FAST FACTS

November 3, 2009

Published by Energy Solutions INC natural gas buying advisors

Fast Facts is issued two times per month. 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 not intended to be all-inclusive, nor is it updated each time new information is released. Rather it is a bi-monthly publication offered as value-added service of *The Advisor*. Along with the quick recap is a brief opinion from Energy Solutions, Inc. on exactly what this data may mean.

Economy/Financial:

- The Commerce Department recently reported that consumer spending, which makes up two thirds of U.S. economic activity, fell 0.5% in September. That's the biggest drop since December.
- The Reuters/University of Michigan consumer sentiment index came in at 70.6 in October, but that is down from 73.5 for September.
- New home sales unexpectedly fell by 3.6% in September
- Third-quarter gross domestic product (GDP) grew by 3.5%. Consumer spending accounts for about 70% of GDP.
- The Commerce Department says that in 12 months to June, the U.S. economy shrank 3.8%, which is the worst performance in seven decades and the longest stretch of declines since records began in 1947.
- The U.S. unemployment rate has risen to 9.8%, a 25-year high.
- **Our Opinion: There are flip-flopping signs about economic recovery. Positive GDP growth was quickly negated by other economic news. There is now talk of a double dip recession. There isn't consistent data so right now commodity markets simply react to one piece of news at a time and that is one reason crude oil prices are up $2 per barrel one day and down $2 per barrel the next.**

Demand:

- The Institute for Supply Management (ISM) reported that the manufacturing index registered a reading of 55.7 for October, up from the September index of 52.6. A reading over 50 indicates an expansion in the manufacturing sector and this is viewed as positive news for the manufacturing sector.
- However, the New Orders index fell from 60.8 in September to 58.5 in October, which indicates slowing growth in New Orders, something that one wouldn't expect to see if economic recovery is around the corner.
- According to the EIA, natural gas volumes delivered to industrial customers year-to-date through July 2009 have fallen to 16.4 Bcf/day from 18.5 Bcf/day for the first seven months of 2008. This is a 12% decline.
- **Our Opinion: Demand numbers are improving, but it will take time for a substantial rebound.**

Supply:

- The latest EIA-914 survey for August production shows that onshore production in the Lower-48 increased by 1.6% from the month before, much in part to a rebound in production in Wyoming, where a lot of gas was shut-in in July for gas-related plant maintenance.
- There is a large backlog of wells that are completed that can be put into production quickly under the right price environment. Some analysts believe one-half of the wells drilled in the past 12 months fall into this category.
- The natural gas drilling rig count has climbed to 728, posting increases in 13 out of the past 15 weeks.
- **Our Opinion: Production declines aren't really showing up. Supplies are still outpacing demand.**

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Weather:

- The 6-to-10 day outlook shows above normal temperatures for the eastern half of the nation and the 10-to-14 day outlook shows a continuance of above normal temperatures for the eastern third of the nation.
- Long-term weather forecasts for this winter continue to be very mixed because El Niño conditions are not strengthening. The lack of a strong El Niño is causing some meteorologists to predict severe, frigid temperatures, particularly in the northeast.
- **Our Opinion: Near-term moderate temperatures are pulling natural gas NYMEX price lowers, but the first sign of cold weather will bring back those winter weather "jitters" which lend support to prices.**

Storage:

- Storage inventories are now at 3,759 Bcf, 373 Bcf higher than last year at this time.
- Technically, there is just one week remaining in the injection season, but the moderate temperatures are likely to cause an additional injection for the week ending November 6.
- The price contango (i.e. NYMEX prices are higher in February 2010 than in November 2009) creates an incentive to keep gas in storage for use at a later date in the winter.
- **Our Opinion: Record-level storage inventories are going to stifle significant price rallies on colder weather. However, natural gas prices won't be able to decline substantially until at least a portion of winter has passed.**

Speculative Trading and the Commitment of Traders (COT) Report:

- There has been little change in positions.
- **Our Opinion: Position changes haven't been major price drivers, either up or down.**

Seasonality and Trend Lines:

- The fourth quarter rally has to date reached $5.318 per MMBtu, which satisfies the average percentage price rally.
- It is unusual for major price declines to occur in November because it marks the first month of winter, but if moderate temperatures linger, the fourth quarter peak could be in.
- The average first quarter price decline from the fourth quarter peak is around 45%. This is very bearish.
- **Our Opinion: We're not convinced the fourth quarter rally is yet over, but even if it isn't we believe the first quarter decline is going to be more attractive than today's price levels.**

Crude Oil:

- Inventories are at very high levels, but prices are ignoring the fundamentals.
- Price direction for crude oil is at this time entirely dependent on the value of the U.S. Dollar and daily economic news.

What we're watching in upcoming weeks:

- Seasonality … it is a little early in the month to have reached the fourth quarter peak.
- Physical cash prices … are trading at a 60 cent discount to NYMEX prices. Cash and NYMEX need to converge.
- Storage inventories … the pace of withdrawals will have a significant impact on how the market views demand.