NYMEX NATURAL GAS- A HISTORY OF BEAR TRENDS

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In the film noir "The Big Heat", Debby March stresses: "The main thing is to have the money. I've been rich and I've been poor. Believe me, rich is better." (Fritz Lang, director)

CONCLUSION

What does historical analysis of noteworthy United States natural gas bear marketplace moves reveal (NYMEX nearest futures continuation basis)? It generally confirms the conclusion that "the long run bear trend probably ended with the 1/23/12 low around 223" (see "US Natural Gas- There Has Been and Will Be Blood"; 1/31/12). In addition, that review also indicates a significant possibility that NYMEX natural gas will reach a second low distant in time from but close in price level to the January 2012 bottom. The most likely time for this "double bottom" is late August/calendar September 2012.

BEAR MOVES

Marketplace history is never marketplace destiny. Over two decades of NYMEX natural gas history is substantial, yet it is not an extremely long period. Compare US stock marketplace benchmarks such as the Dow Jones Industrial Average or the S+P 500. In addition, definitions and identifications of bull, bear, and sideways marketplaces and their alleged trends reflect opinions. Designation of particular start and end dates for apparently notable moves likewise reflect personal outlooks.

Also, interpretation of natural gas can focus on more than the nearest futures continuation contract. One may choose to peer at individual actual contract months (as in the April 2012 futures contract), several trading months of a season (as in summer 2012), calendar years (as for the calendar 2013 strip of contracts), spreads (such as NYMEX March 2013/April 2013), and regional (basis) relationships. Insight into natural gas marketplaces and their bull and bear trends can derive from analyzing electricity, coal, other marketplaces, and assorted additional economic and political phenomena as well. In natural gas as in other arenas, supply/demand investigation can intertwine with so-called technical analysis.

Here follows one perspective on natural gas bear moves.

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NYMEX NATURAL GAS (NEAREST FUTURES): BIG BEAR MOVES, 1996 TO PRESENT

High; Date	Low; Date	Decline (Percent)	Duration (Months)
1. 460; 12/20/96	168; 2/24/97	63.5pc	Two
2. 385; 10/28/97	161; 8/27/98	58.2	Ten
3. 1010; 12/27/00	176; 9/26/01	82.6	Nine
4. 1190; 2/25/03	439; 9/22/03	63.1	Seven
5. 1578; 12/13/05	405; 9/27/06	74.3	Nine and two weeks
6. 1369.4; 7/2/08	240.9; 9/4/09	82.4	Fourteen

The average distance traveled via these six bear moves is 70.7 percent. The average duration is about eight and one-half months.

Looking back prior to the December 1996 high does not significantly alter this table's price and time portrayal. The 53.4 percent decline from the 372 plateau on 12/21/95 to the 173.5 valley on 9/5/96 lasted about nine and a half months. The 60.0pc drop from 11/26/90 at 265 to 6/25/91 at 106 spent seven months. The 52.3pc fall from 11/5/91 at 214 to 1/24/92 at 102 took two and a half months.

When did the bear tumble from 611 on 1/7/10 "really end"? The slide to 10/27/10's 321 bottom, at 9.5 months, was long enough in time relative to those in the table (and those before 1996). It indeed was a big fall.

However, the evidence on balance indicates the bear move that commenced on 1/7/10 kept on going into the winter of 2011-12. First, the erosion to 321 was only 47.5pc. This was less than the other big bear moves. In addition, the rally to 6/9/11's 498 high from 321 was only 55.1pc- a substantial advance, but much less than other natural gas bull climbs. For example, the rally from around 241 on 9/4/09 to the 611 summit on 1/7/10 dwarfs it in percentage terms. Also, prices not only kept going down after June 2011, but also achieving new lows under the 9/4/09 trough.

If you extend the bear trend starting on 1/7/10 at 611 to 223.1, the 1/23/12 low (or any bottom around that price that may appear soon thereafter, as in the waning days of calendar February 2012), the percentage collapse is around 63.5pc. This in line with moves 1, 2, and 4 in the table above. Admittedly, a murderous two year bear decline is much longer than those described above. However, diagonal time moves over extended periods, when reviewed alongside price variables, help to reveal trend changes. Thus, though more time will have to pass to underline (or disprove) this, the venture from the January 2010 peak to its recent January 2012 low is a diagonal time move.

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Suppose someone embraces the view that the bear move beginning in January 2010 ended in October 2010. Assume they date the new bear marketplace trend from 6/9/11's 498 top. Admittedly other bear crashes have been bloodier. Yet the precipitous fall of 55.2 pc to the 1/23/12 level at 223.1 is in line with the shorter moves in the table above (as in the 1997-98 one) and the pre-December 1996 down trends. In addition, the substantial descent from 6/9/11 to 1/23/12 took seven and a half months. This bear time duration is close to the eight and a half month average of the six moves in the table above (and the seven month, three weeks average if one also includes the three moves prior to the December 1996 bear one).

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Regardless of whether one dates the beginning of a major bear trend in natural gas with the 1/7/10 pinnacle at 611 or the 6/9/11 peak at 498, the bottom line remains the same. Historical analysis shows that natural gas (NYMEX nearest futures continuation) fell "far enough" in distance and "long enough" in time, so a significant natural gas bottom probably was made in January 2012.

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History reveals a number of important marketplace trend changes commenced in calendar January. This calendar timing consideration is consistent with the perspective that a major low in NYMEX natural gas (nearest futures continuation) probably occurred in January 2012. For example, calendar January bottoms include the major (and all-time) low on 1/24/92 (102), the major low on 1/13/95 (125), and the final key low of 1/28/02 (at 185; an initial bottom on 9/26/01 at 176 preceded this). Note also an interim low on 1/15/00 (213; see the earlier interim low at 208

on 11/24/99). The average date for these four calendar January lows is January 20, around the time of the 1/23/12 low at 223. Many major marketplace turns occur fairly close to nearest future's expiration. The January 2012 price low was close to the February 2012 contract's expiration.

As for notable highs in addition to the 1/7/10 one at 611, the interim peak on 1/9/04 at 763 appears significant.

Calendar February has had very important natural gas futures peaks and valleys. Recall February troughs on 2/24/97 (at 168) and 2/26/99 (163). Natural gas attained peaks on 2/2/94 (269) and 2/25/03 (1190). Calendar March to date has no significant lows or highs.

In the marketplace timing context, one should monitor physical battlegrounds as well as exchange-traded ones. It is conceivable, even if unlikely, that new lows in natural gas physical marketplaces will occur in the waning days of calendar February 2012 (or even very early calendar March, despite the absence of notable highs and lows in calendar March for nearest futures history to date). However, the substantial time and price move already in place via the January 2012 low indicates that such a break under January 2012's 223 level probably would be minor.

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Anyway, suppose that January 2012's low at 223 represents a very important bottom. Isn't there nevertheless a massive amount of natural gas around now? Yes. Won't it probably take some time to significantly reduce this oversupply? Yes.

On 2/17/12, US natural gas working gas stocks were 2595bcf, soaring 40.9 pc from 1842bcf one year ago (2/17/11). This massive year-on-year increase is nationwide. The producing region inventory on 2/17/12 was 993bcf, skyrocketing 44.1pc year-on-year. That in the East region was 1232bcf, spiking 38.7pc year-on-year. West region supplies of 370bcf rose 39.6pc versus the prior year week.

Another viewpoint underscores the current massive natural gas inventories. The EIA's Short-Term Energy Outlook ("STEO", 2/7/11; Table 5a) forecasts end March 2012 working gas inventory of 2066bcf. This dwarfs the average end March arithmetic average of about 1290bcf (1990-present). More importantly, 2066bcf will equal 30.9 days coverage (2066bcf divided by calendar year 2011's 66.9bcf/day average daily consumption). This end March 2012 days coverage is very bearish. It soars 9.4 days above the 21.5 average days coverage for end March. It significantly exceeds 2005's (2005-06 winter season) days coverage peak for end March of 28.1 days (though it falls beneath 1990's ancient history of 36.4 days).

The continuation of this year's warmer than normal winter perhaps boosted inventories beyond the EIA's February 2012 STEO expectation. Many gas gurus predict end March 2012 stocks of 2100bcf or higher. At 2100bcf, there will be 31.4 days coverage. The EIA releases its March STEO 3/6/12. The February STEO predicts US calendar 2012 consumption will rise to about 68.5bcf/day. Even if one selects calendar 2012 demand as the denominator to ascertain days coverage, 2100bcf divided by 68.5bcf/day is about 30.7 days coverage- still very high.

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Maybe prices will continue to steadily, even if slowly, climb from the winter 2012 low. However, given this natural gas oversupply, there also is a substantial chance that a second, much later calendar month bottom will occur in NYMEX natural gas (nearest futures continuation). The

most likely time for the second part of this "double bottom" to occur is in late August or calendar September 2012. NYMEX natural gas history displays several double bottoms. In addition, late August/calendar September reveals numerous important lows.

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Six very important natural gas bottoms emerged in late August and calendar September. Recall 8/27/98 at 161, 9/26/01 at 176, 9/22/03 at 439, 9/16/04 (final depth) at 452, 9/27/06 at 405, and 9/4/09 at 241. The Big Bear Moves table above lists five of these six; the 9/16/04 valley at 452 belongs in the following table. With the exception of a top almost 20 years ago (9/23/92 at 279), notable highs have not occurred in this calendar period window.

As a footnote, recollect that 2010's initial low at 361 on 8/27/10 developed within this late August/calendar September time horizon. And although the following low at 321 was later (10/27/10), the average of these August and October 2010 lows gives late September 2010.

NOTABLE NATURAL GAS DOUBLE BOTTOMS (NYMEX NEAREST FUTURES)

Initial Low; Date	Final Low; Date	Price Difference Between Lows (Percent)	Time Between Lows (Months)
A. 106; 6/25/91	102; 1/24/92	3.8	Seven
B. 173.5; 9/5/96	168; 2/24/97	3.2	Five and a half
C. 161; 8/27/98	162.5; 2/26/99	.9	Six
D. 176; 9/26/01	185; 1/28/02	5.1	Four
E. 439; 9/22/03	452; 9/16/04	3.0	One year

In this natural gas double bottom pattern, the average price difference between two lows is 3.2pc. The average time between the two lows is about seven months.

A double bottom formed by linking a January 2012 bottom with a late August or September 2012 low, would run around seven or eight months, around an average length and falling within the overall range of these historic double bottoms.

Suppose that after a noteworthy rally from its first quarter 2012 low, the natural gas price begins to head lower. How close to around 223 should prices retreat in order to conjecture that a double bottom formation is developing? Though one should not be dogmatic, the preceding table's widest range is just over five percent. The January 2012 low times .95 gives 212; a five percent rally from 223 equals 234.

Should one label the 9/4/09 low at 240.9 alongside the 1/23/12 low (or any later low) as a double bottom? Probably not. First, the percentage price difference between these is about 7.4pc. This is greater than all five of those in the Double Bottoms table. Moreover, the time difference between the September 2009 and January 2012 troughs stretches beyond two years- more than double the longest double bottom in the table above. Finally, the bull charge from the 9/4/09 depth to its 1/7/10 summit was a significant move. The 9/4/09 and 1/23/12 lows should be viewed as "independent". They belong to two separate moves, the first of which ended 1/7/10 at 611.

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Natural gas prices probably will oscillate within a broad range for quite some time. Much depends on the long list of supply/demand factors, including whether recently announced US natural gas production cuts are sufficiently extensive and sustained. Issues of weather (summer heat, hurricanes) fuel switching into natural gas, economic growth, rig counts, regulatory issues,

oil price levels, long run gas export potential, and alternative “investment” in commodities will keep influencing natural gas trends. Within that wide range, price leaps and dives occasionally will be violent.

Support (NYMEX nearest futures continuation) is at 200 (about a 10 percent break of 223; 204 is twice the all-time low)/212 (a five percent break of 223)/225. Where is resistance? Monitor 320/335, then 360/370 and 405/415. Above that stands 460 and 500/520.