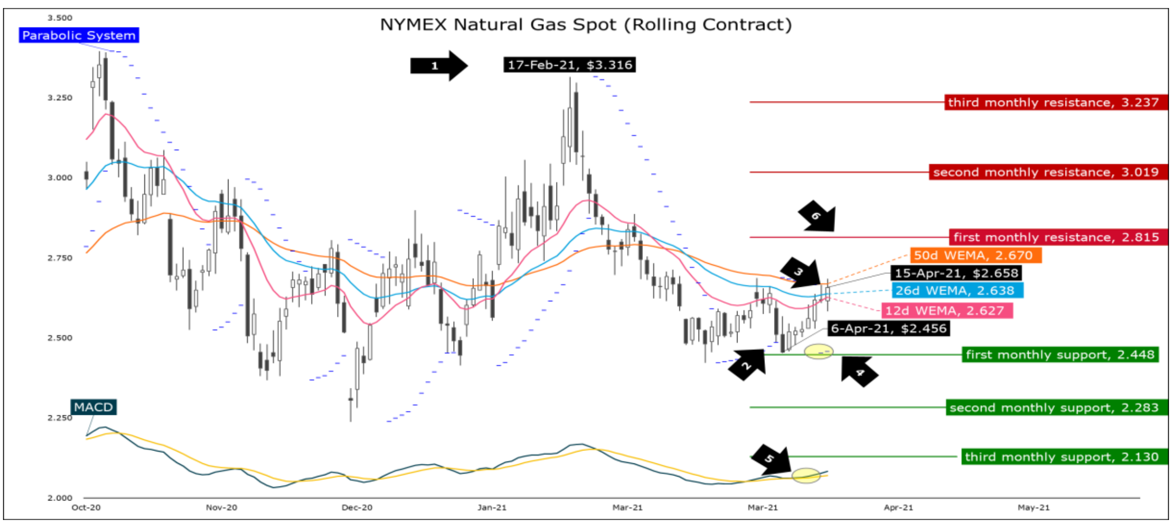
Technicals are Bullish

After peaking back in February at a four-month high of $3.316/MMBtu (arrow 1) the spot Henry Hub futures contract on the NYMEX went into a freefall through the remainder of the winter. Two weeks ago, on April 6th, the market ran into support just above our model's first monthly support target of $2.448/MMBtu (arrow 2).

As illustrated, the market has since rallied above the 12-day weighted exponential moving average (12D WEMA) and the 26D WEMA and is testing resistance at the 50D WEMA (arrow 3). Furthermore, our favorite technical indicator, the Parabolic SAR, flipped bullish on April 14th (arrow 4) and our second favorite technical, the MACD, has been bullish since March 29th (arrow 5).

The slopes on all three WEMAs (12-day, 26-day, and 50-day) have turned positive, i.e., bullish. As we look ahead, knock-on momentum above the 50D WEMA clears a path to our model's first monthly resistance of $2.815/MMBtu (arrow 6).



… and the fundamentals are bearish.

The front-end of the NYMEX Henry Hub Summer curve and the front-end of next Winter's curve are sliding deeper into contango (the contract that expires sooner is discounted to the later-expiring contract), i.e., the market is unwilling to pay up for either the start of the refill season or the start of next winter. After all, rising discounts on the market's term structure are a corollary of shrinking concerns regarding supply scarcity.