

6/17/11

Natural Gas Market Summary

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On Monday, the July contract opened trading about \$.035/dt above the previous week's closing price, then, reversed lower....ultimately posting a daily closing price below Friday's price low. This technical price move, known as an 'outside day reversal lower' is bearish for near-term price movement and likely led to the further price move lower on Tuesday. On Wednesday, the July contract moved marginally lower, testing technical price support found at +/- \$.450/dt before reversing slightly higher. On Thursday, when the Weekly Storage Report was released, the market resumed Tuesday's price move lower with the July contract trading, and then posting a daily closing price below, the next level of technical price support found at +/- \$.45/dt. On Friday, the July contract continued to move lower ultimately posting a weekly closing price of \$4.325/dt, down \$.432/dt from last week's closing price.

Below is a weekly continuation chart showing this price activity. Notice the prompt month has yet to post a weekly closing price outside the trading range below (green and blue horizontal lines).



Strip prices:

1. July 11 - Dec 11 - \$.46/dt, down \$.42/dt from last week.
2. 12-month strip - \$.61/dt, down \$.37/dt from last week.

3. 24-month strip – \$4.81/dt, down \$.30/dt from last week.
4. 36-month strip - \$4.97/dt, down \$.26/dt from last week.

Neutral price factors:

1. Storage – Working gas in storage was 2,256 Bcf as of Friday, June 10, 2011, according to EIA estimates. This represents a net increase of 69 Bcf from the previous week. Stocks were 275 Bcf less than last year at this time and 76 Bcf below the 5-year average of 2,332 Bcf.

Bearish price factors:

1. Significant pricing events – History indicates we may expect a significant pricing event approximately every 11 – 14 weeks. The to-date second quarter price high was printed 14 weeks following the 2011 first quarter price high during the week of May 2nd. 14 weeks from that that May 2nd high calculates to be the week of August 8th – the approximate time of year when history tells us we could expect to see the 3rd quarter price low.
2. Historical tendency for price weakness the week of July 4th.
3. Open interest – decreased by 7660 contracts through Thursday as the prompt price declined from \$4.75/dt to \$4.71/dt (the decline was 13688 contracts for Thursday alone as the July price declined by \$.165/dt). Technically speaking, declining open interest accompanied by lower prices indicates ‘long liquidation’ by traders.

Bullish price factors:

1. Historical price rally from the first quarter price low to the second quarter price high - to date, we’ve only seen a 34% increase from the first quarter low of \$3.731/dt as compared to the historical average of ~50%.
2. This is the fourth consecutive week the prompt month posted a weekly closing price above the 20-week simple moving average.
3. Weather – the 8 – 14 day forecast calls for normal to above normal temperatures from Texas to New York.

Technical price support and resistance:

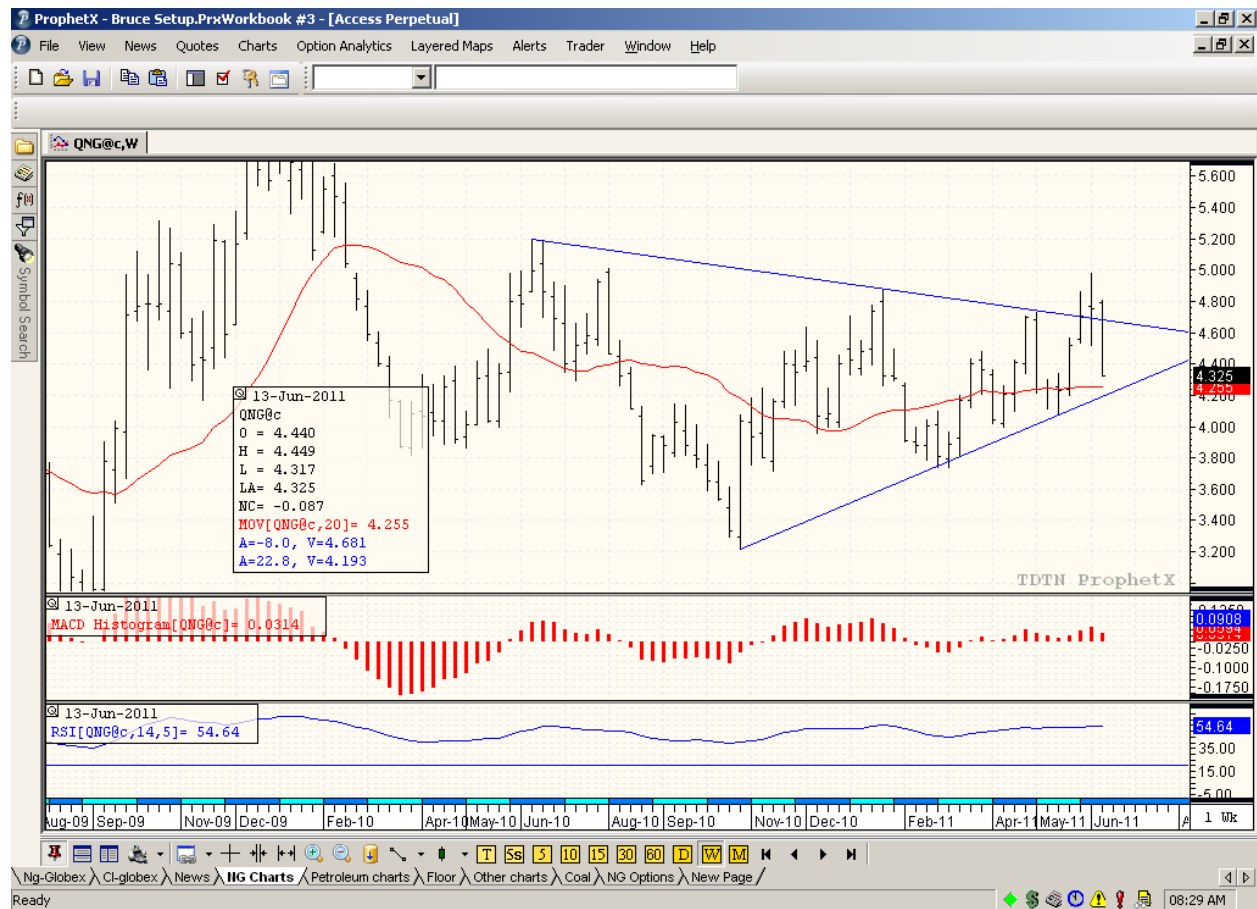
Resistance – +/- \$4.70/dt followed by +/- 5.00/dt followed by +/- \$5.15/dt.

Support – +/- \$4.26/dt followed by +/- \$4.15/dt followed by \$4.00/dt.

Short –term technical indicators appear to be negative while long-term technical indicators appear to be neutral. The price path of least resistance seems to be lower with a sideways bias.

Summary:

This week, the July contract posted a weekly closing price back below the declining trend line (upper blue line) drawn from the 2010 second quarter and 2011 first quarter price highs (see chart below).



In spite of this 'bearish' technical event though, historical price data indicates we could see higher prices into the end of calendar June. Thereafter, if history is any indication of the future, we could see a price move lower into the first or second week of July as this time period is one of the more bearish times of the year. Refer to the table below for this pricing pattern since 2006.

Year	Late June Price High	Early to Mid-July Price Low	Difference (%)
2006	\$6.29	\$5.47	13%
2007	\$7.11	\$6.30	11%
2008	\$13.69	\$10.46	24%
2009	\$4.09	\$3.23	21%
2010	\$4.92	\$4.29	13%
Average			16%

If we do see this same pricing pattern in 2011, I don't think the early to mid-July price low will be the ultimate third quarter price low..... I think we are more likely to see that in the August – early

September time frame. However, depending on your risk tolerance, if you need price protection for the any (or all) of the remaining summer months, you may want to consider times of price weakness to acquire some or all of that protection. As a final thought on this subject, it seems as though there is a decent chance the second quarter price high of \$4.983/dt is 'in the books'. Even if we haven't seen that price high though, I still don't see that high being substantially higher than the to-date second quarter price high.

I need a July contract closing price below +/- \$4.35/dt to shift my market bias to from 'bullish' to 'neutral' and below +/- \$4.15 to shift my market bias back to 'negative'. Once August becomes the prompt month, this prices are \$4.35/dt and \$4.19/dt, respectfully.

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.

July and Aug 11 - +/- \$4.25/dt followed by +/- \$4.15/dt

Twelve-month strip - +/- \$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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