

2/25/11

Natural Gas Market Summary

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On Tuesday, the March contract opened trading at about the same price as last week's closing price, then moved marginally higher testing the previous week's high price before moving lower. On Wednesday, March traded lower testing technical price support found between \$3.854/dt (previous contract low price for the March 11 contract) and \$3.81/dt (1st quarter 2010 price low) before stabilizing. When the Weekly Storage Report was released on Thursday (which was also NYMEX expiration day for the March contract), the price move lower resumed with the March ultimately posting a contract settlement price of \$3.793/dt. On Friday, April began trading as the prompt month by first 'testing' the closing range of the March contract and then reversing higher ultimately posting a weekly closing price of \$4.005/dt, up \$.14/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 - \$4.267/dt, up \$.11/dt from last week.
2. Apr – Oct 11 - \$4.17/dt, up \$.11/dt from last week.

Bearish price factors:

1. Storage – Working gas in storage was 1,830 Bcf as of Friday, February 18, 2011, according to EIA estimates. This represents a net decline of 81 Bcf from the previous week. Stocks were 48 Bcf less than last year at this time and 61 Bcf below the 5-year average of 1,891 Bcf.
2. 20-week moving average – this is the third 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 \$3.782/dt low represents an 18% decline whereby the average decline since 2001 is 35%.

Bullish price factors:

1. Short-term technical indicators continue to be ‘oversold’- a condition that often accompanies a short-term price reversal higher.
2. Weekly price gap at \$4.287/dt on the weekly continuation chart – detailed in the opening paragraph.
3. Weekly price reversal higher – after trading as much as \$.05/dt below last week’s low price, the prompt month reversed to post a weekly closing price above last week’s high price.

Neutral price factors:

1. Calendar 2012 strip – for the third consecutive week, the Cal 12 strip printed a new all-time low price (albeit only by \$.0069/dt this week) before reversing higher into the close. This week, the strip closed at \$4.81/dt, up \$.10/dt from last week’s closing price.

Technical price support and resistance:

Resistance – +/- \$4.00/dt followed by +/- \$4.12/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:

As mentioned in the opening paragraph, on Thursday the March contract settled at \$3.793/dt. This represents a decline of \$.523/dt from the February 2011 settlement price of \$4.316/dt and represents the lowest monthly settlement price since the November 2010 contract settled at \$3.292/dt.

Technically speaking, the market continues to be over-sold meaning a continuation of Friday’s price rally wouldn’t be unexpected. If so, I expect the first target would be the 20-week simple moving average found at +/- \$4.12/dt followed by the ‘gap’ created the week of February 7. In the longer-term, I

continue to expect lower prices as the traditional first (or early second quarter) price low is printed. As mentioned in last week's Summary, +/- \$3.40/dt is technically 'significant' and as such, would seem to be a possible price terminus for this price move lower.

A hint of caution, though as not all of the technical's are bearish (see below).

1. This week's test of, but failure to post a weekly closing price below, significant technical price support found at +/- \$3.85 could lead to a longer-than-expected and possibly more volatile price reversal higher.
2. Timing – this week marked the 11th week since the 4th quarter 2010 price high was printed. You will recall from previous Summary's that the market tends to reverse the current price trend every 11 or so weeks. Had the 1st quarter 2011 price high *not* exceeded the 4th quarter price high, I would view this as being more significant. As it stands, my bias is next week will be week 5 in the 11 week cycle.

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 - +/- \$3.75/dt

Apr 11 – Oct 11 - +/- \$4.00/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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