

1/21/11

Natural Gas Market Summary

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This week, the February contract opened trading about \$.01/dt above last week's closing price then rallied to within about \$.01/dt of last week's high price before losing momentum. On Wednesday, prices once again moved higher with February posting a daily closing price above last week's high price. When the Weekly Storage Report was released on Thursday, the February contract moved higher, first trading above the 4th quarter 2010 price high, and then trading as high as the early-January 2011 price high. The price trend higher continued Friday as February traded above the early-Jan high before posting a weekly closing price of \$4.736/dt, up \$.25/dt from last week's closing price. This represents the highest prompt month weekly closing price since the last week of July 2010.

Below is a weekly continuation chart showing this price activity.



Strip prices:

1. Feb 11 through March 11 - \$4.73/dt, up \$.24/dt from last week.
2. Feb 11 – Dec 11 - \$4.85/dt, up \$.19/dt from last week.

Bearish price factors:

1. Storage – Working gas in storage was 2,716 Bcf as of Friday, January 14, 2011, according to EIA estimates. This represents a net decline of 243 Bcf from the previous week. Stocks were 74 Bcf higher than last year at this time and 51 Bcf above the 5-year average of 2,665 Bcf.

Bullish price factors:

1. Moving average – this is the ninth consecutive week the prompt month has posted a weekly closing price above the 20-week simple moving average.
2. Weather – both the 6 – 10 day and the 8 – 14 day forecast calls below normal temperatures for the eastern seaboard.
3. For the second consecutive week, the Cal 2012 strip posted a weekly closing price above technical trend line price resistance drawn from the 4th quarter 2009 and 2nd quarter 2010 price highs.
4. For the first time, the February contract posted a weekly closing price above the upper boundary of the declining trend channel that has contained all weekly closing prices since the 3rd quarter of 2009 (see chart below).



Technical indicators:

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

Technical price support and resistance (February contract):

Resistance – +/- \$4.80/dt followed by +/- \$5.00/dt followed by +/- \$5.20/dt.

Support – +/- \$4.35/dt followed +/- \$4.00/dt followed by +/- \$3.855/dt followed by +/- \$3.65/dt.

Summary:

After a somewhat uneventful previous week, the February contract changed course this week by first trading above the 4th quarter 2010 price high and then by posting a weekly closing price above the early January price high in high volatility trading. In the January 7, 2010 Market Summary, I mentioned that in only two years since 2000 has the price in calendar month January (February futures contract) been able to post a weekly closing price above the preceeding 4th quarter price high.....2011 is now the third year. Now that this has occurred, I wouldn't be surprised to see prices move higher, especially in the near term, to the next major level of technical price resistance found at +/- \$5.00/dt, followed by +/- \$5.20/dt. However, I also expect quick and somewhat volatile price moves lower.....if you still need price protection for February, those price moves lower may be a good time to secure that protection.

For the longer term, I still expect a 1st quarter price low to be printed. However, if history is any indication of the future, this price low may not be as low as it might have been had this week's price action not occurred. As a reminder, since 2000 the average percent decline from the 4th quarter price high to the 1st quarter price low has been ~35% while in the two years where the February contract posted a weekly closing price above the 4th quarter price high, the average decline has been ~10%. I'll continue to monitor 2011 to see if this smaller percentage trend continues or if we see a more normal percentage decline.

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.

Feb 11 = +/- \$4.45/dt

Feb 11 – Mar 11 = +/- \$4.45/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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