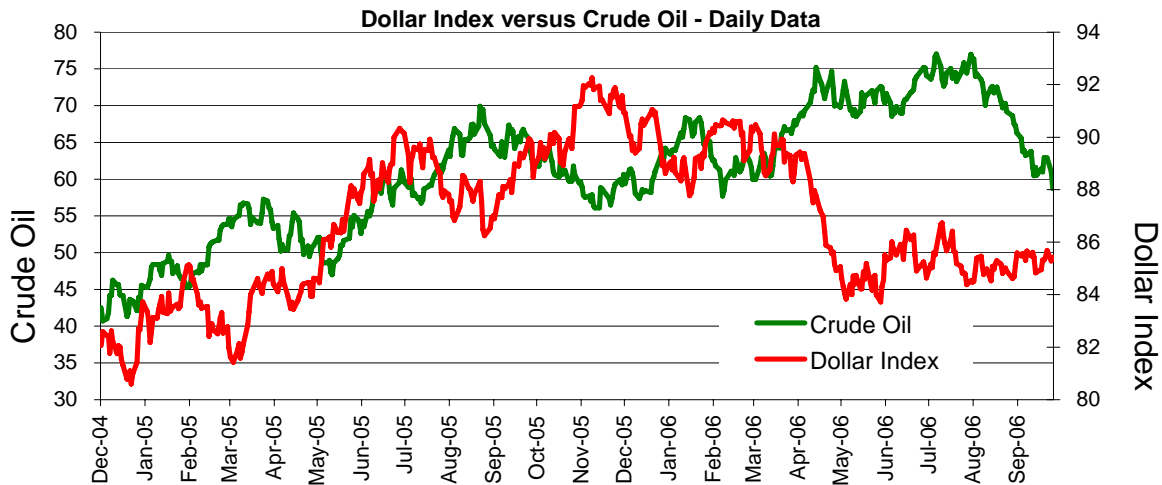
to build, making an extended rally difficult, but not impossible. There are many geo-political factors that could develop, literally overnight, to turn this market around.

Support for the November contract rests at today's low of \$57.75 and then the very important \$55.40 level. The market last traded below \$55.40 in June of 2005. Resistance to the upside is at \$60.00, \$60.90 (the top of the gap on the chart below) and \$64.00. A break of \$64.00 in the next couple of weeks would be regarded as a signal that we have put in, at the very least, a short-term bottom. Below, I included the daily perpetual chart for crude oil, if, for no other reason than it is nice to see a crude oil chart that is in steep decline. The 26% decline in just less than three months is the largest percentage decline since October-December 2004.



Dollar Index versus Crude Oil

The dollar index and crude oil graph is printed below. The crude oil contract has dropped significantly during the last month and a half without a noticeable increase in the dollar index. If the inverse correlation between the two is going to hold it would imply that the dollar index is likely to rebound during the month of October.



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