

February 22, 2012

Natural Gas:

- *Market is still in consolidation mode as output cuts offset weak weather related demand*
- *Yesterday's announced additional cuts by Chesapeake apparently priced into the market*
- *Temperature outlook through first week of March still tilting bearish with cold confined to western ½ of US*
- *Tomorrow's weekly EIA storage figures likely to narrow surplus for a change by as much as 70 bcf y over y*
- *Test of January lows still likely following price consolidation that could last for another week or so*

This market is increasingly indicating that it needs a regular dose of production cut headlines in order to sustain upward price momentum. Any sustained absence of additional headlines regarding output reductions will keep this market vulnerable to a renewed downside move to around the \$2.34 area over the near term and ultimately to a test of last month's 10 year lows. At some point, this market will need to refocus on the dynamic of a mounting supply surplus that has been little affected by the recent announced production curtailments. With the arrival of the new month of March, we anticipate a focus shift away from production and the weather factor and toward a record season ending supply that could still force a backup of supply toward the producers with the physical market responding assertively to the down side.

With this scenario of forced liquidation still much alive in our view, we are still leaving open the likelihood of a renewed contango expansion into new wide territory. Big carrying charges should theoretically revive selling interest from the large speculators who appear to have shifted away from short side of the natural gas and toward the long side of the petroleum complex in quest of better returns. Looking out through the balance of this holiday shortened week, the most likely course of trade is some additional price consolidation within the boundaries of the past week. However, we will be looking for a volatility spike tomorrow following issuance of the EIA storage figures. **We will be looking for a withdrawal of 169 bcf, a figure that would compare with last year's sharply downsized 102 bcf draw and the 5 year average decline of about 145 bcf. While this unusual narrowing in the supply overhang would appear price supportive, we will advise that much of the report was priced into last week's future's advance.** Storage withdrawals will be declining seasonally going forward as the temperature factor diminishes.

Summary/Price Outlook

We are maintaining a bearish market view as we continue to favor sales of April futures within the \$2.70-2.80 zone while employing stop protection above \$2.94 on a close only basis. However, we are also forced to concede to some additional price consolidation that has been inspired this month by an apparent standoff between the bullish influence of production cuts and the bearish affects of a dramatic expansion in the storage overhang. As a broad based trading theme, we continue to view the output cuts as a direct result of some extremely bearish supply/usage balances. With this in mind, we still look for current fundamentals to win out over a more balanced market that is likely to develop later this year in response to production reductions. In sum, a bearish trading stance is still favored while we also allow for the likelihood of some additional price consolidation that could extend into next week's expiration of the March contract.

Yesterday's Trade *Market Information from the COMEX Electronic Trade*

COMEX ELECTRONIC TRADE

Month	Yesterday's Settle	High	Low	Last	Change
Mar-12	\$2.626	\$2.673	\$2.575	\$2.628	(\$0.056)
Apr-12	\$2.773	\$2.817	\$2.705	\$2.774	(\$0.050)
May-12	\$2.880	\$2.918	\$2.811	\$2.880	(\$0.046)
Jun-12	\$2.967	\$3.003	\$2.898	\$2.966	(\$0.044)
Jul-12	\$3.036	\$3.060	\$2.965	\$3.036	(\$0.038)
Aug-12	\$3.074	\$3.108	\$3.003	\$3.073	(\$0.036)
Sep-12	\$3.086	\$3.108	\$3.011	\$3.084	(\$0.034)
Oct-12	\$3.137	\$3.167	\$3.061	\$3.132	(\$0.037)
Nov-12	\$3.312	\$3.309	\$3.246	\$3.312	(\$0.025)
Dec-12	\$3.593	\$3.613	\$3.516	\$3.588	(\$0.021)
Jan-13	\$3.728	\$3.727	\$3.654	\$3.723	(\$0.020)
Feb-13	\$3.737	\$3.734	\$3.676	\$3.737	(\$0.015)

NATURAL GAS STRIP PRICES

Strip Prices	High	Low	Last	Change
3-month	\$2.803	\$2.697	\$2.761	(\$0.051)
6-month	\$2.930	\$2.826	\$2.893	(\$0.045)
9-month	\$3.018	\$2.919	\$2.987	(\$0.041)
12-month	\$3.186	\$3.093	\$3.161	(\$0.035)
18-month	n/a	n/a	\$3.356	(\$0.029)
2013 Calendar	n/a	n/a	\$3.808	(\$0.015)
2014 Calendar	n/a	n/a	\$4.156	(\$0.014)
Summer-2013	n/a	n/a	\$3.775	(\$0.016)

	NYMEX High	Low	Last	Change
CRUDE OIL	\$106.000	\$105.500	\$105.840	\$2.600
HEATING	n/a	n/a	\$3.239	\$0.050
PROPANE	n/a	n/a	\$1.206	\$0.004

Today's Trade

COMEX ELECTRONIC TRADE

Month	Previous Settle	High	Low	Last	Change
201203	\$2.626	\$2.643	\$2.585	\$2.591	(\$0.035)
201204	\$2.773	\$2.793	\$2.718	\$2.731	(\$0.042)
201205	\$2.880	\$2.894	\$2.827	\$2.838	(\$0.042)

Technical Outlook

DAILY, WEEKLY and MONTHLY TECHNICAL DATA

Type	Trend	Sup 2	Sup 1	Res 1	Res 2
Daily	Bottoming	\$2.47	\$2.57	\$2.73	\$2.88
Weekly	Neutral	\$2.56	\$2.62	\$2.75	\$2.85
Monthly	Neutral	\$2.00	\$2.23	\$2.82	\$3.00

Stat of the Day *Daily Statistical Update from the Energy Market*

EIA Weekly Petroleum Data Expectations: In their weekly report, EIA showed the U.S. retail gasoline price to be \$3.591 which is up \$0.068 on the week and compares with \$3.189 a year ago. Prices seen up in all regions with the West Coast seeing the largest increase (\$0.169). Diesel fuel price seen at \$3.960 which is up \$0.017 on the week and compares with \$3.573 from a year ago. Prices seen up in all regions except for the Midwest (down \$0.009).

6- to 10-day Weather Outlook



Terms of Use and Disclaimer USE OF DATA: THE INFORMATION CONTAINED IN THIS DOCUMENT IS COMPILED FOR THE CONVENIENCE OF THE CUSTOMERS OF INTEGRITYS ENERGY SERVICES, INC. AND IS FURNISHED WITHOUT RESPONSIBILITY FOR ACCURACY AND IS PROVIDED TO THE RECIPIENT ON THE CONDITION THAT ERRORS OR OMISSIONS SHALL NOT BE MADE THE BASIS FOR A CLAIM, DEMAND OR CAUSE OF ACTION. THE INFORMATION CONTAINED IN THIS DOCUMENT IS OBTAINED FROM RECOGNIZED STATISTICAL SERVICES AND OTHER SOURCES BELIEVED TO BE RELIABLE, HOWEVER WE HAVE NOT VERIFIED SUCH INFORMATION AND WE DO NOT MAKE ANY REPRESENTATIONS AS TO ITS ACCURACY OR COMPLETENESS. WHERE POSSIBLE, A LINK IS PROVIDED TO THE DATA SOURCE FOR YOUR CONVENIENCE. OPINIONS EXPRESSED BY THE DATA SOURCES MAY NOT BE CONSISTENT WITH ONE ANOTHER AND MAY NOT BE CONSISTENT WITH THE OPINION OF INTEGRITYS ENERGY SERVICES, INC. DISCLAIMER: THE INFORMATION PROVIDED SHOULD NOT BE CONSTRUED TO BE, AND DOES NOT CONSTITUTE AN OFFER TO BUY OR SELL OR A SOLICITATION OF AN OFFER TO BUY OR SELL ANY FUTURES, OPTIONS-ON-FUTURES, OR FIXED PRICE ENERGY PRODUCTS.5