

6/18/10

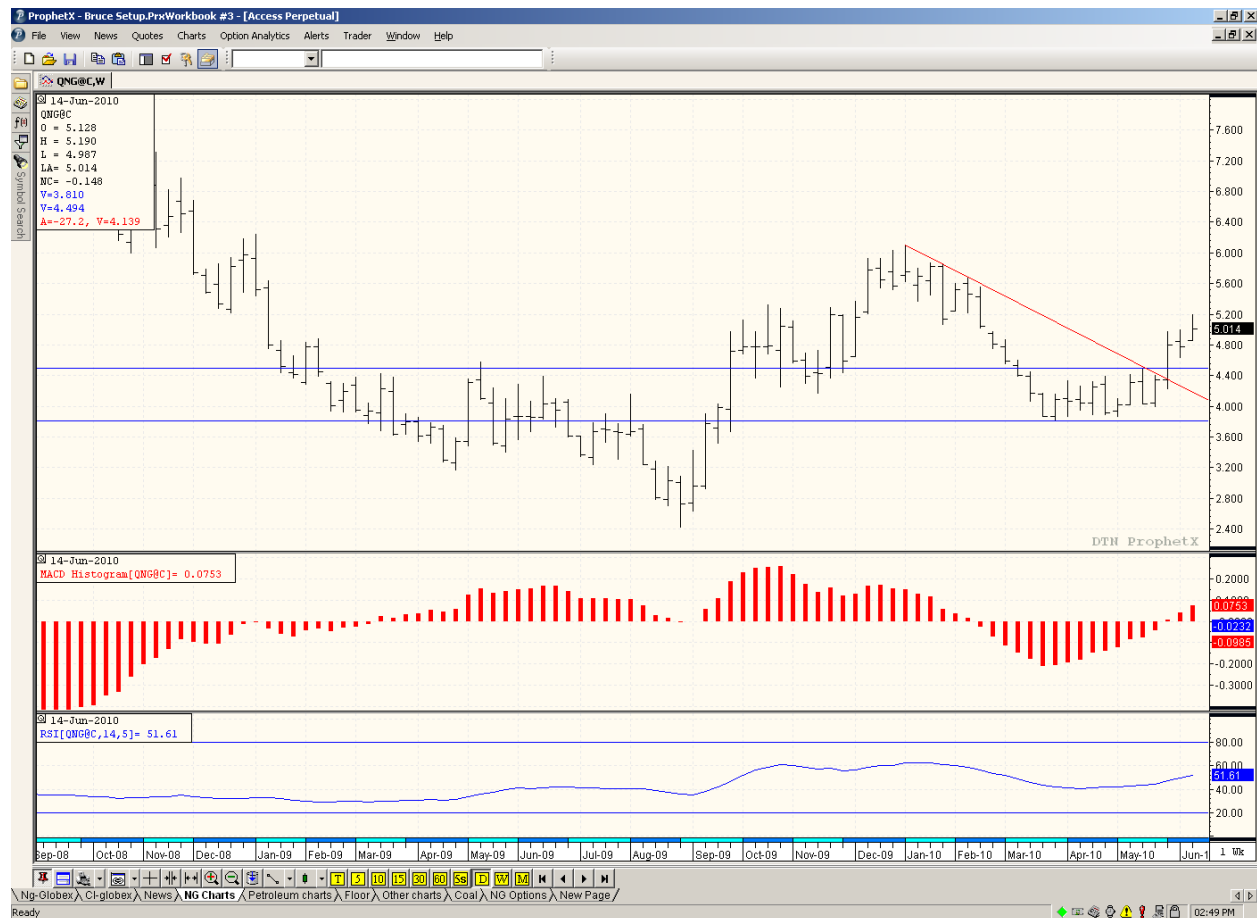
## Natural Gas Market Summary

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Monday, the July contract opened trading about \$.08/dt above the previous week's closing price (and \$.05/dt above the previous week's high price) then rallied to first trade and then post a daily close, above the psychological \$5.00/dt resistance barrier. On Tuesday prices continued to move higher trading as high as \$5.193/dt – in line with the +/- \$.25/dt technical target mentioned in last week's Summary. For the remainder of the week, the July contract traded between \$5.195/dt and \$4.96/dt before posting a weekly closing price of \$4.997/dt, up \$.22/dt from last week's closing price. This is the highest prompt month weekly closing price since the week of 2/15/10.

The prompt month price has now increased approximately 36% from the first quarter 2010 price low. As a reminder, the average historical increase is slightly below 50%.

Below is a weekly continuation chart showing that price activity.



Strip prices:

1. July 10 through Oct 10 “strip” closed at \$5.08/dt, up \$.22/dt from last week.
2. July through December 2010 closed at \$5.22/dt, up \$.19/dt from last week.
3. July through June 2011 closed at \$5.36/dt, up \$.12/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 1527, **up 21 from last week and 651 above from this same week in 2009.**
2. Volume of gas in storage. Working gas in storage was 2,543 Bcf as of Friday, June 11, 2010, according to EIA estimates. This represents a net increase of 87 Bcf from the previous week. Stocks were 2 Bcf higher than last year at this time and 313 Bcf above the 5-year average of 2,230 Bcf.

**Bullish price factors:**

1. Alternate fuels – Prompt month crude oil closed at \$77.27/barrel, up \$3.49/barrel from last week’s closing price. #2 oil closed today at \$2.13/gallon, up \$.13/gallon from last week’s closing price – this equates to roughly \$15.31/dt equivalent natural gas price.
2. Weather forecast – both the 6 – 10 day and the 8 – 14 day forecasts reflect above normal temperatures for the eastern half of the country.
3. Seasonal tendency for natural gas prices to post a second quarter price high.

**Technical indicators:**

Short-term technical indicators appear to be neutral to negative while long-term indicators appear to be positive. The price path of least resistance appears to be sideways in the near-term and lower in the longer-term.

**Summary:**

Traditionally, one of the more ‘bearish’ times of the year for NYMEX natural gas is the two to three week period surrounding the July 4<sup>th</sup> holiday. As such, I think it’s possible we could see the July contract move lower into expiration and also possibly see the August contract move lower during the first calendar week of July. If so, a ‘test’ of the upper boundary of the trading range that contained all prompt month price movement from late March 2010 through late May 2010 could occur. As a reminder, the upper boundary is valued at approximately \$4.50/dt. If you still need price protection, you may want to take advantage of price weakness, should it occur, to acquire that protection. Technical price support could be found first at +/- \$4.90/dt followed by +/- \$4.70/dt, then +/- \$4.50/dt. Technical price resistance could be found first at +/- \$5.25/dt followed by +/- \$5.50/dt.

We are now approaching the end of the second quarter of 2010. In the next few weeks, I will address historical seasonal price tendencies during the third quarter of each year.

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 10 = +/- \$4.50/dt

July 10 – Oct 10 = +/- \$4.80/dt

July 10 – June 11 = +/- \$5.10/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.*

Cindy Anthony 828-293-0275

Jill Johnson 888-307-1070

Faye Brodeur 803-217-1313

Rich Klaus 803-217-1382

Terri Carbre 919-241-4013

Renee Locklear 803-217-1340

Bruce Culbertson 803-206-1980

Chip Sanders 404-760-6304

Lynn Jimison 704-834-6681

Debbie Taylor 803-217-1368

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