

5/13/11

## Natural Gas Market Summary

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On Monday, the May contract opened trading about \$.015/dt above the previous week's closing price, then moved lower first 'testing' and trading below technical price support found at the ascending trend line drawn from the 1<sup>st</sup> and 2<sup>nd</sup> quarter price lows of the June contract, and then even lower to test the next level of technical price support found at +/- \$.41/dt. On Tuesday, prices attempted to rally but stalled at the 20-week moving average. On Wednesday the price move lower resumed with June once again 'testing' technical support at +/- \$.41/dt. When the Weekly Storage Report was released on Thursday, the June price didn't react much at all as post-report volatility was very low. That low volatility carried over into Friday as the prompt month posted a weekly closing price of \$4.246/dt, up \$.011/dt from last week's closing price.

Below is a weekly continuation chart showing that price activity



Strip prices:

1. June 11 - Dec 11 - \$4.44/dt, up \$.01/dt from last week.
2. 12-month strip - \$4.60/dt, up \$.01/dt from last week.
3. 24-month strip – \$4.84/dt, up \$.01/dt from last week.
4. 36-month strip - \$5.03/dt, no change from last week.

**Neutral price factors:**

1. Open interest – decreased 30621 contracts through Thursday as the prompt price move lower by \$.04/dt. Technically speaking, decreased open interest accompanied by lower prices indicates market ‘consolidation’ and indecision as to price direction.
2. Storage – Working gas in storage was 1,827 Bcf as of Friday, May 6, 2011, according to EIA estimates. This represents a net increase of 70 Bcf from the previous week. Stocks were 249 Bcf less than last year at this time and 37 Bcf below the 5-year average of 1,864 Bcf.

**Bearish price factors:**

1. Price differential between prompt month and 12-month strip - \$.36/dt.
2. Moving average –this is the second consecutive week the prompt month posted a weekly closing price below the 20-week simple moving average.
3. Significant pricing events – History indicates we may expect a significant pricing event approximately every 11 – 14 weeks. Two weeks ago, the prompt month posted its to-date second quarter price high. It occurred 14 weeks after the 2011 1<sup>st</sup> quarter price high. 14 weeks from that price high calculates to be the week of August 8th – the approximate time of year when history tells us we could expect to see the 3<sup>rd</sup> 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 25% increase from the first quarter low of \$3.731/dt as compared to the historical average of 48%.

**Technical price support and resistance:**

Resistance – \$4.25/dt followed by \$4.35/dt followed by +/- \$4.55/dt followed by \$4.88/dt.

Support – +/- \$4.10/dt followed by +/- \$3.95/dt followed by +/- \$3.84/dt.

Short and longer-term technical indicators appear to be bearish to neutral. The price path of least resistance seems to be lower.

**Summary:**

This week, traders made four separate attempts to push the June price below technical price support found at +/- \$4.11/dt and each failed. Those failed attempts coupled with the market fast becoming 'technically oversold', opens the possibility of a short-term price move higher. If so, I would expect technical price resistance first at \$4.25/dt followed by \$4.35/dt.

For the longer-term, there is multiple technical price confluence in the vicinity of \$3.85/dt. If the prompt month can manage to close below \$3.99/dt, I wouldn't be surprised to see \$3.85/dt tested. Conversely, I still need a prompt-month closing price above +/- \$4.75/dt to shift my overall market bias from 'neutral/bearish' to 'bullish'.

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.

June 11 and July 11 - +/- \$4.10/dt followed by +/- \$3.95/dt

Twelve-month strip - +/- \$4.40/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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