

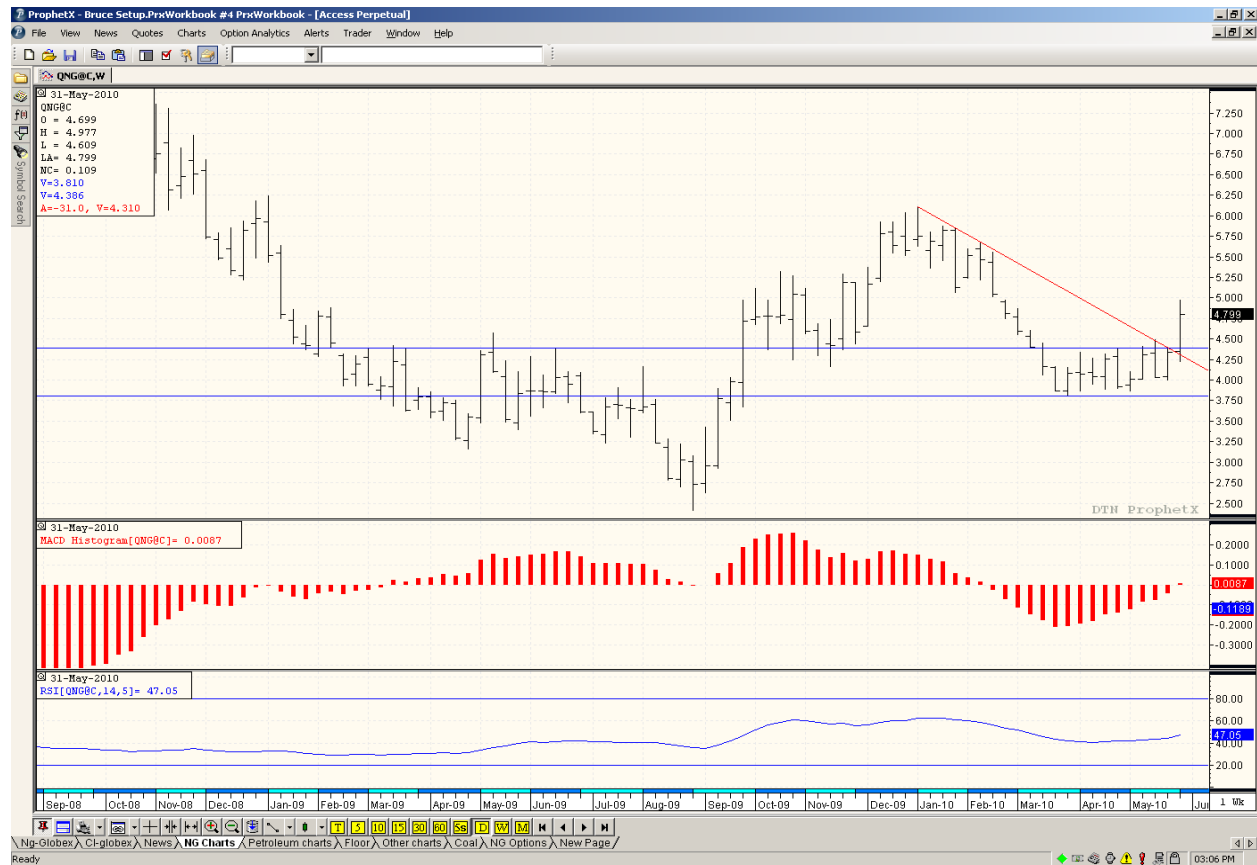
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## Natural Gas Market Summary

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Monday, the June contract opened trading slightly above last week's closing price then rallied to once again trade above the upper boundary of the long-standing trend channel (this week marks the third time in four weeks this has occurred). As in the previous two occurrences, this break higher was short-lived as July quickly lost upward price momentum and moved back inside the trend channel. On Wednesday, prices once again rallied above that upper boundary and also above the previous week's price high only this time managing a daily closing price above that boundary. When the weekly storage report was released on Thursday, the July price quickly moved higher, posting a new second quarter price high for the prompt month contract and also exceeding the previous second quarter 2010 price high for the July contract. On Friday, prices continued to move higher trading to within \$.031/dt of the \$5.008/dt technical price target mentioned previously, before moving moderately lower into the close.

For the week, the July contract posted a weekly closing price of \$4.797/dt, up \$.456/dt from last week's closing price. Below is a weekly continuation chart showing that price activity.



Since posting a first quarter 2010 price low, the prompt month has now increased approximately 31%. As a reminder, since gas began trading on NYMEX, the average increase from the first quarter low to the second quarter high is approximately 47%.

Strip prices:

1. July 10 through Oct 10 "strip" closed at \$4.86/dt, up \$.41/dt from last week.
2. July through December 2010 closed at \$5.02/dt, up \$.36/dt from last week.
3. July through June 2011 closed at \$5.23/dt, up \$.26/dt from last week.

**Bearish price factors :**

1. U.S. Rig counts – as of this week, the number of operating rotary rigs in the United States is 1518, **up 12 from last week and 618 above from this same week in 2009.**
2. Volume of gas in storage. Working gas in storage was 2,357 Bcf as of Friday, May 28, 2010, according to EIA estimates. This represents a net increase of 88 Bcf from the previous week. Stocks were 38 Bcf higher than last year at this time and 306 Bcf above the 5-year average of 2,051 Bcf.

**Bullish price factors:**

1. Alternate fuels – Prompt month crude oil closed at \$71.24/barrel, down \$2.73/barrel from last week's closing price. #2 oil closed today at \$1.95/gallon, down \$.03/gallon from last week's closing price – this equates to roughly \$14.04/dt equivalent natural gas price.
2. Weather forecast – both the 6 – 10 day and the 8 – 14 day forecasts reflect normal to above normal temperatures all along the east coast.
3. Seasonal tendency for natural gas prices to post a second quarter price high.

**Technical indicators:**

Both short and long-term technical indicators appear to be positive. The price path of least resistance appears to be higher.

**Summary:**

The breakout of the long-term trend channel finally occurred and as thought likely, the break was 'higher'. Now that a weekly closing price above that channel has occurred, the price move higher could continue as the traditional second quarter price high is constructed. If so, technical price resistance can likely be found at +/- \$5.00/dt, followed by +/- \$5.25/dt.

Even though the price path of least resistance appears to be higher, this doesn't preclude intermittent moves lower, with the July contract possibly moving as low as top boundary of the above-mentioned

trend channel. The approximate value of that boundary is +/- \$4.40/dt. If you still need price protection for July or a longer period, a 'test' of that boundary may be considered as a possible purchase point.

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 10 = +/- \$4.40/dt

July 10 – Oct 10 = +/- \$4.70/dt

July 10 – June 11 = +/- \$5.00/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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