FAST FACTS

March 4, 2010

Published by Energy Solutions INC
natural gas buying advisors

Fast Facts is issued 18 times per year. It provides a quick listing of data that may impact natural gas prices and it is a fast way to get up-to-speed with market conditions and potential impacts.

The following represents a wide variety of data that we believe can or may have a pertinent impact on natural gas prices. *"Fast Facts"* is a value-added service of *The Advisor*. It is not intended to be all-inclusive, nor is it up-dated each time new information is released. Rather, it provides a quick recap of important data along with a brief opinion from Energy Solutions, Inc. on exactly what this data may mean.

Economy/Financial:

- The Labor Department has indicated that initial job loss claims rose last week by 22,000 to 496,000.
- Consumer Confidence fell sharply from January's index of 55.9 to 46.0 in February. Overall, the consumers' short-term outlook on the economy soured dramatically in February and the percentage of individuals anticipating an economic improvement over the next six months declined as well.
- U.S. real gross domestic product (GDP) increased at an annualized pace of 5.9% in the fourth quarter of 2009. This was a significant jump from the 2.2% annual pace reported in the third quarter of 2009.
- **Our Opinion: Economic data is neither consistently positive, nor consistently negative. However, the consumer index indicates that the consumer appears to be growing impatient and frustrated with the pace of recovery. Consumer spending is a requirement to pull the U.S. out of this recession. However, consumers aren't going to spend if they are uneasy about what the future holds. Because of this, we expect economic recovery to potentially take a few steps back given the recent consumer confidence data.**

Demand:

- The Institute for Supply Management (ISM) reported that its February index for manufacturing activity fell to 56.5 from January's 58.4 reading. Regardless, it is still viewed as positive economic news. The ISM's non-manufacturing purchasing manager's index rose to 53.0 from January's reading of 51.0. A reading over 50 indicates expansion and a reading under 50 indicates contraction.
- According to the February 22, 2010, issue of Barrons', U.S. steel output increased around 50% for the week ending February 13, 2010, in comparison to the same week last year. That's a good sign for this industry.
- **Our Opinion: The ISM index is viewed as an important gauge of manufacturing recovery. Given the recent consumer confidence index, it is possible that the March ISM report will reflect another decline, albeit, it is likely to remain over 50. Overall, demand recovery is going to be very slow.**

Supply:

- The EIA 914 data indicated that Lower-48 natural gas production fell from 63.24 Bcf/day in November to 62.68 Bcf/day in December, a 0.7% decline. Even so, production in Louisiana increased for the 12th consecutive month. Some of the decline could very well have been due to well freeze-offs caused by the colder weather.
- The natural gas drilling rig count has continued to rebound and is currently at 905 rigs, a level that is comparable to the drilling rig count one year ago, and a level that is 23% higher than it was in November 2009.

Our Opinion: The rebound in the drilling rig count is expected to result in additional production; however, because of a lag in reporting, that anticipated production may not be reflected in the EIA 914 report for at least 2-3 more months.

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Weather:

- Near-term weather forecasts indicate some cooler temperatures in the southern half of the nation, but for the most part, the north half is expected to experience normal to above normal temperatures.
- **Our Opinion: The market no longer cares about weather forecasts as spring is near. The moderating temperatures in the north are going to keep storage inventories at higher starting levels on April 1.**

Storage:

- Storage inventories are at 1,853 Bcf, which is 56 Bcf lower than last year at this time.
- Natural gas prices are in a state of contango, which means that natural gas prices into the future are consecutively higher. For example, the April 2010 natural gas NYMEX contract is trading at $4.75 per MMBtu while October 2010 is at $5.14 per MMBtu. This creates an economic incentive for suppliers to more aggressively inject natural gas into storage at the start of the injection season, which begins April 1, which is also a time when there are fewer concerns over hotter weather and hurricane-related disruptions.
- **Our Opinion: With the moderation of temperatures, we expect ending storage inventories to be around 1,550 Bcf. Had colder weather persisted as was originally forecasted, storage could have been pulled down to around 1,400-1,500 Bcf, but even inventories of that level are more than sufficient on April 1.**

Seasonality, Trend Lines, and Technicals:

- The fourth quarter peak is deemed to have been established on January 7, 2010, at $6.10 per MMBtu. The later the occurrence of the fourth quarter peak, the later the arrival of the first quarter low. At this point, the first quarter low is actually more likely to occur in the second quarter of the year.
- **Our Opinion: Minimum price targets for the first quarter low range from $4.50-$4.60; however, we anticipate a price decline down to $4.25 per MMBtu, with the potential to dip closer to $4 per MMBtu depending on economic data. However, the April contract has expired lower than March in only 4 of the past 19 years. Since the March 2010 natural gas NYMEX contract expired at $4.816 per MMBtu, a major decline in the April contract isn't expected. Rather, it is more than likely that the first quarter low is going to occur in April, which will impact the May 2010 natural gas NYMEX contract.**

Crude Oil:

- Inventories remain at very high levels and are in excess of the five-year average. OPEC continues to produce above its quotas, particularly when prices are above $80 per barrel. OPEC will meet on March 17 to once again discuss quotas and quota compliance.
- United Arab Emirates oil minister Mohamed Al-Hamli recently indicated that demand for OPEC crude oil may fall by 100,000 barrels per day, a comment that has created some concern among OPEC members. Al-Hamli also told the press that crude oil prices of $70-$80 per barrel were acceptable to producers.
- **Our Opinion: Crude oil prices are responding to price moves in the U.S. Dollar and daily economic reports. Recovery efforts aren't sufficient to justify a sustained move over $80 per barrel, but that could occur if the U.S. Dollar weakens. Other price moves higher are likely to be based on short-lived events.**

What we're watching in upcoming weeks:

- Congestion … we expect little major price movement until the snow melts in the north.
- History … last year's price trends produced a good buying opportunity for the summer at the end of April.
- Production data … there should be some noteworthy gains in the next few months given the rig count rebound.