3/19/10

Natural Gas Market Summary

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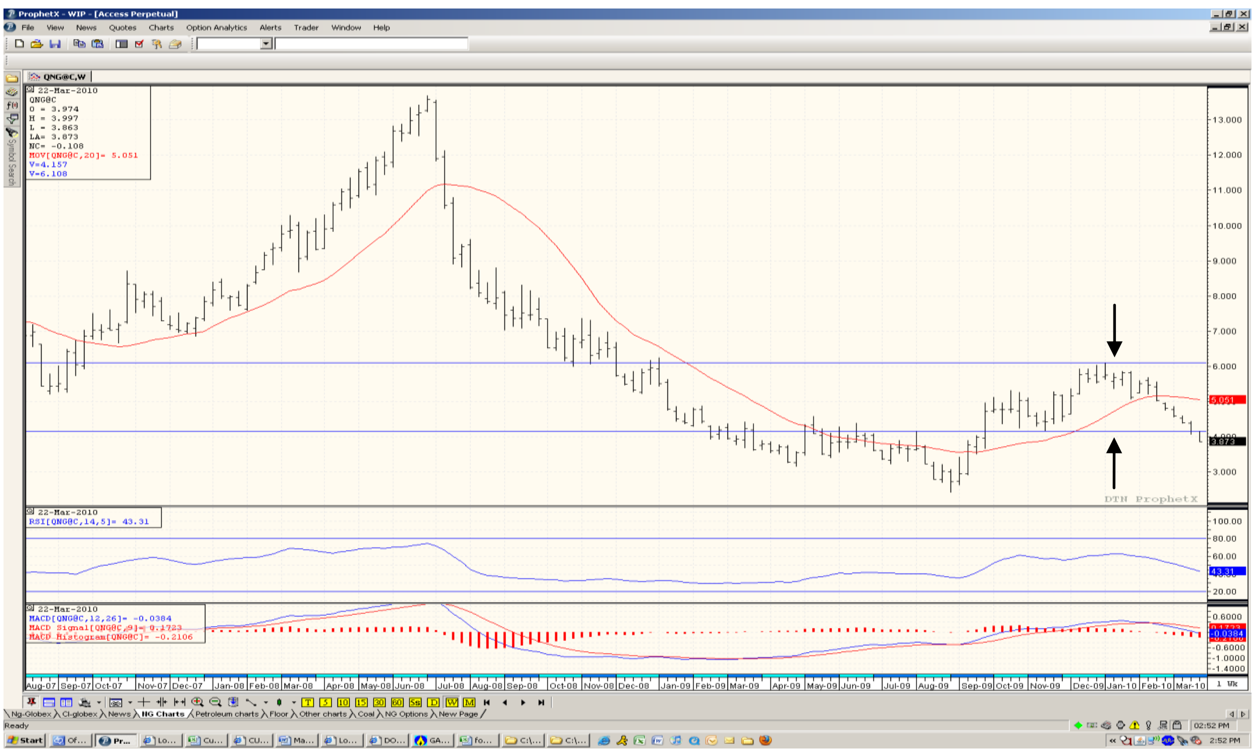
The April contract opened trading this week about $.01/dt below last week's closing price, then quickly moved lower trading below last week's low price before rebounding somewhat in low price volatility trading. When the Weekly Storage Report was released on Thursday, the April price traded below the psychological $4/dt price support point and in doing so, printed the lowest prompt month price since 9/28/2009. In the end, the April contract posted a weekly closing price of $3.872/dt, down $.297/dt from last week's closing price. This is the sixth consecutive week the prompt month has posted a weekly closing price below the previous week's low price.

This week marks the first time the prompt month has been able to post a weekly closing price below the traditional trend channel that has contained all prompt month price movement since late September 2009 (two blue lines on chart below marked by black arrows).

Below is a weekly continuation chart showing this price activity.



Strip prices:

1. April 10- Oct 10 "strip" closed at $4.09/dt, down $.28/dt from last week

2. April through December 2010 closed at $4.27/dt, down $.30/dt from last week.

3. April through March 2011 closed at $4.52/dt, down $.32/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 1427, ***up 20 from last week and 342 above from this same week in 2009*.**

2. Weather forecast –the 6 – 10 day and 8 – 10 day forecasts are above normal for the eastern half of the country.

Bullish price factors:

1. Alternate fuels – Prompt month crude oil closed at $79.97/barrel, down $.71/barrel from last week's closing price. #2 oil closed today at $2.069/gallon, down $.001/gallon from last week's closing price – this equates to roughly $14.88/dt equivalent natural gas price.

2. Price volatility – the 14 day Average True Range remains in bullish territory with a reading of .1513.

Neutral price factors:

1. Volume of gas in storage. Working gas in storage was 1,626 Bcf as of Friday, March 19, 2010, according to EIA estimates. This represents a net increase of 11 Bcf from the previous week. Stocks were 28 Bcf less than last year at this time and 121 Bcf above the 5-year average of 1,505 Bcf.

2. Percent price decline from the 4th quarter 2009 price high to the 1st quarter 2010 price low – currently at 36% compared to the historical average of approximately 40%.

Technical indicators:

Technical indicators appear to be negative. The price path of least resistance appears to be lower.

Summary:

In previous Market Summary's, much has been said about the market's tendency to post a 1st quarter price low each year with the average price decline from the previous 4th quarter price high being about 40%. We are nearing the end of the first quarter and the percent decline is approaching the historical average but with this week's closing price being below the trend channel mentioned in the opening paragraphs, it's possible the price move lower could continue – at least in the near term. There is some historical precedent for continued price weakness in the second quarter. In 2009, the first quarter price low (printed in late March) was $3.608/dt. Prices continued to weaken into calendar month April with the ultimate price low of $3.155/dt being printed the last week of April. From there, prices rallied to a second quarter high of $4.575/dt. Considering the bearish technical picture of the market as a whole, I don't think it's out of the question we could see a similar price pattern unfold in early spring this year. On the other hand, technical indicators remain in the 'oversold' area indicating a short-term price rally could be forthcoming.

Expiration of the April contract is Monday the 29th after which, May will become the prompt month. Initial technical price support for the May contract may be found in the vicinity of +/- $3.85/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 10 = +/- $3.85/dt

May 10 – Oct 10 = +/- $4.05/dt

May 10 – April 11 = +/- $4.55/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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