

4/1/11

Natural Gas Market Summary

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On Monday, the April contract opened trading about \$.02/dt above last week's closing price, then moved moderately higher only to reverse lower in the last few minutes of trading. On Tuesday, the price move lower continued with the April contract trading as low as technical price support found at \$4.194/dt before ultimately posting a contract settlement price of \$4.24/dt, up \$.447/dt from the March settlement price of \$3.793/dt. On Wednesday, May began trading as the prompt month by moving moderately higher but still well below its high price for the week of \$4.559/dt. When the Weekly Storage Report was released on Thursday, prices quickly moved lower 'testing' the 20-week simple moving average before once again, reversing higher into the close. On Friday, price volatility was relatively low as the May contract posted a weekly closing price of \$4.36/dt, down \$.04/dt from last week's closing price.

Below is a weekly continuation chart showing this price movement. Notice this week the prompt month once again closed above the 20-week simple moving average.



Strip prices:

1. May - Dec 11 - \$4.60/dt, down \$.12/dt from last week.
2. May - Oct 11 - \$4.50/dt, down \$.12/dt from last week.

Bearish price factors:

1. Storage - Working gas in storage was 1,624 Bcf as of Friday, March 25, 2011, according to EIA estimates. This represents a net increase of 12 Bcf from the previous week. Stocks were 12 Bcf less than last year at this time and 68 Bcf above the 5-year average of 1,556 Bcf.

Bullish price factors:

1. Moving average - this is the second consecutive week the prompt month has posted a weekly closing price above the 20-week simple moving average. Additionally, the prompt month is currently trading above all the commonly-watched moving averages.
2. Timing - Historically, natural gas prices have rallied in the second quarter of each year.
3. 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 fifth week since that low.

Technical price support and resistance:

Resistance - \$4.44/dt followed by \$4.53/dt followed by +/- \$4.65/dt followed by +/- \$5.00/dt.

Support - +/- \$4.10/dt followed by +/- \$4.00/dt followed by +/- \$3.73/dt

Short and long-term technical indicators are neutral to positive. The price path of least resistance seems to be sideways to higher.

Summary:

In last week's Summary, I mentioned that technically speaking, \$4.44/dt seemed to be a significant threshold in that a weekly closing price above it would seem to shift the market from intermediate-term 'neutral / bearish' to 'bullish'. This week, the market traded about \$4.44/dt, but couldn't post a weekly closing price above it. Until such time that it does, I would expect prices to remain 'range-bound' alternating between test of technical price resistance found at the mid \$4.40's and technical price support found at about \$4.10/dt. If you still need price protection for the summer months, you may want to consider times of price weakness to acquire that protection.

In the longer-term, now that we're in the second quarter of 2011, history indicates we could see higher prices. That being the case, odds seem to favor an eventual price break higher out of the above-mentioned trading range. To date, the high price we've seen is \$4.48/dt, or only a 20% increase from the first quarter low of \$3.731/dt. As mentioned in last week's Summary, the average price increase from the first quarter price low to the second quarter price high is approximately 48% so an average increase could take the prompt month to +/- \$5.50/dt.

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.

May 11 - +/- \$4.20/dt

May 11 – Dec 11 - +/- \$4.45/dt

May 11 – April 12 - +/- \$4.50/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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