

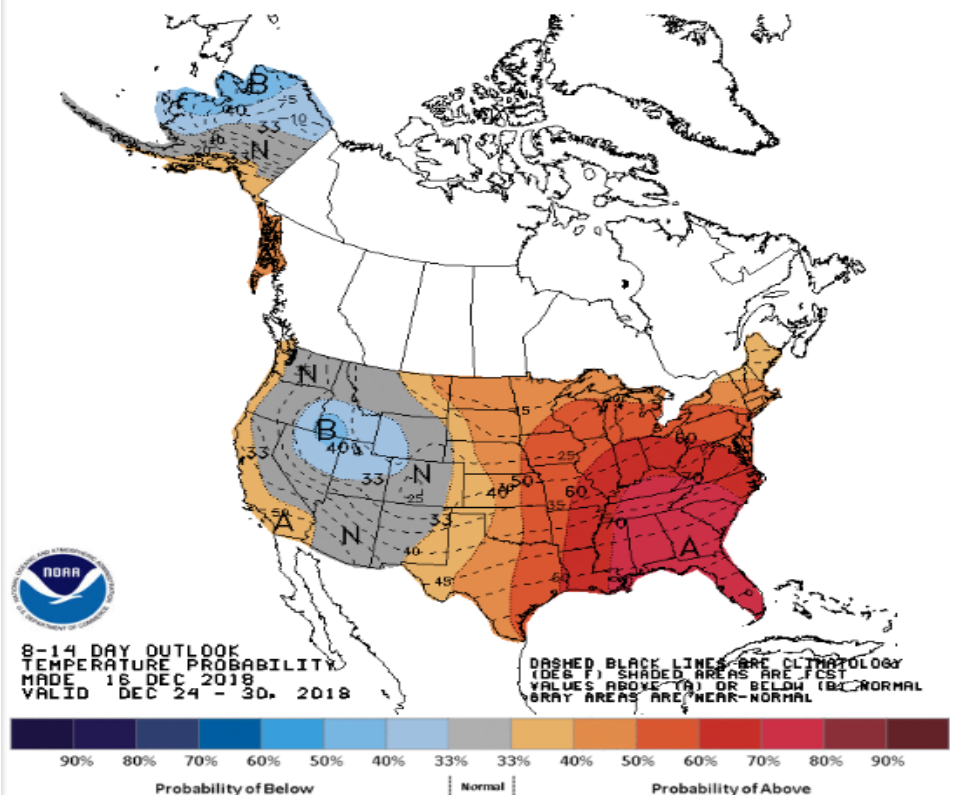
Market Update: 12/16/2018

Technical: Natural gas continued to show extreme volatility last week with price breaking out below the triangle consolidation pattern settling at \$3.8270, down slightly over 15% for the week. Stochastics is in over sold territory suggesting buying may enter over the next few days. MACD is trending lower reflecting the recent price weakness. However, it is still above zero indicating the bulls are still in control. With nat gas storage levels still low, it looks like this is healthy correction with trendline and Fibonacci 38.2% support ~ \$3.57-\$3.63. With volatility high, and liquidity low, overshoots are likely and perhaps probable, so a test of \$3.25 support should not be a surprise.

- Fundamentals:** Last week's EIA storage number came in bearish to expectations, which combined with warmer weather helped send prices lower. Natural gas storage levels are a significant 19.9% below the 5-year average indicating demand continues to exceed supply. The EIA's Dec 11 STEO report suggests strong natural gas production will keep a lid on prices. EIA forecasts that dry natural gas production will average 83.3 billion cubic feet per day (Bcf/d) in 2018, up 8.5 Bcf/d from 2017. Both the level and volume growth of natural gas production in 2018 would establish new records. EIA expects natural gas production will continue to rise in 2019 to an average of 90.0 Bcf/d. Combined with NOAA's 8-14 forecast showing above normal temps thru the end of December, traders have good reason to shed length. However, I think that with storage dangerously low and plenty of winter ahead, prices remain highly vulnerable to spikes and a test of \$5.00.



Temperature Probability



Final Thoughts: For anyone with

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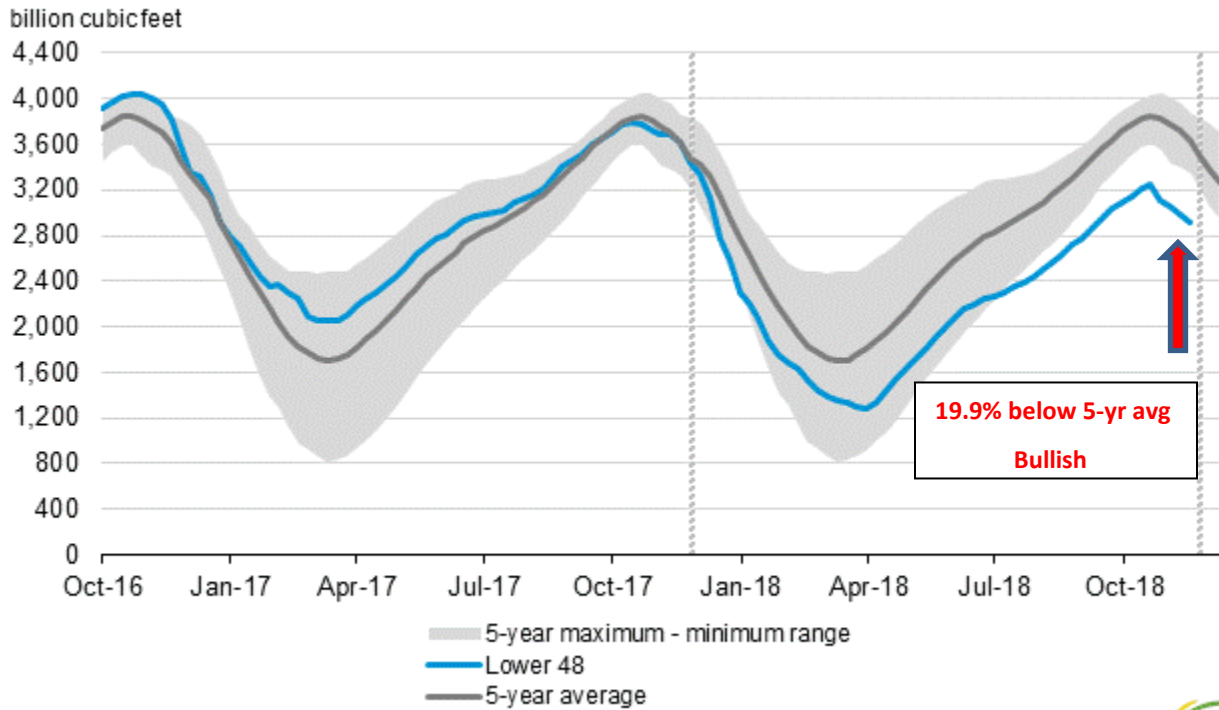
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expiration dates in the next 6 months or so, this dip provides an excellent opportunity to lock in and remove winter weather and storage risk. The back of the curve offers excellent value encouraging long term contracts.

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

