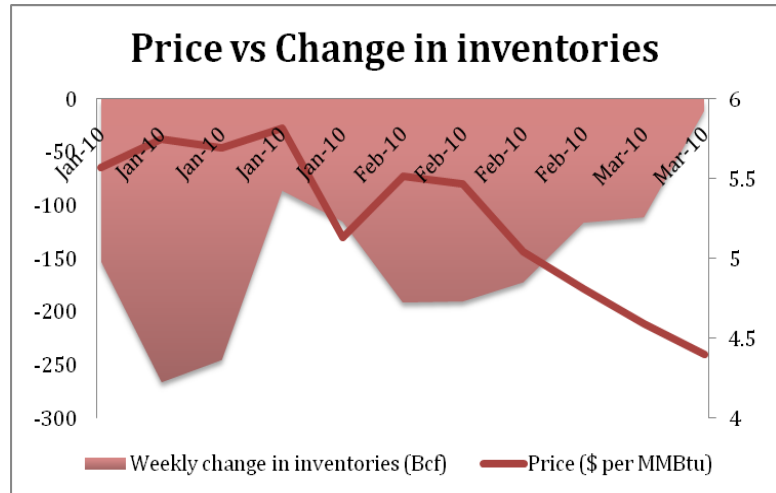


SHORT TERM OUTLOOK ON NATURAL GAS

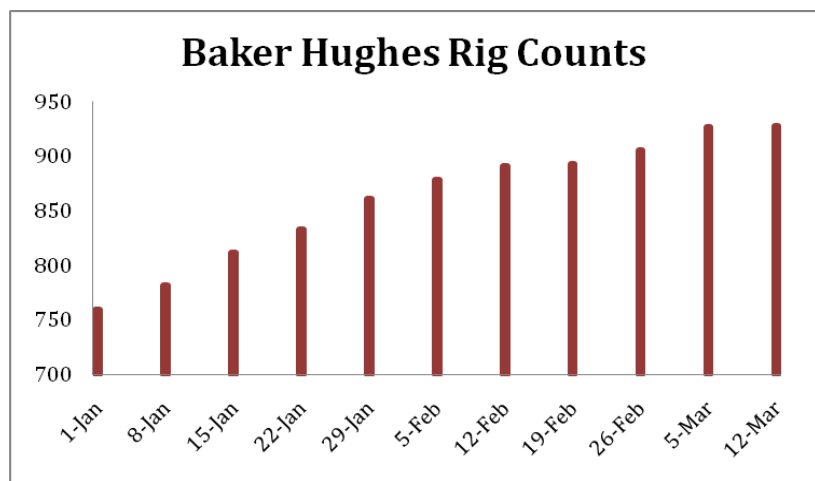
Recap

The first quarter of 2010 is generally the winter time in the northern hemisphere especially in US and Europe. During this period i.e., from January 2010 to March 2010 consumers both residential and commercial use fuels like natural gas for heating purposes. Generally January period is the peak period for winter season. As it turns out some regions in US, Europe and even Asia had the most severe cold weather conditions



seen in almost half a century. Natural gas is used by over half of the US house holds for heating purposes during winter. Inventories of natural gas generally decline during this period since the demand for heating fuels like natural gas during this period generally exceeds the supply in the form of domestic production and imports.

While prices reached a high of 6.108 per MMBtu due to substantial winter demand in January weather began to moderate from the month of February. March saw the most moderate weather conditions among the first three months of this year due to which the demand for the fuel fell significantly. The graph above shows the movement of future prices as listed on NYMEX and weekly EIA inventory reports.



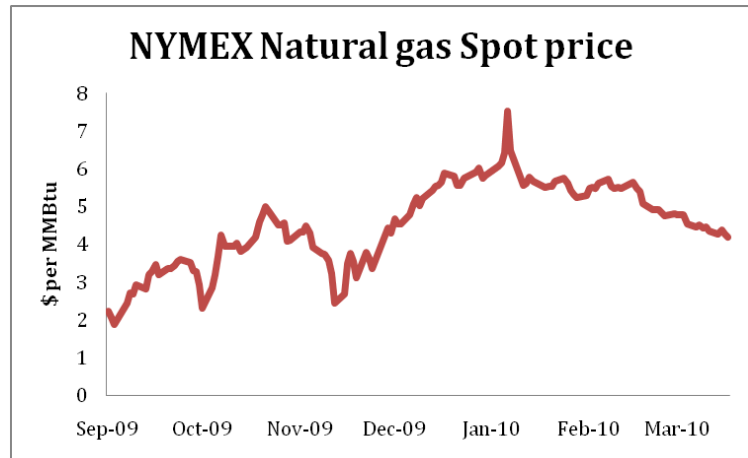
Towards the end of Q1 2010 demand has weakened substantially as shown by the rising inventory curve.

The slow down in inventory declines coupled with rising rig count and weak industrial demand has pressured prices to remain low. Rig count or the machines which are used to extract gas has risen

22 percent since the year beginning and has contributed additional supply into the market. As a result prices have fallen by nearly 28 percent since reaching near peak levels in January.

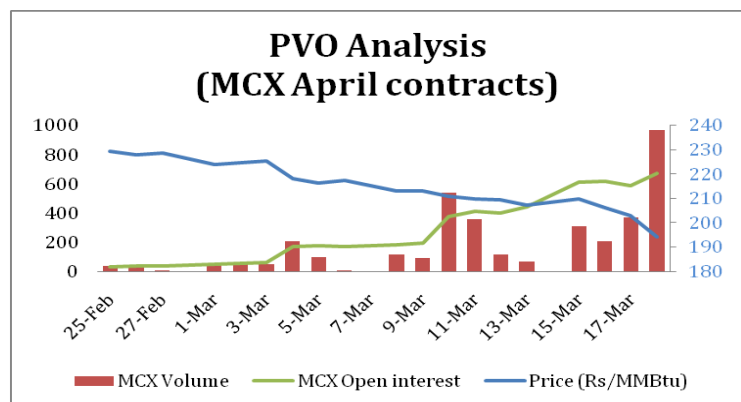
Price outlook

As the winter is nearing to an end the demand for Natural gas will drop. As a result prices should decline in the near term as well. Once the winter ends the focus of the market will turn to demand from industry and supply coming from domestic rigs. Industrial consumption which contributes a significant chunk of the domestic consumption has remained uncertain. While the economy is recovering slowly industrial demand is also anticipated to revive slowly. So prices may not see a sudden spike in the near term. If the rig count in US continues to rise as they had been in the last couple of months the market may receive little support and may go further down. Assuming that the US economy and industry will recover at a steady pace prices may trade steady in the near term before the summer resumes.



PVO Analysis

PVO analysis indicates that prices have declined while volume and open interest have risen steadily. ***As a result the market is in for more downside in the future.***

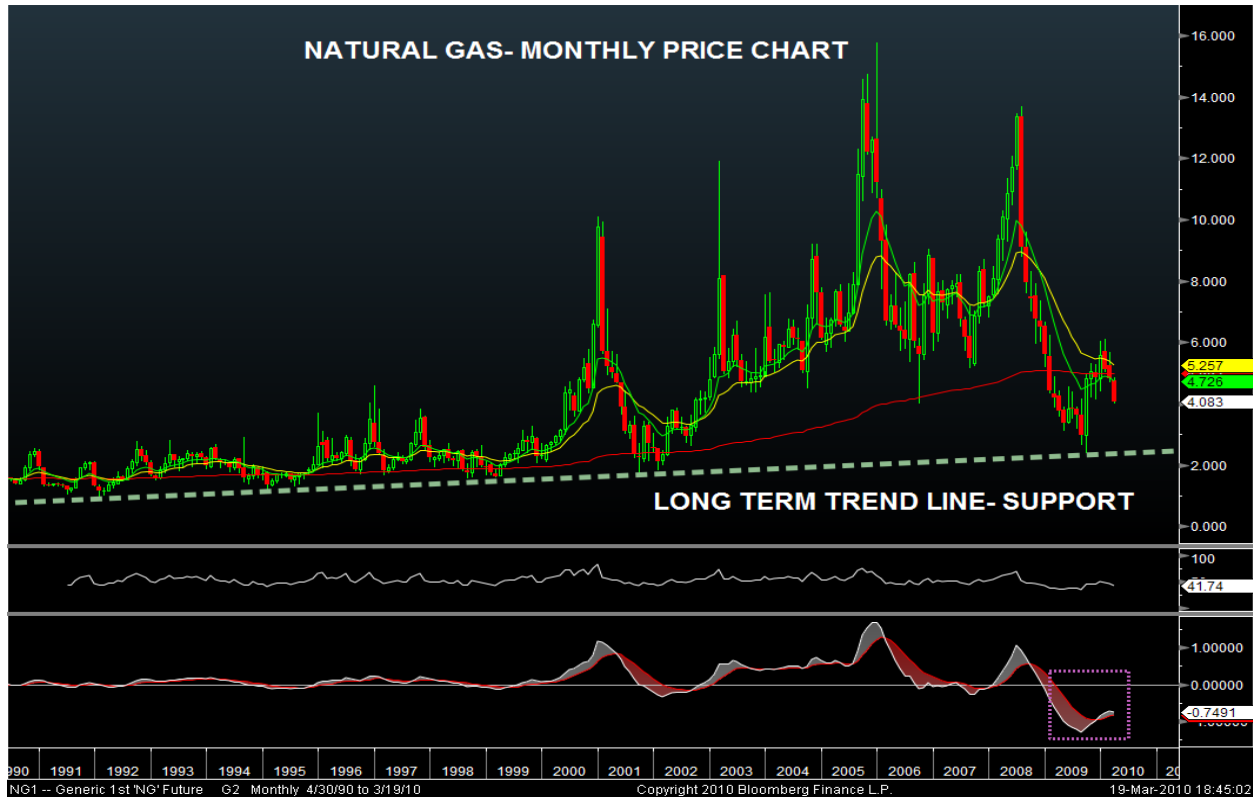


Technical Analysis – NATURAL GAS- NYMEX

Natural gas future prices fell sharply from the beginning of 2010 by declining as much as 25.8% from the preceding year’s closing at (\$5.572). Although prices have declined substantially in the recent past but it is holding above the long term trend line support levels. Nevertheless, prices still have potential to trade lower stated by below mentioned technical reasons. The support levels are at \$3.904 and then \$3.155.

Since the prices have breached the crucial support levels at \$5.072, now it is acting as a tough resistance to crack down. The \$5.072 is derived as 23.6% retracement of the range \$13.694- 2.409. Now, if market sustains below this resistance levels may see prices dropping further in the near term.

Adding to this, the prices are now trading below the 200 monthly EMA which itself confirming the down side pressure in medium term. The momentum indicator RSI is trading at 0.45 indicating bearishness for coming months. Also, MACD is trading below the signal line and showing a lower potential.



Outlook:

Market is likely to see a mild higher correction before resuming its downtrend. However, the crucial support is at \$3.904 on break of the same is likely to extend its drop further.

RECOMMENDATION:

Natural Gas- April- NYMEX: We recommend selling at \$ 4.080 targeting \$ 3.55 and then \$3.15 stop loss above \$ 4.75.

Natural gas April & May MCX: Sell at 195-200 targeting 175 then 160 with strict stop loss above 210

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