

Market Update: 10/7/2018

Technicals: Natural gas continued its march higher last week making a high of \$3.261 before a bearish storage report halted the rally with price closing the week at \$3.143. Stochastic's remains in overbought territory, but has turned lower with a small divergence indicating we may see selling in the coming days. However, MACD is firmly above zero and trending higher indicating the bulls remain in control. The price objective of the breakout is \$3.34 (\$3.00-\$2.66+\$3.00). With MACD above zero and balances remaining tight, the odds favor continued strength and a test of \$3.34 sometime in the coming weeks. A close below \$3.00 will negate the breakout indicating the bears are back in control.

Fundamentals: Last week's EIA natural gas storage number came in bearish - higher than market expectations, and the 5-year average, taking the sting out of the rally. That said, natural gas in storage currently stands at 2,866 Bcf or 17.5% below the 5-year average. Long-term balances remain tight - bullish. Looking at NOAA's 8-14 Day Temperature forecast we see a big flip with the west shifting from below to above normal temps, and the east shifting from above to mostly normal temps. Moving forward, traders will be looking at winter forecasts to determine the markets next direction. Below normal, and even normal temps may allow for prices to test \$3.34. Above normal and price may fall below \$3.00. For now, it's safe to say price will be supported due to long-term tight balances. Traders will also be keeping an eye on Tropical Storm Michael, which is scheduled to enter the Gulf of Mexico Tuesday as a Cat 2. Current forecasts have Michael hitting land around the Florida panhandle on Thursday. My thought is unless it stalls, strengthens, and drifts west, it won't have much effect on price.

Final Thoughts: For those with electricity and nat gas contract expiration dates in the next 6 months, you should consider renewing sooner than later. At the very least consider obtaining pricing to set a benchmark and/or protect savings. The thought here is with natural gas storage levels significantly below the 5-year average, downside price risk should be limited. Heating demand is around the corner and there is a lot of ground to make up. The story has not changed. Balances remain tight.

