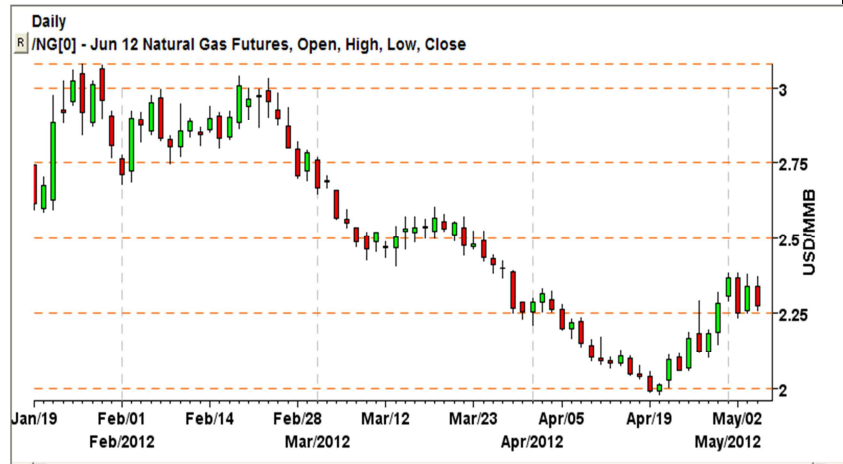


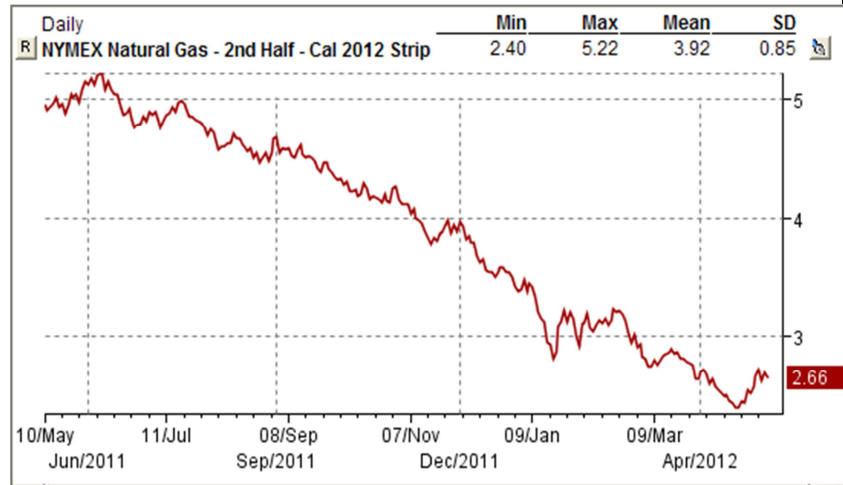


**Overview**

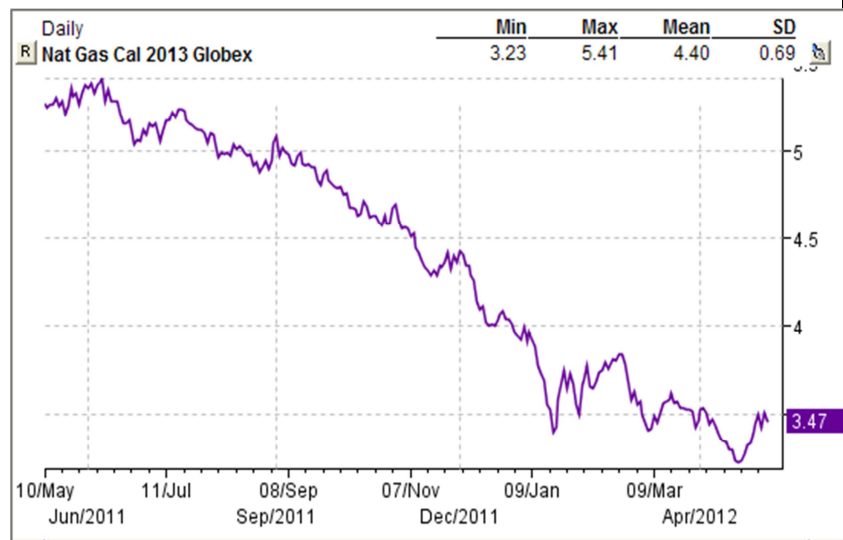
- On Friday 5/4/2012, the June 2012 NYMEX natural gas price settled at \$2.279/MMBtu, \$.093MMBtu higher than on 4/27/2012's.



- 2nd half (July - December) CAL 2012 closed \$0.12/MMBtu higher.



- CAL 2013 closed \$0.12/MMBtu higher.





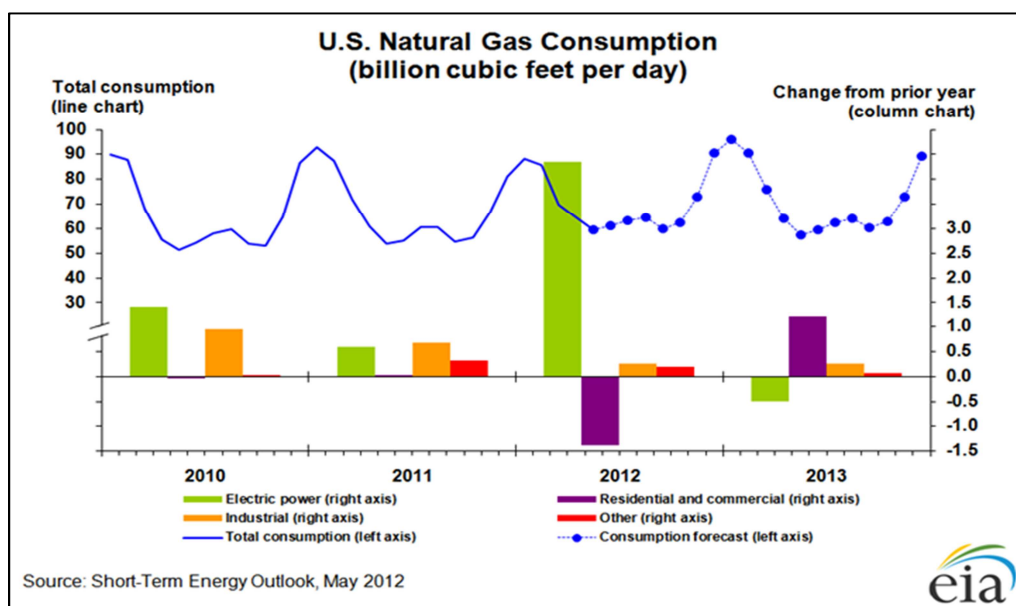
## Closing Thoughts

**NATURAL GAS** – During the past couple of weeks there has been a change in market sentiment. What started as a technical short covering rally has continued as market fundamentals are suggesting that the natural gas market is tightening. Therefore we have changed our outlook from neutral with a bearish bias to neutral with a bullish bias.

Below you will find Bearish and Bullish indicators with the latest available data:

### Bullish factors:

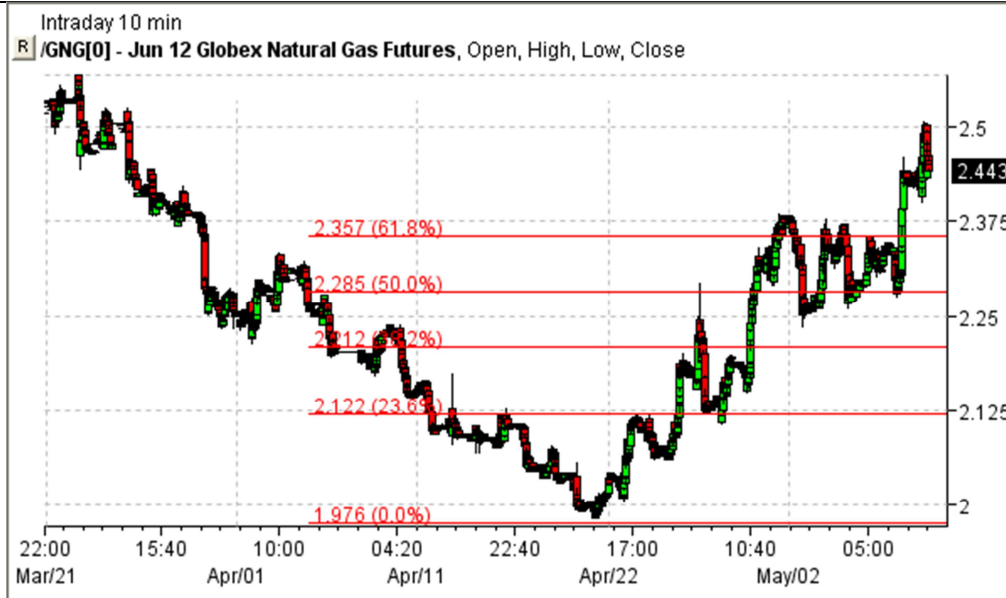
- EIA published its Short-Term Energy Outlook (STEO) which reported that natural gas consumption will average 70.2Bcf/d in 2012, an increase of 3.4Bcf/d (5.1%) from 2011, an upward revision of 0.6Bcf/d from last month.
- Projected consumption of natural gas in the electric power sectors grew by almost 21% in 2012. This is driven by coal to gas switching in some regions.
- Injections into storage have been underperforming compared to historical levels.
- Department of Energy Data shows an increase of approximately 5Bcf/d of natural gas demand from coal to gas switching.
- U.S. gas rig count was 606 on 5/4/2012. This is down 35% from its peak in OCT-2011.
- EIA weekly domestic dry gas production is down 0.14% W/W and 5.19Y/Y.
- Large noncommercial traders cut their net short position in natural-gas futures on the New York Mercantile Exchange.
- Technical indicators show that the JUN-2012 contract is trading above the 50-day moving average (\$2.35/MMBtu).
- After EIA's STEO release, the JUN-2012 contract broke the previous 6 days tight consolidation trading range.



### Bearish Factors:

- Current Storage level 2.576 Tcf. 48.4% above last year and 49.9% above the 5-year average.
- OCT-2012 estimate is 4.0Tcf.
- Technical indicators show that the JUN-2012 contract is oversold and is close to the following resistance levels: R1-\$2.50/MMBtu, R2-\$2.60/MMBtu.
- Short term weather outlook is not conducive for significant demand of natural gas.

Below you will find a 10 minute chart that shows the JUN-2012 contract, so you can see the price action during the past 65 trading sessions. Traders used to sell into strength, so rallies had been limited; however, such strategy has now changed to buy the dips instead.



**ERCOT Heat Rates-** Heat Rates were weaker last week.

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