

2/19/10

Natural Gas Market Summary

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The March contract opened trading this week about \$.04/dt below last week's closing price, then rallied to 'test' last week's high price before stabilizing and then reversing about \$.25/dt lower. When the Weekly Storage Report was released on Thursday, prices once again moved lower, first trading below the low price of the previous two weeks and then below the 20-week simple moving average. On Friday, the March contract traded as low as \$5.008/dt before stabilizing to post a weekly closing price of \$5.043/dt – down \$.425 from last week's closing price. Interestingly, this week is the first time the prompt month has traded as low as the 20-week since the week of 9/21/09.



Strip prices:

1. April 10- Oct 10 "strip" closed at \$5.24/dt, down \$.377/dt from last week

2. March through December 2010 closed at \$5.35/dt, down \$.39/dt from last week.
3. April through March 2011 closed at \$5.58/dt, down \$.39/dt from last week.

Bearish price factors :

1. Volume of gas in storage. Working gas in storage was 2,025 Bcf as of Friday, February 12, 2010, according to EIA estimates. This represents a net decline of 190 Bcf from the previous week. Stocks were 26 Bcf higher than last year at this time and 53 Bcf above the 5-year average of 1,972 Bcf.
2. U.S. Rig counts – as of this week, the number of operating rotary rigs in the United States is 1346, **up 11 from last week and above 7 from this same week in 2009.**

Bullish price factors:

1. Alternate fuels – February crude oil closed at \$79.89/barrel, up \$5.76/barrel from last week's closing price. #2 oil closed today at \$2.07/gallon, up \$.152/gallon from last week's closing price – this equates to roughly \$14.88/dt equivalent natural gas price.
2. Weather forecast – both the 6 – 10 day and 8 – 14 day forecasts show below normal temperatures for the eastern half of the country.

Technical indicators:

Technical indicators appear to be negative. The price path of least resistance appears to be lower.

Summary:

As mentioned in the opening paragraph, this week is the first time since early September 2009 the prompt month has posted a weekly closing price below the 20-week simple moving average. Technically, this would be considered 'bearish' and likely sets the stage for speculators to begin selling their long positions which in turn, could lead to even lower prices.

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.

Mar 10 = +/- \$4.80/dt (revised lower)

April 10 – Oct 10 = +/- \$5.00/dt

April 10 – March 11 = +/- \$5.35/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.

Cindy Anthony 828-293-0275
Jill Johnson 888-307-1070
Faye Brodeur 803-217-1313
Rich Klaus 803-217-1382
Terri Carbre 919-241-4013
Renee Locklear 803-217-1340
Bruce Culbertson 803-206-1980
Chip Sanders 404-760-6304
Lynn Jimison 704-834-6681
Debbie Taylor 803-217-1368

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