

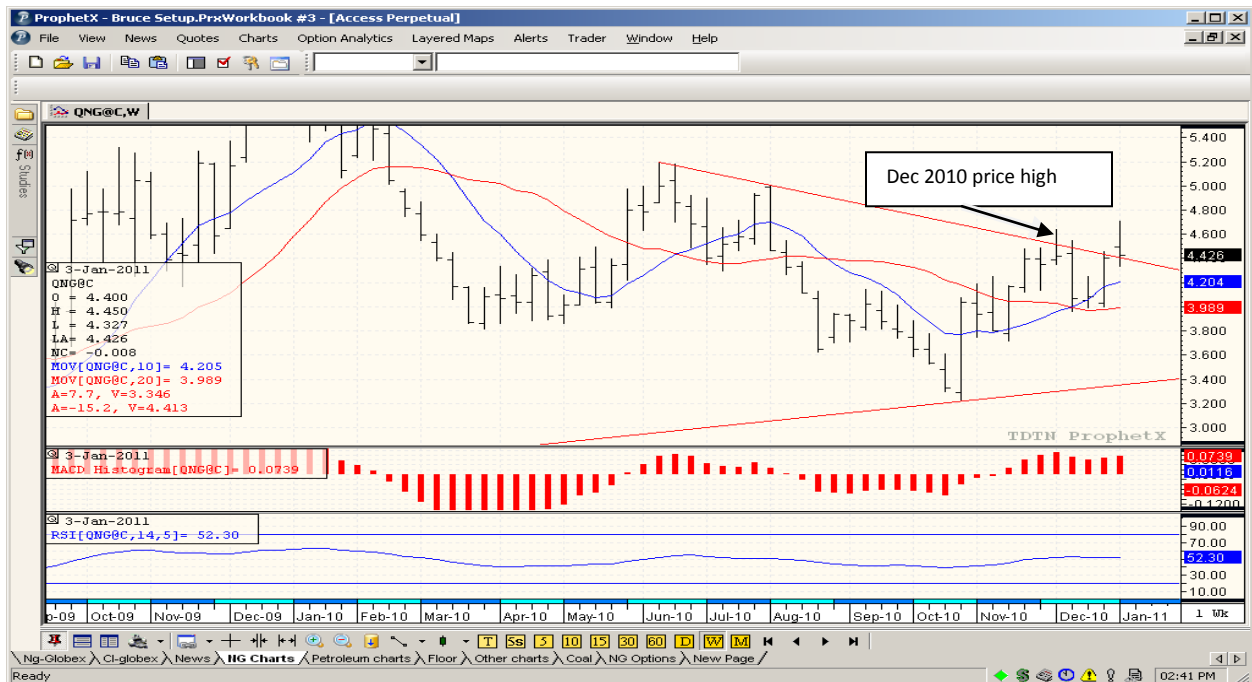
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Natural Gas Market Summary

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This week, the February contract opened trading about \$.09/dt above last week's closing price (and about \$.04/dt above last week's high price) creating a 'gap' higher on both the Weekly Continuation and the February Weekly charts (as a reminder, a gap higher is created when the current week's opening price is above the previous week's high price). From that gap higher, February then continued higher first trading above and then posting a daily closing price above the 4th quarter 2010 price high. On Tuesday, prices moved somewhat lower before stabilizing. On Wednesday, the price move lower continued with the February contract first trading below the 2010 4th quarter price high then even lower finally closing the 'gap' created by Monday's opening price. When the Weekly Storage Report was released on Thursday, prices rallied as high as \$4.623/dt (within \$.014/dt of the 2010 4th quarter high) before reversing lower 'testing' technical price support found at the declining trend line drawn from the 2010 2nd and 3rd quarter price highs. On Friday, the price move lower continued with the February contract trading below but failing to post a weekly closing price below the aforementioned technical price support.

Below is a weekly continuation chart showing this price activity.



Notice that even though February closed above technical trend line price support, it failed to close above the Dec 2010 price high.

Strip prices:

1. Feb 11 through March 11 - \$4.417/dt, up \$.007/dt from last week.
2. Feb 11 – Dec 11 - \$4.575/dt, down \$.005/dt from last week.

Bearish price factors:

1. Storage – Working gas in storage was 3,097 Bcf as of Friday, December 31, 2010, according to EIA estimates. This represents a net decline of 135 Bcf from the previous week. Stocks were 48 Bcf less than last year at this time and 190 Bcf above the 5-year average of 2,907 Bcf.
2. The Cal 2012 strip first traded above but closed below technical price support found at the declining trend line drawn from the 4th quarter 2009 and 2nd quarter 2010 price highs.
3. The February once again posted a weekly closing price inside the declining trend channel that has contained all weekly closing prices since the 3rd quarter of 2009 (see chart below). Notice there appears to be strong price support for the February contract near \$4/dt (horizontal red line)



Bullish price factors:

1. Moving average – this is the eighth consecutive week the prompt month has posted a weekly closing price above the 20-week simple moving average.
2. Weather – both the 6 – 10 day and the 8 – 14 day forecast calls for normal to below normal temperatures for the eastern seaboard.

- Feb 11 – Dec 11 ‘strip’. The Feb 11 – Dec 11 strip traded above and closed above technical price support found at the declining trend line drawn from the 4th quarter 2009 and 2nd quarter 2010 price highs (see chart below).



Technical indicators:

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

Technical price support and resistance (February contract):

Resistance – +/- \$4.70/dt followed by +/- \$5.00/dt followed by +/- \$5.20/dt.

Support – +/- \$4.10/dt followed +/- \$3.85/dt followed by +/- \$3.75/dt followed by +/- \$3.65/dt.

Summary:

As mentioned in the opening paragraph, the February contract opened trading this week above last week’s high price creating a technical formation known as a ‘gap’ higher. From that gap higher, the February contract then moved quickly higher ultimately trading above the calendar December 2010 price high. In last week’s Summary, I addressed the likelihood of this occurring as “not a high probability event” since, before this year, it has only happened three times since 2000 (2002, 2007, and 2009). In 2002 and 2007, the February contract first posted a daily and then a weekly closing price above the preceding December price high while in 2009, the February contract wasn’t able to do either. In 2002 and 2007, prices continued to escalate while in 2009, prices quickly retreated. That price information is shown below.

Year	4th quarter price high (date)	4th quarter price high (\$/dt)	Calendar Dec Price high (\$/dt)	1st quarter price high (\$/dt)	1st quarter price low (date)	1st quarter price low (\$/dt)	% decrease from 4th quarter high to 1st quarter low
2002	12/16/2002	\$5.400	\$5.400	\$10.900	3/26/2003	\$5.032	7%
2007	10/29/2007	\$8.712	\$7.540	\$10.294	1/4/2008	\$7.501	14%
2009	12/29/2009	\$6.035	\$6.035	\$6.108	3/29/2010	\$3.822	37%

This year, the February contract once again managed to trade above and post a daily closing price above the preceding December price high but, to date, has not posted a weekly closing price above it. I think the market is at a fairly critical juncture in that if the February contract can manage to post a weekly closing price above the Dec 2010 price high, we could see even higher prices, especially in the near to medium term. I'm not suggesting we'll see prices rally to the magnitude seen in 2002 and 2007 but I do think the possibility exists we could see the prompt month move above \$5/dt. The other interesting detail from the above two years is the relatively low percent decrease from the 4th quarter price high to the 1st quarter price low. You will recall from last week's Summary the average decrease since 2000 is approximately 35% while the above two years are below 15% (no other years since 2000 are below 30%). Considering this, should the above-mentioned higher weekly closing price occur, I think the possibility exists that the 1st quarter price low may not be as low as it would have been had this not occurred. That being said, a 15% decrease from the 4th quarter 2010 price high \$4.637/dt would result in a 1st quarter price low of +/- \$3.95/dt. On the other hand, a failure to post a weekly closing price above the Dec 2010 price high in the next few weeks could lead to the beginning of the traditional 1st quarter price low with the percentage decrease exceeding what was seen in 2002 and 2007.

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.

Feb 11 = +/- \$4.20/dt

Feb 11 – Mar 11 = +/- \$4.20/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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