6/10/11

Natural Gas Market Summary

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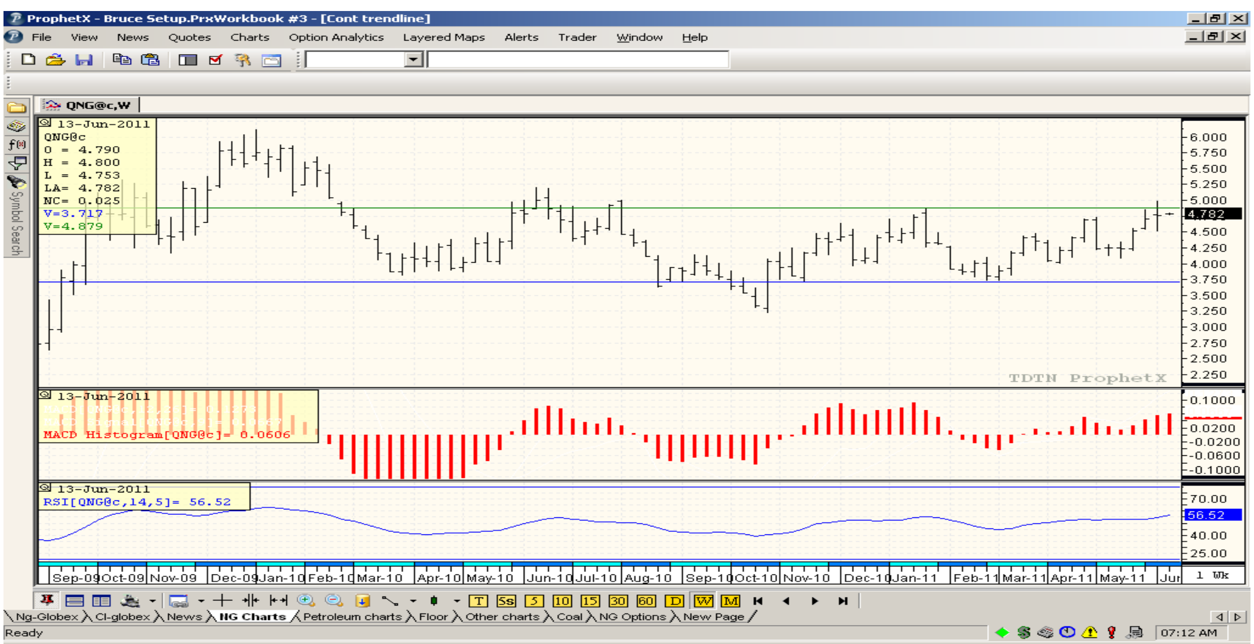
On Monday, the July contract opened trading about $.06/dt above the previous week's closing price, then as thought likely, traded higher to 'test' the previous week's high price. After failing to trade through this technical resistance level, the prompt month reversed lower 'testing ' but failing to trade through the previous 2nd quarter price high of $4.729/dt. On Tuesday, this same trading pattern continued, then on Wednesday, the July contract traded above the previous week's high and in the process, 'tested' the 2011 prompt month high price of $4.879/dt. On Thursday, prior to the release of the Weekly Storage Report, the July contract traded above technical price resistance found at 4.93/dt….printing a new 2011 prompt month price high and the highest prompt month price since the week of Aug 2, 2010. When the Storage report was released, the July contract quickly moved about $.20/dt lower, trading back below the previous week's high price and back below the upper boundary of the trading range that contained all previous prompt month price movement since early November 2010. On Friday, some of Thursday's price losses were erased as the July contract posted a weekly closing price of $4.757/dt, up $.05/dt from last week's closing price.

Below is a weekly continuation chart showing the aforementioned trading range. Notice the prompt month traded above the upper boundary of the trading range (green line) that had previously contained all prompt month price movement since Oct 2010 but was unable to post a weekly closing price above it.



Strip prices:

1. July 11 - Dec 11 - $4.88/dt, up $.07/dt from last week.
2. 12-month strip - $4.98/dt, up $.05/dt from last week.
3. 24-month strip – $5.11/dt, up $.03/dt from last week.
4. 36-month strip - $5.23/dt, up $.01/dt from last week.

Neutral price factors:

1. Storage – Working gas in storage was 2,187 Bcf as of Friday, June 3, 2011, according to EIA estimates. This represents a net increase of 80 Bcf from the previous week. Stocks were 255 Bcf less than last year at this time and 58 Bcf below the 5-year average of 2,245 Bcf.
2. Open interest – increased 44,238 contracts through Thursday as the prompt price remained relatively flat. Technically speaking, increased open interest accompanied by relatively flat prices indicates both new buying and short selling by traders.

Bearish price factors:

1. Significant pricing events – History indicates we may expect a significant pricing event approximately every 11 – 14 weeks. The to-date second quarter price high was printed 14 weeks following the 2011 first quarter price high during the week of May 2nd. 14 weeks from that that May 2nd high calculates to be the week of August 8th – the approximate time of year when history tells us we could expect to see the 3rd quarter price low.
2. Historical tendency for price weakness the week of July 4th.

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 34% increase from the first quarter low of $3.731/dt as compared to the historical average of ~50%.
2. This is the third consecutive week the prompt month posted a weekly closing price above the 20-week simple moving average.
3. Weather – the 8 – 14 day forecast calls for above normal temperatures from Texas to New York.

Technical price support and resistance:

Resistance – +/- $5.00/dt followed by +/- 5.20/dt followed by +/- $5.50/dt.

Support – +/- $4.73/dt followed by +/- $4.50/dt followed by +/- $4.35/dt.

Short and long-term technical indicators appear to be bullish.

Summary:

This week, the July contract finally was able to trade above the upper boundary of the long-term trading range mentioned in opening paragraph, but this upward price momentum was quickly lost upon the release of the Weekly Storage Report. Of technical interest, however, is the fact the July contract did post a weekly closing price above the declining trend line (blue line) on the below chart and above the previous second quarter price high.

I do think the price path of least resistance is higher to sideways so I would be surprised if we've seen the second quarter price high.   Technically speaking, some potential prompt month price targets are +/- $5.20 and +/- $5.50/dt.   However, as with previous weeks, I also expect to see times of volatile price moves lower. If you still need price protection for the remainder of the summer, you may want to consider those times of price weakness to acquire that protection.

I need a prompt month closing price below $4.35/dt to shift my market bias to from 'bullish' to 'neutral' and below +/- $4.20 to shift my market bias back to 'negative'.

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.

July 11 - +/- $4.50/dt followed by +/- $4.35/dt

Twelve-month strip - +/- $4.50/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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