



Nat Gas FUNDWATCH

THE WEEK AHEAD

ESAI

October 27, 2009
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Summary of Natural Gas Market: One Week Outlook and Key Factors

Natural Gas Outlook: Moderately Bearish -0.50

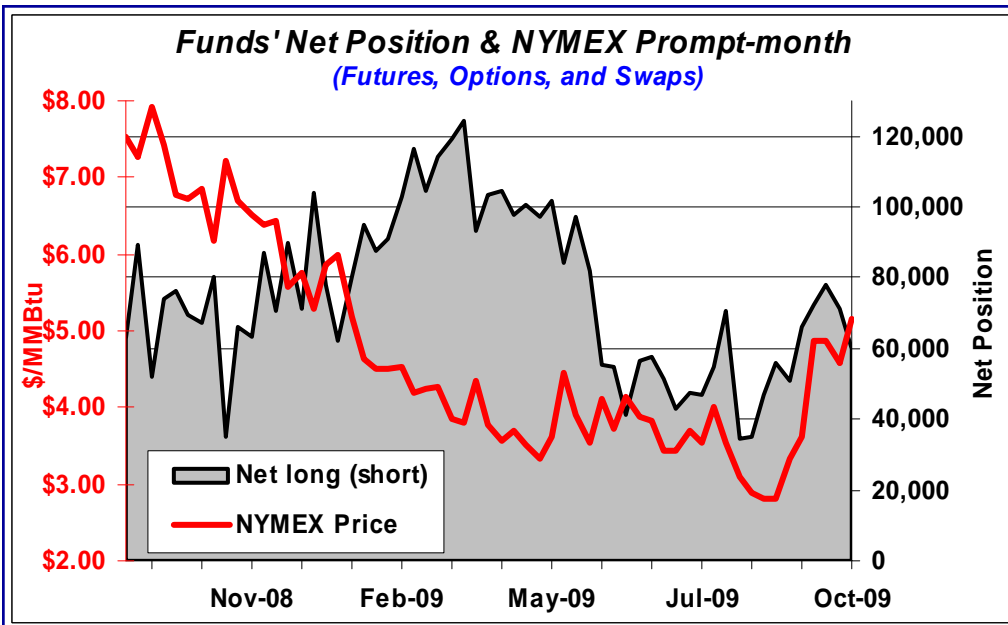
Funds: Market composition continues to meander with no discernable pattern emerging suggesting no changes in market psychology over the short-term. Commercials and Non-commercials alike haven't modified their positions very much over the past six months, suggesting the current trading range will remain in place into November. **Technicals:** Technicals have turned bearish. Although the downside is somewhat limited, a bearish reversal has occurred at the top of the longstanding trading range. Prices are now likely to trade down to the first support level (\$5.00/MMBtu; basis December), and follow-through selling sending prices as low as \$4.50/MMBtu is possible. **Storage:** ESAI is forecasting 29 Bcf injection in this week's EIA report.

Paper Market

Market composition continues to meander with no discernable pattern emerging suggesting no changes in market psychology over the short-term. Commercials and Non-commercials alike haven't modified their positions very much over the past six months, suggesting the current trading range will remain in place into November. It is interesting to note that despite the changing seasons and the end of the yearly gas cycle, that no major change in market composition has begun. Commercials and non-commercials in fact, haven't shifted their aggregate positions very much over the past twelve months (chart 1, page 3). A long broad shift may have begun last winter — when non-commercial net-length peaked out around 120,000 contracts and commercials were net-short about 160,000 contracts (basis futures, options and swaps). Individual markets (futures and swaps) have seen larger shifts, but we're reluctant to translate the over-arching sideways activity into pricing pressure.

SCORE: +0.00 WEIGHTING: 0.40

Bearish
 Moderately Bearish
 Neutral
 Moderately Bullish
 Bullish



Commitment of Traders Nat Gas Summary (as of October 20, 2009)		
	Net Long (Short)	Net Change
Non-Commercial	59,671	-11,544
Commercial	(107,283)	+7,839
Small-traders	47,612	+3,705

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. Fundwatch reports are based on ESAI's theory that short-term oil and natural gas prices are heavily affected by trading decisions of large financial entities, including investment banks and hedge funds. ESAI publishes two *Energy Fundwatch* reports, one for oil and one for natural gas.

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.

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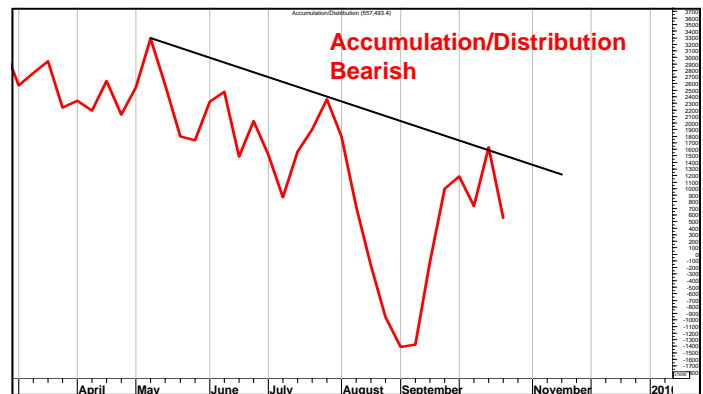
Market Technicals

Technical analysis has turned bearish. Although the downside is somewhat limited, a bearish reversal has occurred at the top of the longstanding trading range. Prices are now likely to trade down to the first support level (\$5.00/MMBtu; basis December), and follow-through selling sending prices as low as \$4.50/MMBtu is possible. We forecast last week that the December contract would meet significant resistance at \$6.00/MMBtu. Last week's failure to hold near this level, combined with a number of technical indicators suggests prices are likely to continue lower over the coming weeks. A Three Crows candlestick pattern on the daily chart corresponding with this resistance level is bearish. Weekly and daily Acc/Dist indicators are also bearish, as is the daily MACD and RSI indicators. Relatively strong support exists at \$5.00/MMBtu, however, and support at \$4.50 should be rock solid limiting the downside after Monday's sell-off.

SCORE: -1.00

WEIGHTING: 0.40

Bearish
 Moderately Bearish
 Neutral
 Moderately Bullish
 Bullish



Physical Market

ESAI is forecasting a 29 Bcf injection for week ending October 23rd. Despite the relatively low build reported last week, and the nominal injection expected to be reported this Thursday, next week's injection report will likely push total inventories over 3,800 Bcf. In addition, relatively mild weather during the first and second weeks of November could extend the injection season well into November this year. In this week's inventory report, supplies remain very strong; we continue to expect final inventories in the mid-3,800 Bcf area. Nuclear outages are currently 27 GW, this is 5,000 MW higher than the 5-year average for this week. This translates into almost a 1 Bcf/day increase in natural gas demand (over the 5-year average) due to nuclear outages — and has been responsible for some of the recent price strength. This week weather is expected to become much more mild throughout the country, reducing heating demand. REX is running a little behind, and is now expected to be completed in mid-November.

29 Bcf Injection - Consuming East: +19 Bcf Consuming West: +1 Bcf Producing Region: +9 Bcf

SCORE: -0.50

WEIGHTING: 0.20

Bearish
 Moderately Bearish
 Neutral
 Moderately Bullish
 Bullish

