



# Nat Gas FUNDWATCH THE WEEK AHEAD

**ESAI**

May 4, 2012  
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## Summary of Natural Gas Market: One Week Outlook and Key Factors

**Natural Gas Outlook: Moderately Bullish +0.50 (increasing volatility likely)**

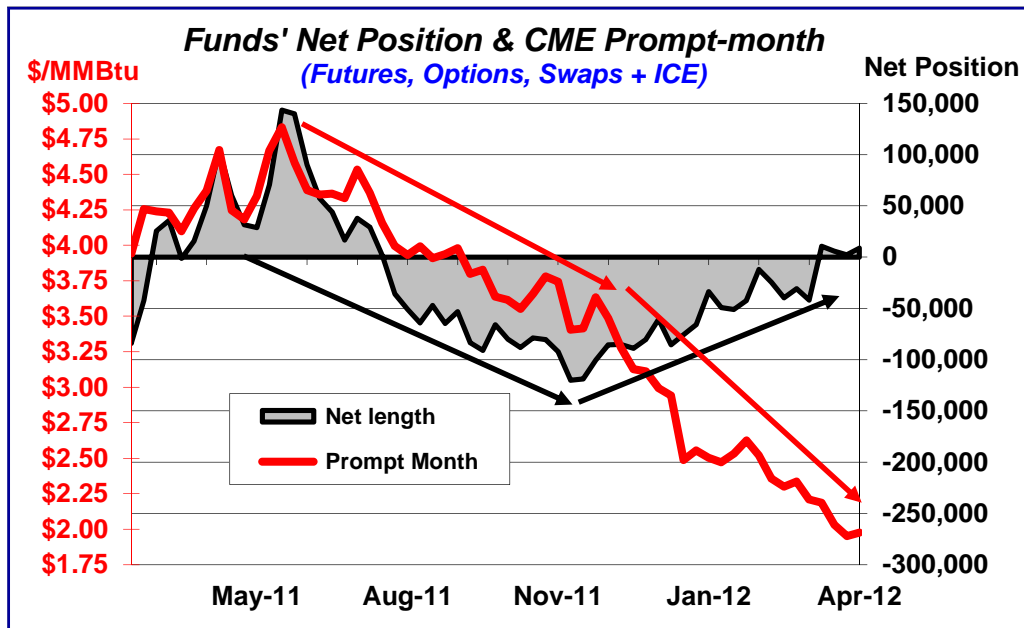
**Funds:** Open interest remains strong and growing participation from both the commercial and speculative side indicates that market forces continue to build. While speculators remain virtually flat (on-balance), the six month trend towards increased net-length combined with expanding open interest suggests more speculative money is flowing into the long side of the market. **Technical:** We are reiterating our cautiously bullish outlook issued last week. Wednesday's sharp sell-off and mid-day weakness on Friday indicate strong resistance in the \$2.40 to \$2.50/MMBtu range. Both short-term and long-term technical indicators have turned bullish, however, suggesting the support at \$2.00/MMBtu is significant. **Storage:** ESAI is forecasting a 48 Bcf injection in next week's report.

**Paper Market**

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SCORE: **+0.50** WEIGHTING: **0.40**

Bearish     
  Moderately Bearish     
  Neutral     
  Moderately Bullish     
  Bullish



Commitment of Traders Summary CME F, O, S + ICE (as of April 24, 2012)		
	Net Long (Short)	Net Change
Non-Commercial	8,686	+6,423
Commercial	(31,671)	+185
Small-traders	22,985	-6,607

The Nat Gas Fundwatch report is meant to be a review of the weekly EIA inventory report, the weekly Commitment of Traders report, and ESAI's weekly technical analysis. Fundwatch reports are based on ESAI's theory that short-term natural gas prices are affected by trading decisions of large financial entities, including investment banks and hedge funds. ESAI does not endorse any particular trading strategy. The conclusions of this report are based on our judgment and are subject to change without notice. This information is copyrighted and may not be redistributed without the written consent of ESAI.

For more information contact ESAI at ckostas@esai.com or phone (781) 245-2036.

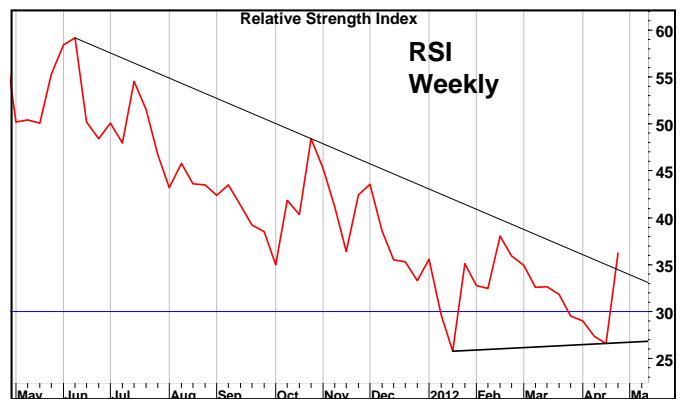
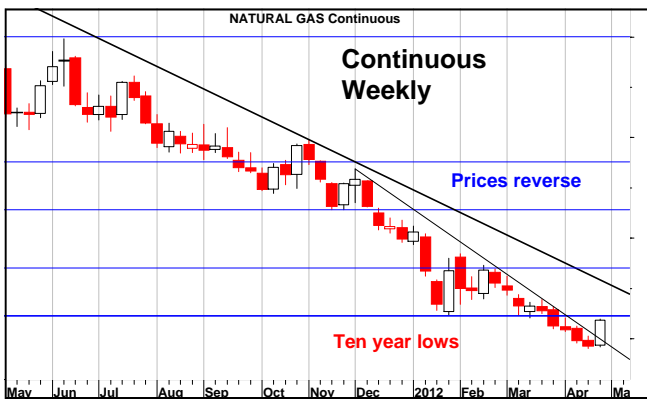
Energy Security Analysis, Inc. 401 Edgewater Place, Suite 640 Wakefield, MA 01880

We are reiterating our cautiously bullish outlook issued last week. Wednesday's sharp sell-off and mid-day weakness on Friday indicate strong resistance in the \$2.40 to \$2.50/MMBtu range. Both short-term and long-term technical indicators have turned bullish, however, suggesting the support at \$2.00/MMBtu is significant. While a retest of the recent 10-year lows etched in late-April is possible, we believe the probabilities are very low that prices will trade below \$2.00/MMBtu this summer. Temporary weakness in autumn remains possible, however. We believe that a congestion phase is likely as the market digests the recent 3-week 25% price surge. Sideways, choppy, volatile trade is likely as psychology begins to shift and uncertainty increases. The cash market, which was leading futures prices lower this spring now appears to be following the futures market higher. With this in mind we see it as unlikely that the June contract will be able to run through resistance at the \$2.50/MMBtu level without the commensurate strength in the cash market. The weekly RSI has flashed a very bullish divergent double bottom and weekly momentum (MACD) has turned positive.

SCORE: +0.50

WEIGHTING: 0.20

Bearish     
  Moderately Bearish     
  Neutral     
  Moderately Bullish     
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**Physical  
Market**

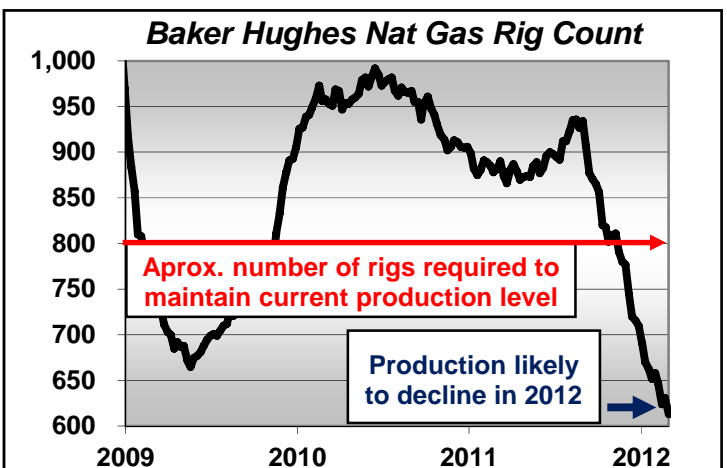
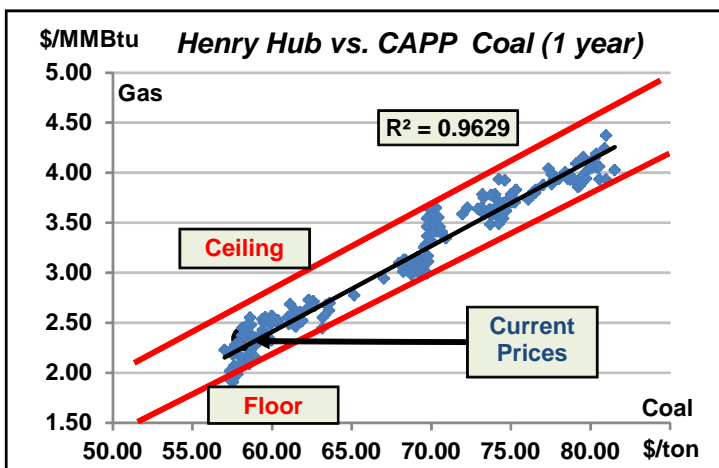
ESAI is forecasting a 48 Bcf injection in next week's inventory report. The most recent monthly EIA marketed production report indicated that February production was off by about 0.4 Bcf/day (or about 0.6%). While some of this reduction was likely due to companies like Chesapeake (who on Jan 23 announced production cutbacks related to the low gas price environment), we believe a transient shift towards lower production is likely to take hold of the gas market this year as the market tries to rebalance itself after the extraordinarily mild winter (and extraordinarily high end-of-withdrawal season inventories). We estimate that injection demand will decrease by 25 to 28 Bcf/week on average (or about 4.0 Bcf/day). While this magnitude of a fall in production would normally be very unlikely, the collapse in natural gas drilling over the past six months has been extremely pronounced (see below, right). Baker Hughes weekly rig report (dated May 4) indicates only 613 natural gas rigs were operating (down 28 rigs from last week). This represents a 10-year low in gas directed rigs, and will undoubtedly have an effect on production, prices, and psychology as participants speculate on the gas price necessary to spark renewed drilling investment. We believe that natural gas production will begin to accelerate to the downside as the year progresses and support prices. Spot coal prices have begun to stabilize.

**+48 Bcf Injection - Consuming East: +32 Bcf Consuming West: +4 Bcf Producing Region: +12 Bcf**

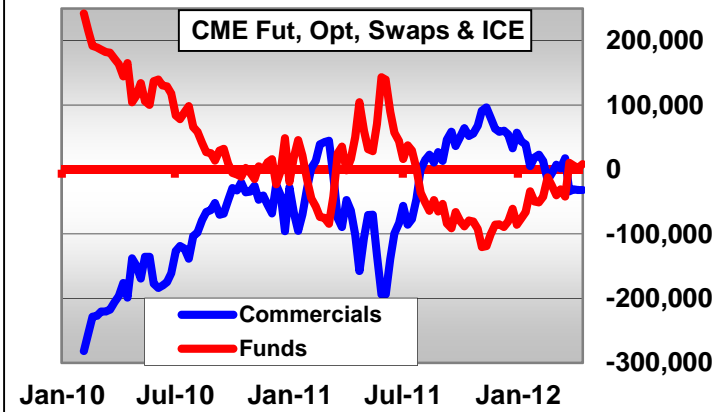
SCORE: 0.50

WEIGHTING: 0.40

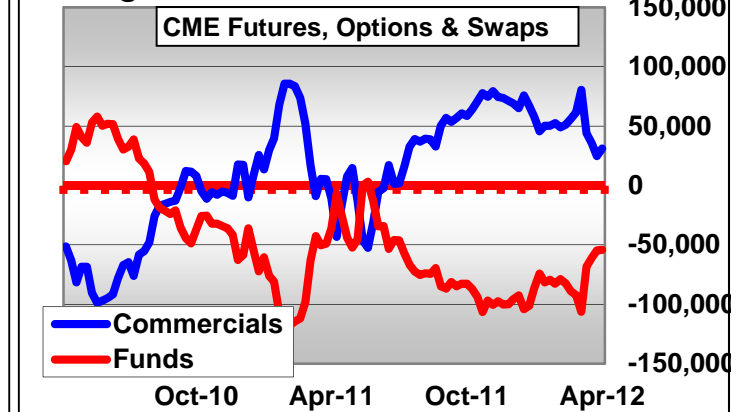
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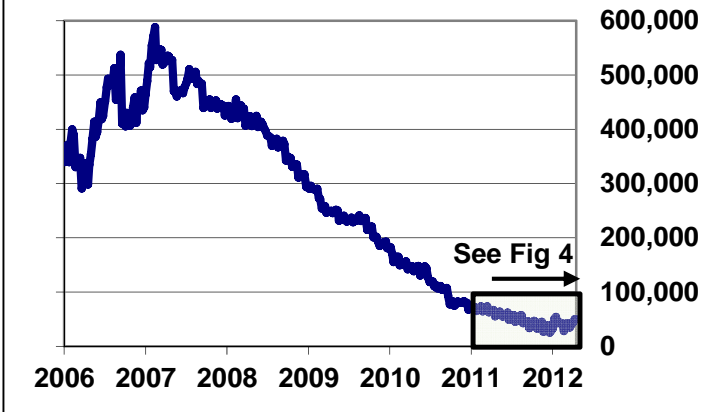
**Fig 1-Funds & Commercials Net-Pos**



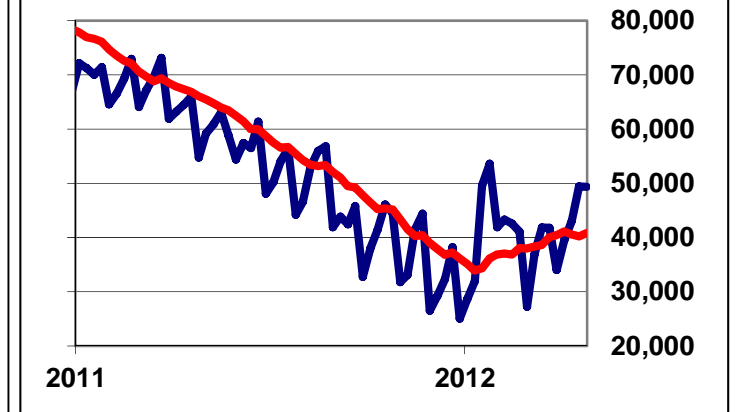
**Fig 2 - Fund & Commercial Net-Pos**



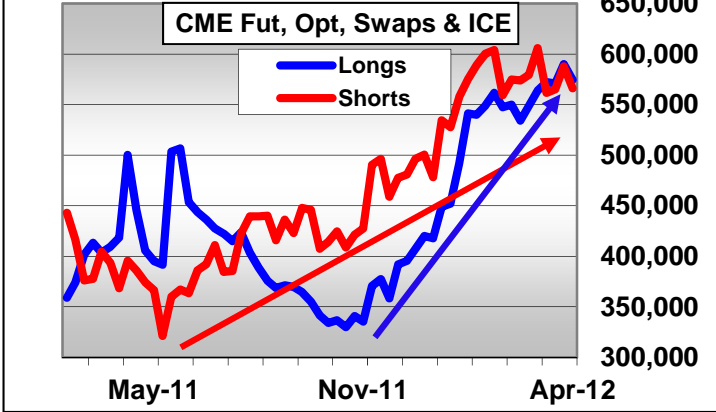
**Fig 3 - CME Delta Adj Option Interest**



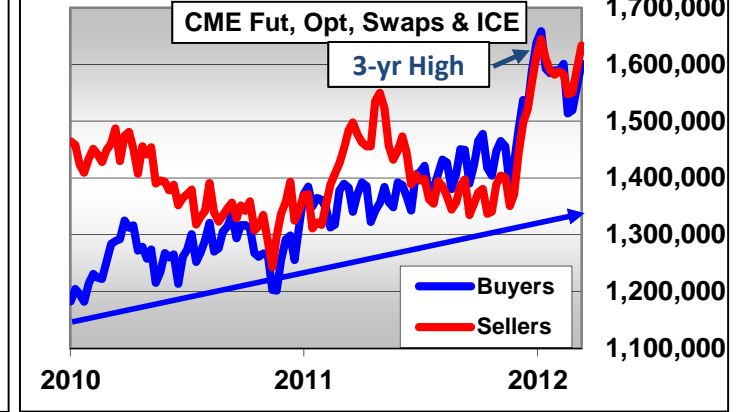
**Fig 4 - CME Delta Adj Option Interest**



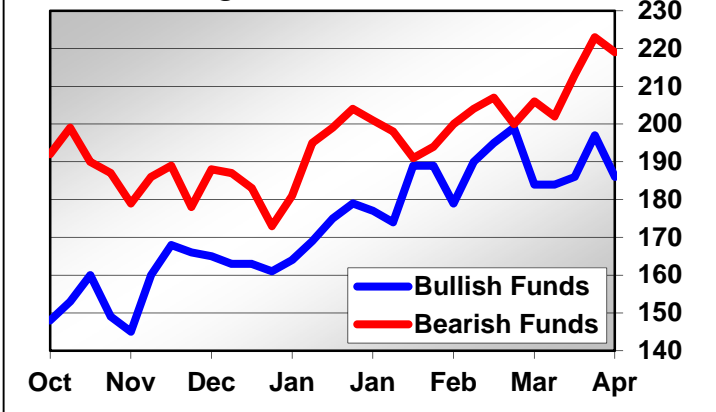
**Fig 5 - Non-Commercial Positions**



**Fig 6 - Commercial Positions**



**Fig 7 - Fund Consensus**



**Fig 8 - Total Open Interest**

