

7/2/10

## Natural Gas Market Summary

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Monday, the July contract opened trading about \$.04/dt below the previous week's closing price then, as expected, began to move lower ultimately posting a settlement price of \$4.717/dt, up \$.56/dt from the June settlement price. On Tuesday, August began trading as the prompt month and its price continued to move lower trading below the low price of the previous three weeks and then slightly below technical price support found at \$4.50/dt before rebounding somewhat. When the Weekly Storage Report was released, the August contract steadily moved higher before stalling at technical price resistance found at \$4.92/dt. Interestingly, during the price run-up on Thursday, open interest for the August contract dropped by 1020 contracts.....indicating technical short-covering was likely occurring. On Friday, prices once again weakened finally posting a weekly closing price of \$4.687/dt, down \$.19/dt from last week's closing price and \$.004/dt below last week's low price.

Below is a weekly continuation chart showing that price activity.



#### Strip prices:

1. Aug 10 through Oct 10 “strip” closed at \$4.72/dt, down \$.23/dt from last week.
2. Aug through December 2010 closed at \$4.90/dt, down \$.23/dt from last week.
3. Aug through June 11 closed at \$5.10/dt, down \$.23/dt from last week.
4. Nov 10 through March 11 - \$5.30/dt, down \$.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 1552, ***up 13 from last week and 635 above from this same week in 2009.***
2. Volume of gas in storage. Working gas in storage was 2,684 Bcf as of Friday, June 25, 2010, according to EIA estimates. This represents a net increase of 60 Bcf from the previous week. Stocks were 27 Bcf less than last year at this time and 287 Bcf above the 5-year average of 2,397 Bcf.

#### Bullish price factors:

1. Alternate fuels – Prompt month crude oil closed at \$72.20/barrel, down \$6.66/barrel from last week’s closing price. #2 oil closed today at \$1.918/gallon, down \$.1942/gallon from last week’s closing price – this equates to roughly \$13.79/dt equivalent natural gas price.
2. Weather forecast – both the 6 – 10 day and the 8 – 14 day forecasts reflect normal temperatures for the eastern half of the country.

#### Technical indicators:

Short and long-term technical indicators appear to be neutral to negative. The near-term price path of least resistance appears to be sideways to lower.

#### Summary:

Nymex prices continued to move lower the early part of this week as the seasonal bearishness surrounding the July 4<sup>th</sup> holiday period continued to evolve. Now that the 3<sup>rd</sup> quarter has arrived, history tells us prices could eventually be lower. Below is a breakdown of the historical decrease from the 2<sup>nd</sup> quarter price high to the 3<sup>rd</sup> quarter price low.

Year	2nd quarter price high (\$/dt)	3rd quarter price low (\$/dt)	% decrease
1996	\$2.860	\$1.735	39.34%
1997	\$2.361	\$2.130	9.78%
1998	\$2.695	\$1.645	38.96%
1999	\$2.450	\$2.107	14.00%
2000	\$4.640	\$3.630	21.77%
2001	\$5.580	\$1.875	66.40%
2002	\$3.853	\$2.655	31.09%
2003	\$6.719	\$4.425	34.14%
2004	\$6.725	\$4.560	32.19%
2005	\$7.904	\$6.949	12.08%
2006	\$8.280	\$5.470	33.94%
2007	\$8.220	\$5.192	36.84%
2008	\$13.440	\$7.020	47.77%
2009	\$4.575	\$2.409	47.34%
2010	\$5.196	?	?
		Average	33.26%
		Maximum	66.40%
		Minimum	9.78%

Considering a second quarter price high of \$5.196, the average historical decline would result in a third quarter price low in the vicinity of +/- \$3.45/dt.....the maximum percentage decline would result in sub-\$2/dt gas. While I don't think it's reasonable to expect gas below \$2/dt, I don't think it's out of the realm of possibility to see the prompt month eventually trade to the mid to upper \$2/dt area..... 'testing' the third quarter 2009 price low of \$2.409/dt. However, prices will not likely move toward the 3<sup>rd</sup> quarter low without periodic, and sometimes drastic, price moves higher. To illustrate, since 1996, the August contract (during calendar month July) has traded above the second quarter price high in that year on 3 occasions (see yellow highlighted years below) but in only one year (1999) did the August contract actually post a settlement price above the 2<sup>nd</sup> quarter price high. In that year the differential was \$.15/dt.

	2nd quarter high (\$/dt)	Calendar July High (\$/dt)	Difference (\$/dt)
1996	2.86	2.848	\$0.012
1997	2.361	2.211	\$0.150
1998	2.695	2.5	\$0.195
1999	2.45	2.72	(\$0.270)
2000	4.64	4.27	\$0.370
2001	5.58	3.45	\$2.130
2002	3.853	3.281	\$0.572

2003	6.719	5.64	\$1.079
2004	6.725	6.44	\$0.285
2005	7.915	8.29	(\$0.375)
2006	8.28	8.26	\$0.020
2007	8.22	6.849	\$1.371
2008	13.448	13.694	(\$0.246)
2009	4.575	3.904	\$0.671

Considering the current differential between the prompt month prices to the second quarter price high is approximately \$.55/dt, price movement over the next couple months could be volatile and erratic.

As for timing of the expected third quarter price low, history tell us that significant pricing events usually occur 11 – 14 weeks apart. Considering the 2<sup>nd</sup> quarter price high was printed in mid-June, the third quarter price low could occur in the vicinity of Labor Day. Depending on your risk tolerance and your need for price protection, the time period surrounding the third quarter price low could provide an opportunity to purchase winter 2010 – 2011 gas.

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.

Aug 10 = +/- \$4.50/dt

Aug 10 – Oct 10 = +/- \$4.50/dt

Aug 10 – July 11 = +/- \$4.90/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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