

4/1/11

## Natural Gas Market Summary

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On Monday, the May contract opened trading about \$.03/dt below last week's closing price, then moved even lower, testing the 20-week simple moving average before stabilizing. On Wednesday, May traded below the 20-week and then lower to test technical price support found at +/- \$.10/dt. When the Weekly Storage Report was released on Thursday, prices quickly moved lower 'testing' significant technical price support found at +/- \$.02/dt before stabilizing. On Friday, price volatility was very low with the May contract posting a weekly closing price of \$4.041/dt, down \$.32/dt from last week's closing price.

Below is a weekly continuation chart showing this price movement. Notice this week the prompt month closed below both the 10-week and the 20-week simple moving averages.



Strip prices:

1. May - Dec 11 - \$4.297/dt, down \$.31/dt from last week.

2. May – Oct 11 - \$4.19/dt, down \$.31/dt from last week.

**Bearish price factors:**

1. Storage – Working gas in storage was 1,579 Bcf as of Friday, April 1, 2011, according to EIA estimates. This represents a net decline of 45 Bcf from the previous week. Stocks were 86 Bcf less than last year at this time and 10 Bcf above the 5-year average of 1,569 Bcf.
2. Moving average – after 2 consecutive weeks of posting a weekly closing price above the 20-week simple moving average, this week the prompt month closed below it.
3. Open interest – increased as prices decreased.

**Bullish price factors:**

1. Significant pricing events – History indicates we may expect a significant pricing event approximately every 11 – 14 weeks. The 1<sup>st</sup> quarter price low was printed the week of 2/28/11 so next week will be the sixth week since that low.
2. Historical price rally from the first quarter price low to the second quarter price high - to date, we've only seen a 20% increase from the first quarter low of \$3.731/dt as compared to the historical average of 48%.

**Technical price support and resistance:**

Resistance – \$4.15/dt followed by \$4.20/dt followed by +/- \$4.25/dt followed by +/- \$4.30/dt.

Support – +/- \$4.00/dt followed by +/- \$3.90/dt followed by +/- \$3.80/dt, followed by \$3.73/dt.

Short-term technical indicators appear to be negative while longer-term technical indicators appear to be neutral. The price path of least resistance seems to be sideways to lower.

**Summary:**

This week, the May contract first traded below the 20-week simple moving average and then on Wednesday, traded to the next level of technical price support found at +/- \$4.10/dt. During this price move lower on Wednesday, open interest increased by a whopping 22,762 contracts. On Thursday, this trading pattern continued as the May price tested significant technical price support found at \$4.02/dt while open interest increased another 11,132 contracts. Technically speaking, lower prices on increased open interest indicates speculative short-selling and thus a bearish (or weak) market. However, total open interest is now approaching the all-time high of 982,208 contracts. The last time this occurred, prices reversed from a low of \$3.73/dt to a high of \$4.48/dt over a 16-day trading period.

Next week, I think traders will make an early-week effort to take the prompt month below the \$4.02/dt technical price support level. If they are successful, I would expect another round of speculative short-selling to emerge thus pushing the May contract even lower while at the same time, changing the overall technical picture of the market back from 'bullish' to 'bearish'. If they are unsuccessful, the late-coming speculators from last week could begin to cover their short position. If so, we could see higher prices with systematic tests of the technical price resistance levels mentioned above with the market remaining 'bullish', at least for the near term.

If you still need price protection for the summer months, you might want to consider acquiring that protection on price weakness.

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 11 - +/- \$3.95/dt

May 11 – Dec 11 - +/- \$4.25/dt

May 11 – April 12 - +/- \$4.40/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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