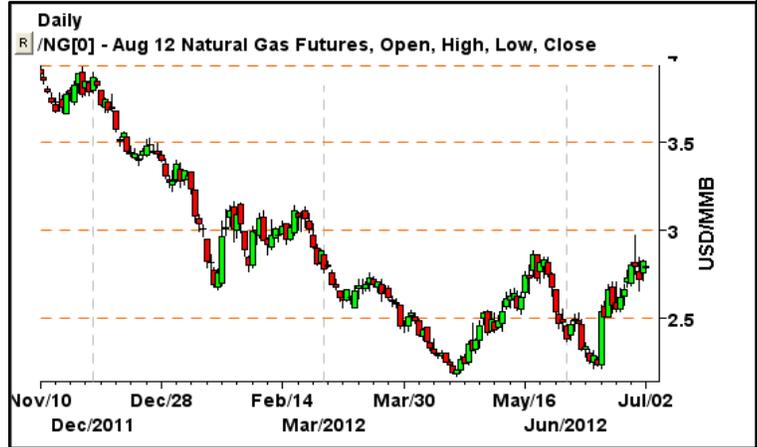


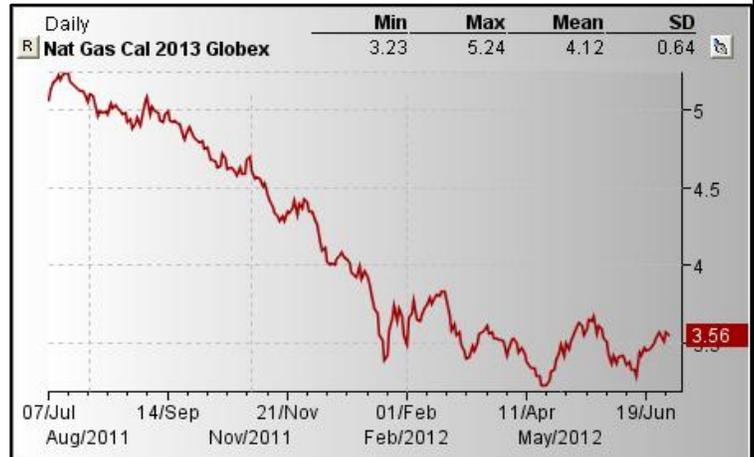


Overview

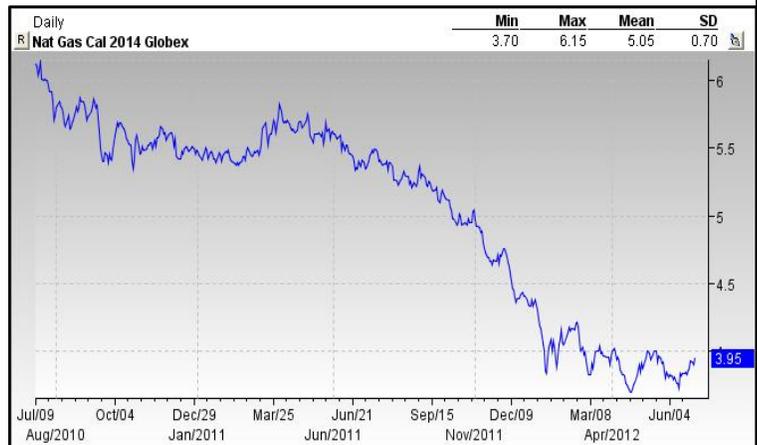
On Friday 6/29/2012, the August 2012 NYMEX NG contract settled at \$2.82/MMBtu, \$.16/MMBtu higher than on 6/22/2012.



CAL2013 closed \$0.07/MMBtu higher than on 6/22/2012.



CAL 2014 closed \$0.09/MMBtu higher than on 6/22/2012.





Closing Thoughts

**NATURAL GAS** – On 6/28/12, EIA reported an injection of 57Bcf, which was higher than analysts' estimates, but well below historic levels. The injection for the week that ended on 6/22/12 narrowed the inventory surplus compared with last year and the five year average.

Below you will find NYMEX NG's August-2012 price daily chart. Even though weather has been a major driver in the recent rally, hedging strategies should incorporate technical indicators to set targets. The chart below shows very choppy trading around \$2.80/MMBtu, but Wednesday's 6/27/12 shooting star (red circle below), where the front month pulled back right after hitting \$2.98/MMBtu is a bearish indicator.

In light of such a resistance level, we are showing a channel where we expect the August-2012 contract will trade; however, if we do break through \$3.00/MMBtu, the next resistance level would be \$3.16/MMBtu. Our outlook would be bullish on the breakout, but we do believe that \$3.00 will be resistive.



Consistent with previous reports the table below shows factors that affect supply and demand:

Supply	Direction	Trend
EIA reported that natural gas production in the 48 lower states increased .8%, to 72.48cf/day from March-2012 to April-2012.	Increase	Bearish
Working natural gas in storage stood at 3,063Bcf as of Friday, 6/29/12.	Decrease	Bullish
Inventories stand at 75% full, with producing-region stocks at 84% of capacity.	Increase	Bearish
Baker Hughes data on Friday 6/29/2012 reported that the gas-directed rig count dropped by 7 to 543 a thirteen year record low.	Decrease	Bullish
Approximately 2Bcf/day of production in Colorado shut in, due to fires.	Decrease	Bullish



Demand	Direction	Trend
Above normal temperatures expected to drive up cooling demand.	Increase	<b>Bullish</b>
Manufacturing shrinks for first time in nearly 3 years.	Decrease	<b>Bearish</b>
Natural gas inventories stand at 75% full, with producing-region stocks at 84% of capacity.	Increase	<b>Bearish</b>
With sustained prices above \$2.75/MMBtu, economics favor burning coal to generate electricity.	Decrease	<b>Bearish</b>

In short, natural gas has been volatile during the past two months, and such volatility can be explained by the tightening between supply and demand. We do expect that injections will continue to underperform due to high cooling demand and signs that producers continue to cut production. The question to consider is if the above normal temperatures will be enough to trim record inventories to avoid a premature filling of storage caverns. We continue to favor the buy the dip strategy; however, we also recommend having short term stop loss targets to protect against adverse price movements.

**ERCOT Heat Rates-** August 2012 and forward summer heat rates (July & August) rose not only because of the record temperatures reached in June, but also because of the \$4,500/MWh system wide offer cap approval. Nevertheless, forward fixed prices are very attractive compared to historic levels.

**Contact:** *Your Acclaim representative to discuss how to take advantage of current price shifts.*

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