

4/29/11

Natural Gas Market Summary

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On Monday, the May contract opened trading about \$.01/dt below the previous week's closing price, then moved moderately higher, trading to within \$.035/dt of the to-date second quarter price high of \$4.48/dt. On Tuesday prices traded in a fairly tight range and on Wednesday, the May contract settled at \$4.377/dt, up \$.137/dt from the April settlement price of \$4.24/dt. On Thursday, the June contract began trading as the prompt month by rallying to the next level of technical price resistance upon the release of the Weekly Storage Report. On Friday, the June contract first traded above, then closed above, longer-term technical price resistance found at the declining trend line drawn from the first quarter 2010 and 2011 price highs (see chart below). For the week, the prompt month closed at \$4.698/dt, up \$.28/dt from last week's closing price.



Strip prices:

1. June 11 - Dec 11 - \$4.85/dt, up \$.20/dt from last week.

2. 12-month strip - \$4.97/dt, up \$.20/dt from last week.
3. 24-month strip – \$5.13/dt, up \$.15/dt from last week.
4. 36-month strip - \$5.26/dt, up \$.11/dt from last week.

Bearish price factors:

1. Storage – Working gas in storage was 1,685 Bcf as of Friday, April 22, 2011, according to EIA estimates. This represents a net increase of 31 Bcf from the previous week. Stocks were 215 Bcf less than last year at this time and 11 Bcf below the 5-year average of 1,696 Bcf.

Bullish price factors:

1. Significant pricing events – History indicates we may expect a significant pricing event approximately every 11 – 14 weeks. The 1st quarter price low was printed the week of 2/28/11 so next week will be the eighth week since that low.
2. Historical price rally from the first quarter price low to the second quarter price high - to date, we've only seen a 25% increase from the first quarter low of \$3.731/dt as compared to the historical average of 48%.
3. Moving average – this is the second consecutive week the prompt month has posted a weekly closing price above the 20-week simple moving average.
4. Open interest – on 4/28, open interest increased by 33,381 contracts as the June price moved \$.20/dt higher....indicative of new commercial buying.

Technical price support and resistance:

Resistance – \$4.88/dt followed by \$5.00/dt followed by +/- \$5.20/dt.

Support – +/- \$4.60/dt followed by +/- \$4.50/dt followed by +/- \$4.25/dt.

Short and longer-term technical indicators appear to be bullish. The price path of least resistance seems to be higher.

Summary:

Now that the prompt month has posted a weekly closing price above long-term technical price resistance, it appears prices could be headed higher as the traditional second-quarter price high continues to develop. Adding reinforcement to this thought is the fact that the 12-month, the 24-month and the 36-month 'strip's all posted their highest weekly closing prices since early August 2010.

Technically speaking, several indicators are targeting +/- \$5.00 to +/- \$5.50/dt as a possible second quarter prompt month price high. However, as with previous price rallies, we could see periodic price moves lower. If you still need price protection for the remainder of the summer season, you may want to consider those times of price weakness to acquire that protection.

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.

June 11 and July 11 - +/- \$4.50/dt followed by +/- \$4.25/dt

Twelve-month strip - +/- \$4.40/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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