

Market Update: 11/18/2018

Technicals: Natural gas is on a wild ride. Last week we talked about the possibility of price strength early in the week due to short covering and margin calls. That turned out to be an understatement as natty rallied from \$3.719 on Nov 9th, to a high of \$4.929 on Nov 14th. A move of \$1.21, or 33%, before settling at \$4.272 on Friday, Nov 16th. Until we see daily price swings settle down, this market is untradeable. Stochastics is moving lower but looks to be finding support at ~60. MACD remains above zero and continues to trend higher indicating the bulls are in control. With storage levels still dangerously low, cold temps could possibly send this market to \$5.50. It's not a number I would bet on, but it wouldn't surprise me either. It's important to note the price rally is mainly in the winter months (Dec, Jan, Feb, Mar). The April 2019 contract settled last Friday at \$2.793, \$1.479 lower than the December spot month. That's a huge spread, and in my opinion, unsustainable.

Fundamentals: Last week's EIA natural gas storage number came in slightly bearish to expectations, which helped to halt the rally. But with natural gas storage levels 15.6% below the 5-year average the market is still vulnerable to cold weather. There's lots of winter left. Another cold blast in Dec and Jan will continue to support price. Let's hope Mother Nature decides to bless us with a long stretch of warmer weather and lower energy prices. All eyes are on temps!

Final Thoughts: Don't let the high winter prices spook you. The back of the curve is still trading below \$3.00 offering decent value. That said, if Mother Nature blasts us with more below normal temps, it may not be cheap for long. I encourage obtaining pricing sooner than later and locking in any available savings. With a large storage deficit, long-term balances are tight leaving the market vulnerable to higher prices.

