5/7/10

Natural Gas Market Summary

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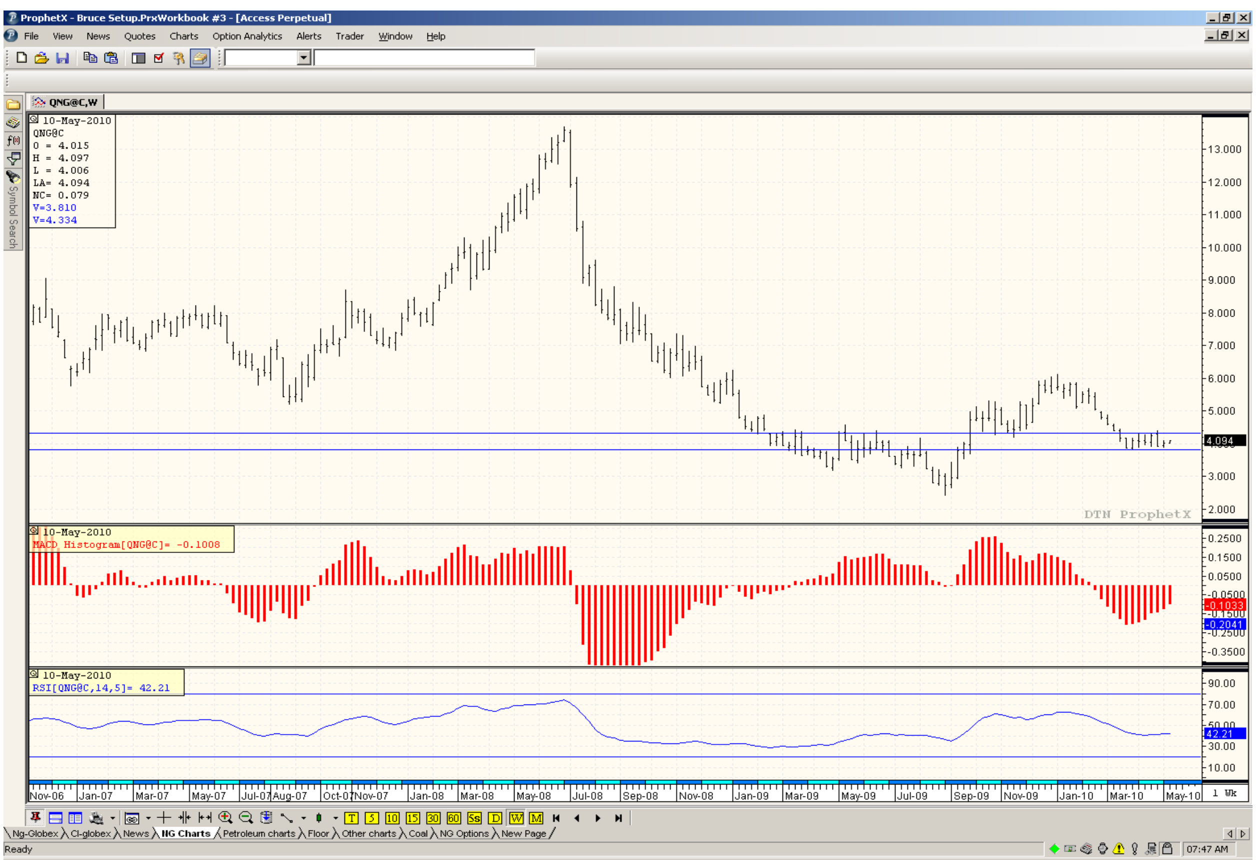
On Monday, the June contract opened trading marginally higher last week's closing price, and then moved higher, first trading above $4/dt before posting a daily closing price equal to $4/dt. Prices remained in the general vicinity of $4/dt through Wednesday as the battle between bearish fundamentals and bullish seasonal tendencies continues to occur.

When the Weekly Storage report was released on Thursday morning, prices immediately moved about $.10/dt lower resulting in a new contract low price for the June contract ($3.855/dt), but still above technical price support found at the lower boundary of the previously-mentioned trend channel ($3.81/dt).

For the week, the June contract closed at $4.015/dt, up $.095/dt from last week's closing price. Below is a weekly continuation chart showing that price activity.



Strip prices:

1. June 10 through Oct 10 "strip" closed at $4.21/dt, up $.083/dt from last week.

2. June through December 2010 closed at $4.46/dt, up $.097/dt from last week.
3. June through May 2011 closed at $4.85/dt, up $.123/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 1483, ***up 1 from last week and 538 above from this same week in 2009*.**
2. Volume of gas in storage. Working gas in storage was 1,995 Bcf as of Friday, April 30, 2010, according to EIA estimates. This represents a net increase of 83 Bcf from the previous week. Stocks were 97 Bcf higher than last year at this time and 315 Bcf above the 5-year average of 1,680 Bcf.
3. Moving averages – the prompt month is currently trading below all the commonly-watched moving averages.

Bullish price factors:

1. Alternate fuels – Prompt month crude oil closed at $75.11/barrel, down $11.04/barrel from last week's closing price. #2 oil closed today at $2.07/gallon, down $.209/gallon from last week's closing price – this equates to roughly $14.88/dt equivalent natural gas price.
2. Weather forecast – both the 6 – 10 day and the 8 – 14 day forecasts reflect above normal temperatures all along the east coast.

Technical indicators:

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

Summary:

As mentioned in recent weeks, seasonal factors indicate prices should begin to rally to a second quarter price high with the average increase from the first quarter price low being about 47%. However, at this time, technical and fundamental factors continue to keep prices depressed. To date, there hasn't been a clear-cut winner in the bearish fundamentals versus the bullish seasonal tendencies, but eventually there likely will be.

Based on continued trading-range price activity and if you still need price protection for the summer months, you still may want to consider a reactive strategy whereby you wait to see which direction the breakout of the above range will take. In other words, be prepared to quickly purchase needed gas on a break above $4.33/dt or take advantage of the likely quick price move lower on a break below $3.81/dt. As mentioned in last week's Summary, a daily closing price below $3.81/dt could bring about as much as a +/- $.30/dt price move lower. Conversely, a failed attempt to post a daily close below $3.81/dt could once again bring about a 'test' of the upper boundary of the trend channel found at $4.42/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: no change

Depending on your risk tolerance and your need for price protection, below are some prices that may be considered as a possible purchase points.

June 10 = +/- $3.85/dt

June 10 – Oct 10 = +/- $4.10/dt

June 10 – May 11 = +/- $4.65/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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