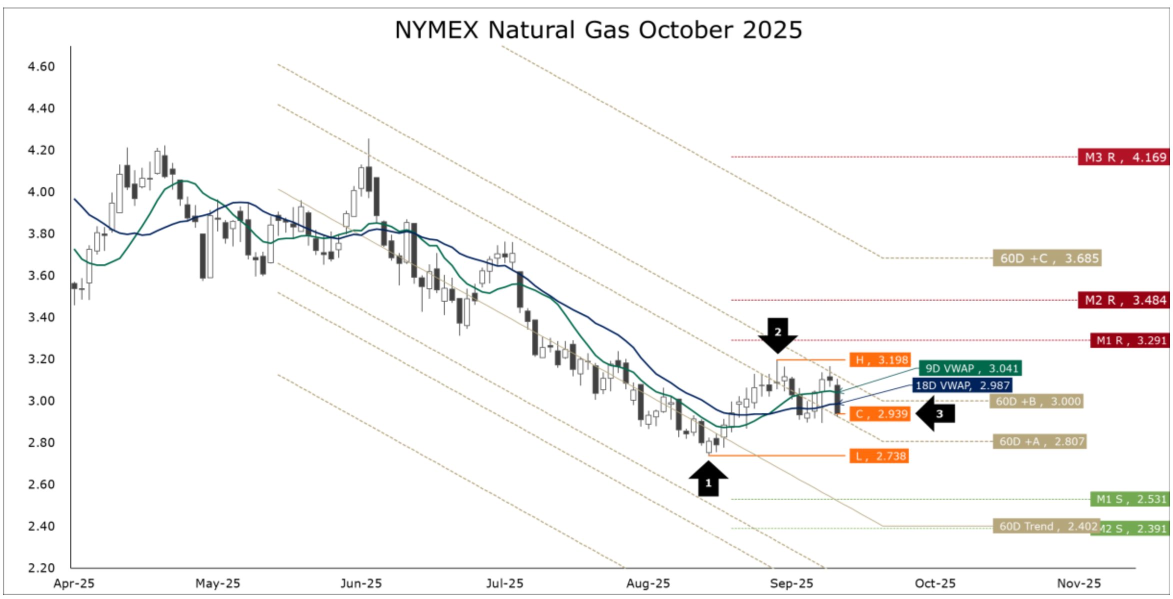
Gas Rally Stalls as EIA Shock Knocks October Back Below $3

As discussed last week, spot NYMEX gas is in its typical seasonal technical rally. From August 25th through September 8th, the contract for October delivery rallied from a $2.738 low (arrow 1) to $3.198 high (arrow 2) for a trough-to-peak rally of 16.8% ($4,600 per contract). Since then, the market traded flat.

Yesterday, the market peaked at an intra-week high of $3.168, but after this morning's much larger-than-expected EIA report, the market plummeted to a close of $2.939 (arrow 3).

Key market technicals have been whipsawing for the past three weeks. Our preferred indicators—Parabolic SAR, Stochastic, and CMF — have been fluctuating between bullish and bearish. The MACD and the volume-weighted average price VWAP (9-day, 18-day) crossover are both hanging bullish.

For the week ahead, the bears' next line of resistance is our model's outer envelope of $3.020, and the 18-day VWAP ($3.041 as of today). Aside from this week's hitherto high of $3.168, there is nothing for bears to lean against until the 50% Fibonacci retracement at $3.251. The bulls' first line of support is the inner envelope of $2.827, followed by last month's low of $2.738.



EIA surprise: 90 Bcf injection pushes storage outlook higher.

Today, the EIA reported a much stronger-than-expected injection of natural gas into L48 underground storage. Last week, a net of 90 Bcf was added. The seasonal norm is an 82 ± 8 Bcf injection, and market surveys were clustered around 80 Bcf. As of September 12th, total L48 storage stood at 3.433 Tcf. Refills typically last into early November. After the latest update, our end-of-season projection was raised to 3.923 Tcf. Should heating demand arrive early, our lower-case is 3.863 Tcf, while a late start points to 3.982 Tcf. With the season veering into the right lane, the chance of topping 4.0 Tcf this year improved slightly after today's report to 1 out of 143 chance (0.7%).