



PRICING ALERT

March 23, 2010, 10:20 p.m. CST

Published by
Energy Solutions INC
natural gas buying advisors

Pricing Alerts are issued when there is something happening in the industry or something that is anticipated to happen that has the potential to change natural gas prices quickly.

Natural Gas Pricing Alert (a value-added service of The Advisor)

Our commentary in *The Advisor* has been looking for a front-month natural gas NYMEX price of \$4.25 per MMBtu. Last week's storage withdrawal report helped the April 2010 natural gas NYMEX contract break through significant support at \$4.25 per MMBtu. This Thursday, some analysts are anticipating a small storage injection for the week ending March 19, 2010. If such an injection occurs, it could help prices fall below the \$4 per MMBtu level. Conversely, natural gas prices could undergo a knee-jerk price move higher if the storage inventory report differs from expectations. Natural gas prices are in precarious territory right now. The requirements for the first quarter low have been satisfied, so technically, natural gas prices can move higher at any time, even if fundamentals argue otherwise. Downward momentum is slowing and that too can be an indication that the bottom is near.

For that reason, we are continuing to advise some purchases at these price levels. The extent of those purchases will need to be determined individually based on individual corporate objectives and budgetary requirements. In general, however, low-risk and budget-conscious companies should consider some longer-term protection through March 2011 or even December 2011. Medium-risk companies should consider some purchases through December 2010. High-risk companies should be ready to secure April-June 2010 as the second quarter tends to be a time of historical seasonal rallies. The second quarter rally is typically about 50% higher than the first quarter low. If the recent low of \$4.03 is the first quarter low, a second quarter rally returns prices to \$6 per MMBtu. Even if the first quarter low ends up being around \$3.75 per MMBtu, a second quarter rally could take prices back to the mid-\$5's.

For those that just aren't sure what to do, we advise the following: Finish April-June 2010 commodity purchases as April is not usually an advantageous time for forward purchasing; get July-August 2010 commodity purchases to at least 45%-50% of projected usage; get September-December 2010 commodity purchases to at least 25% of projected usage, and consider a higher percentage purchase for November, which is below \$5 per MMBtu. For those looking to go a bit further, consider a small purchase for the first quarter of 2011 as its average NYMEX price for Jan-Mar 2011 is around \$5.52 per MMBtu right now.

Conclusion: Recent price weakness is providing a good opportunity to consider some purchases for 2010 and even 2011. If economic recovery is much slower than anticipated, it is possible that summer prices could dip to below \$4 per MMBtu, but current price levels are viewed as prudent purchasing levels. Betting on sub-\$4 gas prices may be risky and it is important to remember that the speculative sector still holds an extreme net short position and they could turn the trend upward quickly. We do anticipate another significant buying opportunity in the third quarter as storage re-fills, but buyers may have to wait out another rally before that opportunity arrives.

[Click here for the complete definition of low-risk, medium-risk and high-risk categories.](#)