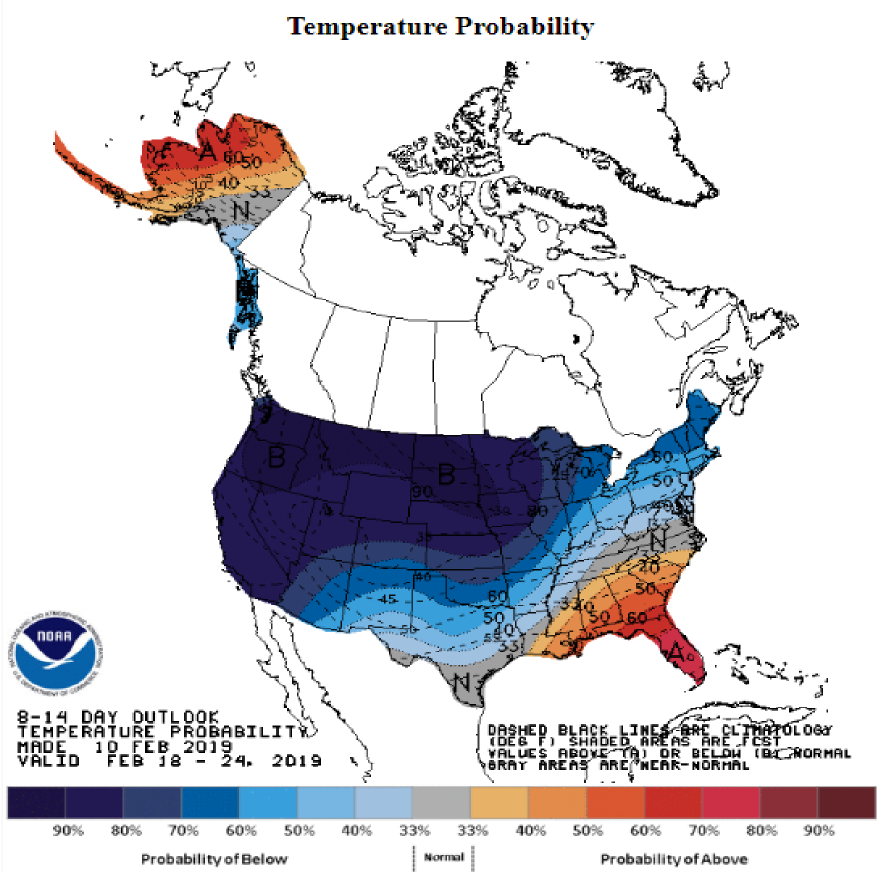
Market Update: 2/10/2019

Technicals: Since our last report on Jan 27 prices have dropped from $3.09 to $2.583, or 16.4%. Stochastics has been pegged in oversold territory indicating buyers may finally be entering the market in the coming days. MACD is below zero indicating the sellers are in control. However we can see a divergence between the indicator and price with Price making a lower low, and the indicating failing to make a lower low. This is a warning sign that the downtrend may be getting tired and prices may bounce, or at least finally find support.

Fundamentals: Last week's storage report was bearish relative to market expectations, but bullish relative to the 5-year average pushing the deficit to the 5-year average back out to 17.5%. With the spot (March NYMEX) price of nat gas moving lower and closing the week at $2.583 the market seems to show little concern over the storage deficit and more concern for the near record production and recent mild temps in the east and northeast. That said, seasonally the market tends to put in lows in February, then starts to rally into the spring as the market begins to worry about summer storage injections. According to the EIA, If the rate of withdrawals from storage matched the five-year average of 12.7 Bcf/d for the remainder of the withdrawal season, total inventories would be 1,221 Bcf on March 31, which is 415 Bcf, or 25% lower than the five-year average of 1,636 Bcf for that time of year. A few analysts I've spoken to expect total inventories to come in around 1340 Bcf on March 31, or ~ 18% below the 5-year average, which is close to where we are now. In my opinion, both are big numbers indicating tight balances with demand continuing to exceed supply. Due to the large storage deficit, I would not be surprised to see prices grind



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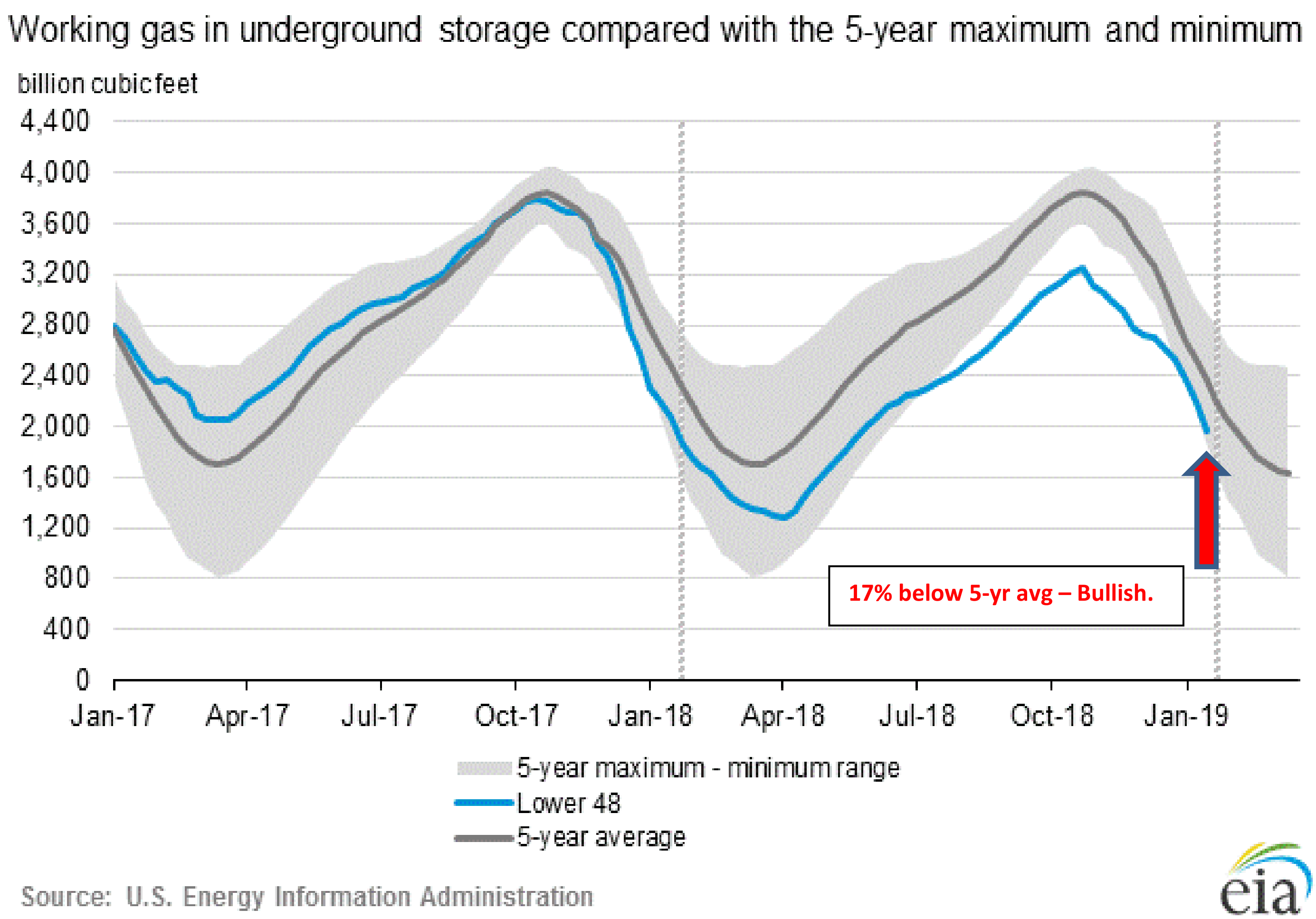
higher over the next several weeks and months. That's not to say we won't see $2.50. We may if we see mild temps, but if the storage deficit is not significantly reduced prices won't stay cheap for long. That said, NOAA's 8-14 day forecast shows some pretty cold temps increasing the risk of a rally as heating demand will once again pick up. Bottomline –Prices are cheap, risk is elevated due to a high storage deficit.

Final Thoughts: In our last report (Jan27) we indicated it may make sense to wait and see if forecasted warmer temps helped to lower prices. It did. Prices dropped well below $3.00 and closed on Friday at $2.5830 offering an excellent buying opportunity. For those with expiration dates coming up, I would seriously consider obtaining pricing to take advantage of this price dip. With storage levels showing a significant deficit to the 5-year average the market is vulnerable to weather risk and another price spike. If you're able to lock in a savings and remove storage and weather risk I would strongly consider it.



Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2014 through 2018. The dashed vertical lines indicate current and year-ago weekly periods.

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