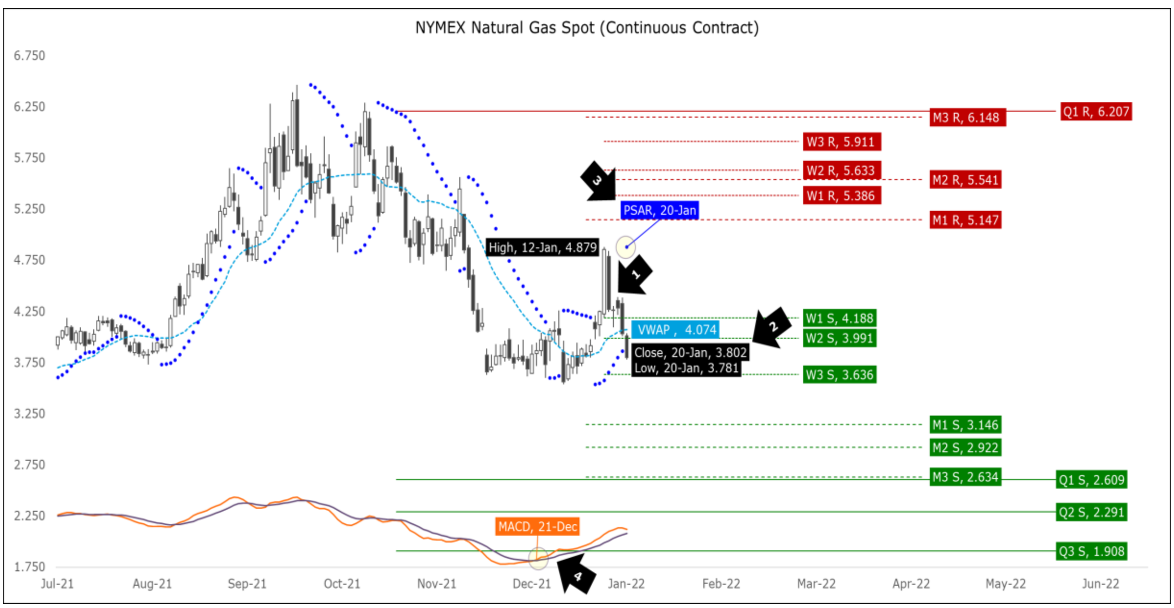
What Goes Up, Must Come Down … Harder

Last Wednesday, NYMEX Henry Hub natural gas futures for February delivery surged 21.8% ($8,720 per contract) peak-to-trough as the polar vortex took hold. The contract finished the day $0.608/MMBtu higher at a season-to-date high of $4.857/MMBtu. This rally (inclusive of contract rolls) was the 32nd largest (99.6th percentile) since the NYMEX started trading natural gas in 1990. However, the following day, the market gave back virtually all the prior session's rally as the February market settled $0.587/MMBtu lower, the 21st largest selloff since 1990 (arrow 1).

Over the last four sessions, the market cratered by another $0.467/MMBtu (-11%). Yesterday, the market broke through the 20-day VWAP. Today, the market crashed through our model's second support target for this week of $3.991/MMBtu (arrow 2) and settled at a two-week low of $3.802/MMBtu.

Our two favorite technical indicators have now decoupled. The parabolic SAR flipped bullish today (arrow 3), while the MACD has been bullish since December 21st (arrow 4).

Looking ahead to next Thursday, January 27th, per yesterday's $3.802/MMBtu settlement, our weekly resistance levels are $4.311 /MMBtu, $4.553/MMBtu, and $4.828/MMBtu. The weekly support targets are $3.353/MMBtu, $3.175/MMBtu, and $2.994/MMBtu. Our support targets for the month are $3.146/MMBtu and $2.922/MMBtu, and $2.634/MMBtu.



Large withdrawals fail to stem the bleeding on the NYMEX.

Today the EIA reported the ninth delivery of the winter, a heavy 206 Bcf of natural gas was delivered from L48 underground storage. For the week ended January 14th, storage dropped to 2.810 Tcf and the surplus to the seasonally adjusted trend fell by 116 basis points to a three-week low of 7.2% (189 Bcf). The early consensus for next Thursday's update is another large delivery in excess of 200 Bcf.

