

4/22/11

## Natural Gas Market Summary

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On Monday, the May contract opened trading about \$.01/dt below last week's closing price, then moved about \$.06/dt higher before reversing lower. On Tuesday and Wednesday, prices moved higher and when the Weekly Storage Report was released on Thursday, prices continued higher with the May contract posting a weekly closing price of \$4.412/dt, up \$.20/dt from last week's closing price. Notice the May contract posted a weekly closing price above intermediate trend-line technical price resistance (upper blue line on below chart) and above the 20-week simple moving average.



Strip prices:

1. May - Dec 11 - \$4.62/dt, up \$.18/dt from last week.
2. May - Apr 12 - \$4.77/dt, up \$.17/dt from last week.

**Bearish price factors:**

1. Storage - Working gas in storage was 1,654 Bcf as of Friday, April 15, 2011, according to EIA estimates. This represents a net increase of 47 Bcf from the previous week. Stocks were 165 Bcf less than last year at this time and 23 Bcf above the 5-year average of 1,631 Bcf.

2. Open interest – decreased by 21,952 contracts as the prompt month price increased from \$4.08/dt to \$4.412/dt. Higher prices on decreased open interest could indicate technical short-covering.

#### **Bullish price factors:**

1. Significant pricing events – History indicates we may expect a significant pricing event approximately every 11 – 14 weeks. The 1<sup>st</sup> 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 20% increase from the first quarter low of \$3.731/dt as compared to the historical average of 48%.
3. Moving average – after two consecutive weeks of posting a weekly closing price below the 20-week simple moving average, this week it closed above it.

#### **Technical price support and resistance:**

Resistance – \$4.45/dt followed by \$4.56/dt followed by \$4.66/dt followed by +/- \$4.82/dt followed by +/- \$5.00/dt.

Support – +/- \$4.22/dt followed by +/- \$4.10/dt followed by +/- \$4.00/dt.

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

#### **Summary:**

This week, the May contract once again posted a weekly closing price above the 20-week simple moving average, above intermediate technical price resistance found at the declining trend-line drawn from the 2011 first and second quarter price highs, and only \$.06/dt below the second quarter price high of \$4.48/dt. This week's price action was 'bullish' but declining open interest indicates technical short-covering ahead of the holiday weekend was at least partially responsible for this price move. As such, I still think we could continue to see alternating periods of both higher and lower prices. If you still need price protection for the summer months, you might want to consider acquiring that protection on price moves lower.

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:**

On Wednesday of this week, the May contract expires and the June contract becomes the prompt month. 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 - +/- \$4.15/dt

June 11 – Dec 11 - +/- \$4.30/dt

June 11 – May 12 - +/- \$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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