

1/28/11

Natural Gas Market Summary

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This week, the February contract opened trading about \$.07/dt above last week's closing price then rallied as high as \$4.879/dt before reversing \$.32/dt lower. On Tuesday, the price move lower continued with February trading to within \$.015/dt of last week's price low before stabilizing. On Wednesday morning, February traded below last week's low price and in the process, traded precisely to technical price support found at the 10-week simple moving average before stabilizing. After the storage report was released on Thursday, prices once again moved lower as the February contract posted a NYMEX settlement price of \$4.316/dt, up \$.10/dt from the January settlement price. On Friday, March began trading as the prompt month and posted a weekly closing price of \$4.323/dt, down \$.40/dt from last week's closing price.

Below is a weekly continuation chart showing this price activity. Notice the prompt month posted a weekly closing price almost equal to technical price support (declining red trend line).



Strip prices:

1. Mar - Dec 11 - \$4.52/dt, down \$.35/dt from last week.

Bearish price factors:

1. Storage – Working gas in storage was 2,542 Bcf as of Friday, January 21, 2011, according to EIA estimates. This represents a net decline of 174 Bcf from the previous week. Stocks were 9 Bcf higher than last year at this time and 29 Bcf above the 5-year average of 2,513 Bcf.

- After two consecutive weeks of posting a weekly closing price above technical trend line price resistance drawn from the 4th quarter 2009 and 2nd quarter 2010 price highs, this week, the Calendar year 2012 strip reversed lower closing back below that trend line (see chart below)



Bullish price factors:

- Moving average – this is the tenth consecutive week the prompt month has posted a weekly closing price above the 20-week simple moving average.
- Weather – both the 6 – 10 day and the 8 – 14 day forecast calls for normal to below normal temperatures for the eastern seaboard.
- For the third consecutive week, the March contract posted a weekly closing price above the declining trend channel that has contained all weekly closing prices since the 3rd quarter of 2009 (see chart below).



Technical indicators:

The price path of least resistance appears to be lower to sideways in the near term and lower toward the end of the first quarter of 2011.

Technical price support and resistance (February contract):

Resistance – +/- \$4.80/dt followed by +/- \$5.00/dt followed by +/- \$5.20/dt.

Support – +/- \$4.25/dt followed +/- \$4.10/dt followed by +/- \$3.855/dt followed by +/- \$3.65/dt.

Summary:

In last week's Summary, I mentioned the possible price significance of the prompt month posting a weekly closing price above the previous 4th quarter price high. I noted that unless prices quickly reversed lower, we could be in for a less-than-normal price decline from the 4th quarter price high to the 1st quarter price low. As the NYMEX natural gas market has a tendency to do, that reversal occurred. The price move that followed was so volatile that this week, the prompt traded an 'outside week reversal lower'. I mentioned this technical formation before but as a refresher, this occurs when opening price for the week was above the previous week's high price and the closing price for the week was below the previous week's low price. Technically speaking, this would be considered 'very bearish' for near term price movement. As an example, the last time the prompt month traded an outside week reversal lower was the week of 8/2/10. From that reversal, the prompt month price moved from \$4.456/dt to the 4th quarter 2010 price low of \$3.212/dt, or 28%. Time will tell but if we see a similar percent decline this year, the prompt month would be in the vicinity of \$3.32/dt. That price is not appreciably different from what we would expect from a normal decline from the 4th quarter price high to the corresponding 1st quarter price low. Assuming a normal decline of 35%, we would expect a first quarter price low of +/- \$3.00/dt.

So, for now, it appears the price path of least resistance is lower. However, since I don't expect the 1st quarter low to occur until sometime in late February to mid-March, we could continue to see rapid price reversals higher and lower much like we've seen in the past two weeks. If You still need price protection for March, I would consider 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.

Mar 11 - +/- \$4.25/dt followed by +/- \$4.10/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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