

1/8/10

Natural Gas Market Summary

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The February contract opened trading this week about \$.10/dt above last week's closing price, then moved about \$.23/dt lower before once again rallying. On Thursday morning, February traded above the 4th quarter 2009 high price before losing price momentum upon the release of the weekly storage report.

For the week, the February contract closed at \$5.718/dt up \$.146/dt from last week's closing price.

A copy of the February-only chart showing this price activity is below.



Strip prices:

1. Feb 10 – Mar 10 “strip” closed at \$5.699/dt, up \$.147/dt from last week.
2. April 10- Oct 10 “strip” closed at \$5.83/dt, up \$.14 from last week
3. Calendar year 2010 “strip” closed at \$5.93/dt, up \$.14/dt from last week.

Bearish price factors :

1. High volume of gas in storage. Working gas in storage was 3,123 Bcf as of Friday, January 1, 2010, according to EIA estimates. This represents a net decline of 153 Bcf from the previous

week. Stocks were 286 Bcf higher than last year at this time and 316 Bcf above the 5-year average of 2,807 Bcf.

2. Addition of shale gas production increasing domestic supply.
3. Weather forecast – 8-14 day forecast shows above normal temperatures from northeast through the upper mid-west. Normal for the remainder of the country.

Bullish price factors:

1. U.S. Rig counts – as of this week, the number of operating rotary rigs in the United States is 1189, **up 11 from last week but down 434 from this same week in 2008.**
2. Alternate fuels – February crude oil closed at \$82.68/barrel, up \$3.32/barrel from last week's closing price. #2 oil closed today at \$2.1987/gallon, up \$.083/gallon from last week's closing price – this equates to roughly \$15.81/dt equivalent natural gas price.

Technical indicators:

Technical indicators appear to be positive but moderating. The price path of least resistance appears to be to sideways to higher in volatile trading.

Summary:

Now that the 1st quarter 2010 price has traded above the 4th quarter 2009 price high (but failed to close above it), continued price volatility with rapid swings in price could occur. The 1st quarter 2009 price high (and the high price for the year) was \$6.24/dt. I wouldn't be surprised to see the February contract trade to at least that level, with intermittent moves lower. In spite of this, I still think it's possible prices will be lower in calendar month March that they are now possibly providing a long-term buying opportunity.

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: no change

Depending on your risk tolerance and your need price protection, below are some prices that may be considered as a possible purchase points.

Feb 10 - \$5.35/dt

Feb 10 – Mar 10 = +/- \$5.45/dt

Feb 10 – Dec 10 = +/- \$5.25/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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