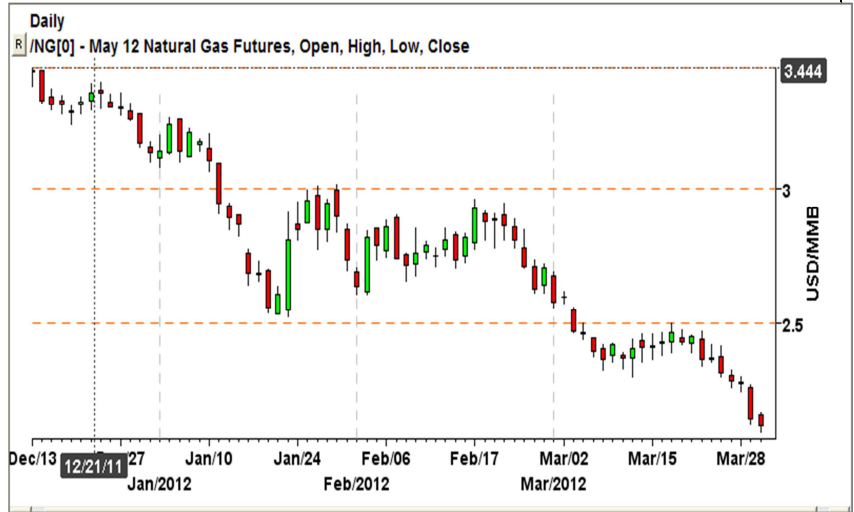


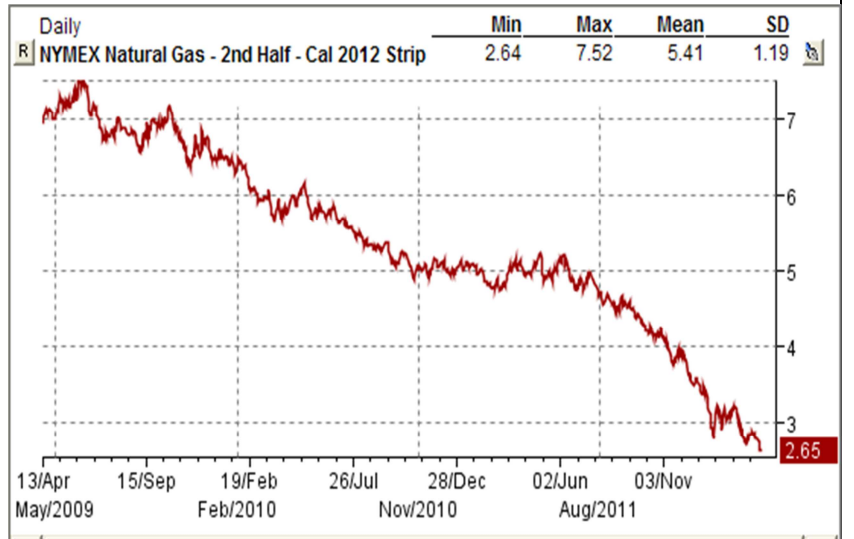


**Overview**

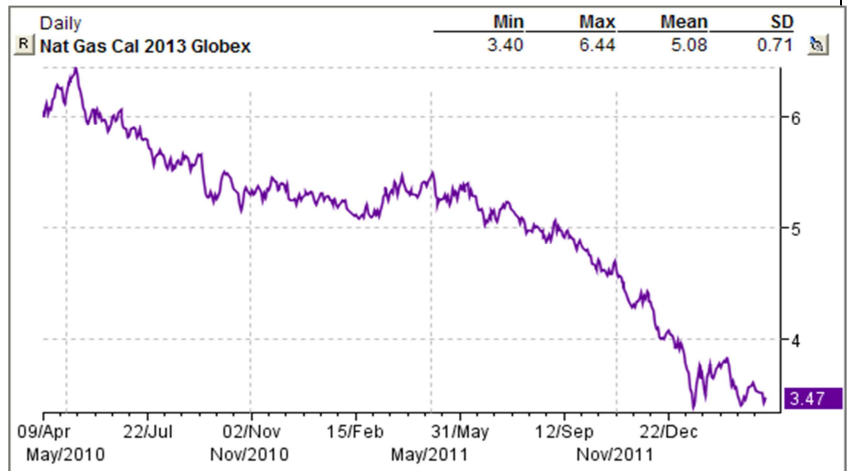
- May 2012 NYMEX natural gas price settled at \$2.13/MMBtu, \$.25/MMBtu lower from Friday 03/16/12 to Friday 03/30/12.



- 2nd half (July - December) CAL 2012 closed \$0.17/MMBtu lower.



- CAL 2013 closed \$0.07/MMBtu lower.





## Closing Thoughts

**NATURAL GAS** – After a 10.4% drop for the week ending on 3/30/2012, the May 2012 contract opened higher this week sparked by short covering driven by technical indicators. Nevertheless, there are still big concerns in the market due to the massive supply conditions that presently exist. Storage is currently at 60% capacity, which is a historic record for this time of the year. There is enough gas in storage to supply all the country's needs for more than a month and we expect that storage facilities across the U.S. will be pushed close to capacity by the end of September.

### Supply

- Currently the number of rigs drilling for natural gas stands at 658. Crossing the 600 threshold would indicate a serious cut in dry gas production.
- The number of rigs drilling for oil reached a 25-year high this week after five more rigs came online, bringing the total count to 1,318.
- Despite the lower count of rigs drilling for natural gas, production hasn't fallen significantly. That is because about one third of U.S. gas output comes from fields that primarily produce crude oil.
- EIA Reported that in January, the lower 48 States NG production rose 0.36BCF to 78.85BCF/day or 0.5 percent. Production rose despite production cuts from large natural gas producers: Chesapeake, ConocoPhillips, Encana Corp.

### Demand

- We are entering the shoulder months where there is low heating and low cooling demand.
- During the shoulder months we expect coal to gas switching from utilities. Likewise, shoulder season is typically when base load generation (nuclear and coal) schedule their planned outages, so gas fired facilities will fill in the gap.
- Industrial demand has risen, but its effect on total natural gas demand is marginal.

In short, we believe that natural gas stockpiles will continue to rise since the supply surplus will most likely continue through the summer months. Therefore, prices spikes will provide market participants opportunities to sell, so we believe that we will continue the bearish trend and will test again 10-year lows soon.

The Henry Hub spot physical gas price already broke the \$2.00/MMBtu mark. The trading range during 4/3/12 session was \$1.87-\$2.10/MMBtu.

**ERCOT HEAT RATES** – In the second half of last week we saw some relief on forward heat rates; however, summer heat rates continue to be volatile. If you are in the market for heat rates and share our bearish view on natural gas, contact your Acclaim representative to discuss buying opportunities for the term that best fits your planning horizon.

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