

3/4/11

Natural Gas Market Summary

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On Monday, the April contract opened trading at about \$.02/dt above last week's closing price, then moved higher 'testing' the first level of technical price resistance found at the 20-week simple moving average. After failing to trade above the 20-week, the prompt month quickly moved lower posting a daily closing price of \$3.87/dt, down \$.16/dt. For the next three days, April posted a lower-low in price leading to a 'test' of technical price support found at +/- \$3.71/dt. On Friday, prices moved modestly higher with the April contract posting a weekly closing price of \$3.809/dt, down \$.196/dt from last week's closing price.

Below is a weekly continuation chart showing this price movement. Notice that the weekly 'gap' created the week of Feb 7th is still 'open'.



Strip prices:

1. Apr - Dec 11 - \$4.095/dt, down \$.16/dt from last week.

2. Apr – Oct 11 - \$3.995/dt, down \$.16/dt from last week.

Bearish price factors:

1. Storage – Working gas in storage was 1,745 Bcf as of Friday, February 25, 2011, according to EIA estimates. This represents a net decline of 85 Bcf from the previous week. Stocks were 9 Bcf less than last year at this time and 15 Bcf below the 5-year average of 1,760 Bcf.
2. 20-week moving average – this is the fourth consecutive week the prompt month has posted a weekly closing price below the 20-week simple moving average.
3. Percent price decline from the 4th quarter 2010 price high to the 1st quarter 2011 price low - to date, the \$3.731/dt low represents an 20% decline whereby the average decline since 2001 is 35%.
4. Calendar 2012 strip – this marks the 4th consecutive week the 2012 strip has posted a new contract low price.

Bullish price factors:

1. Weekly price gap at \$4.287/dt. As a reminder, technical orthodox states that gaps will eventually be filled.

Technical price support and resistance:

Resistance – +/- \$4.14/dt followed by +/- \$4.30/dt followed by +/- \$4.50/dt.

Support – +/- \$3.71/dt followed by +/- \$3.65/dt followed by +/- \$3.40/dt.

Summary:

The market traded higher on Monday with the April contract 'testing', but failing to trade above the 20-week simple moving average. That failure led to a subsequent 'test' of, but failure to close below, technical price support found at +/- \$3.71/dt. Technically speaking, alternating test of support and resistance indicates the prompt month could be 'range-bound' and looking for a near-term price direction. As mentioned in previous weeks, my bias is for a break lower out of this trading range as the first quarter price low is completed. A continued word of caution though, as I do believe the prompt month price is now alot closer to first quarter low than it is to the fourth quarter high. That being said, if you are considering longer-term hedging, you may want to be ready. If history is any indication of the future, the longer-term price reversal toward the traditional second quarter price high could occur with no warning and could occur at a time when the market seems most 'bearish'.

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.

Apr 11 - +/- \$3.70/dt

Apr 11 – Oct 11 - +/- \$3.90/dt

April 11 – March 12 - \$4.15/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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