

# Eye On ENERGY

A periodic publication of American Energy.<sup>®</sup>  
Providing insight for making better energy decisions.

## COMMODITIES UPDATE

By Mike Granstaff

### July 2010 Natural Gas Report

The rally in NYMEX Natural Gas futures last month flamed out quickly and dropped back down to within .20 cts of the recent lows. We were very suspicious of that rally as getting outright long this market still has too many risks. Working storage is near record high levels for this time period and until hurricanes start to fire-up, longs are very nervous to hold positions for any extended period. In fact, The CFTC Commitments of Traders Report for July 13<sup>th</sup> showed that the managed money sector of natural gas futures and options open interest showed a sharp reduction in long positions and major gains in short interest. ICE long futures and options dropped a whopping 50,598 contracts as shorts rose by 941 contracts. NYMEX longs increase by 611 contracts while shorts jumped 16,897 contracts.

#### Working Storage

The EIA reported that 78 Bcf was injected into working storage the week ending July 9<sup>th</sup>. We would normally expect to see an injection of 89 Bcf for this reporting period. Working storage is now 2,840 Bcf which is 274 Bcf greater than the 5 year average and 46 Bcf less than last year.

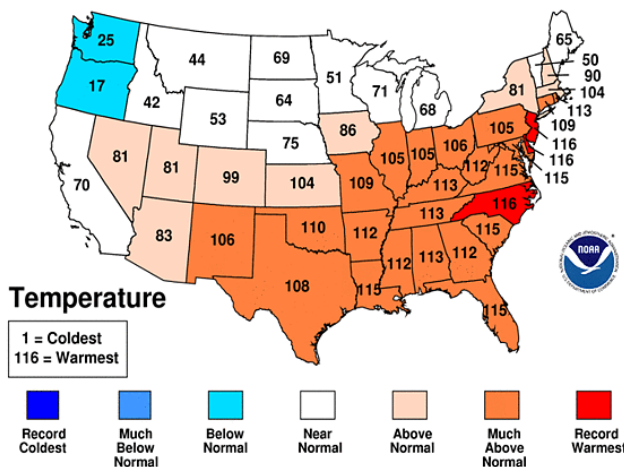
#### Weather

July 15th marked the mid-point of summer and it has been hot, hot, hot! Population weighted CDDs have registered at 441.94 since June 1 making this the hottest first half of summer on the PWCCD basis since 1950. The next closest was 1994, which had 438. The outlook for the balance of the summer has us exceeding the 1000 PWCCD mark, something which has not happened. A big reason for these high CDD counts thus far this summer has been due to the widespread coverage of above normal temperatures along the eastern seaboard as well as areas in the south. As a result, the cities with the big populations have been seeing the heat which has ultimately driven the pop-weighted CDD number higher and higher.

The nationally averaged temperature for June was much warmer than normal. A deep layer of high pressure dominated much of the eastern U.S. during the month. The southerly influx of warm air contributed to record high temperatures in many cities.

### June 2010 Statewide Ranks

National Climatic Data Center/NESDIS/NOAA



The Southeast, South and Central regions experienced their second, fifth and seventh warmest June on record, respectively. Only the Northwest had an average temperature below normal for the month.

Based on NOAA's Residential Energy Demand Temperature Index (REDTI), the contiguous U.S. temperature-related energy demand was 11.9 percent above average for June. The unusual warmth in the highly populated South and Southeast contributed in the second highest June REDTI value in 116 years.

Globally, last month's combined global land and ocean surface temperature made it the warmest June on record and the warmest on record averaged for any April-June and January-June periods, according to NOAA. Worldwide average land surface temperature was the warmest on record for June and the April-June period, and the second warmest on record for the year-to-date (January-June) period, behind 2007. The monthly analysis from NOAA's National Climatic Data Center, which is based on records going back to 1880.

## **La Niña**

The equatorial Eastern Pacific Ocean continues to cool, and we have now crossed the threshold into La Niña conditions. Sea surface temperatures (SSTs) over the tropical Eastern Pacific in the Niña 3.4 region, fell to 0.8°C below average by July 12, according to NOAA. Since La Niña conditions are defined as occurring when this number reaches 0.5°C below average, we are well into the territory of a weak La Niña event. According to Weather Underground meteorologist, Dr. Jeff Masters, La Niña conditions must be present for several months before this will be officially classified as a La Niña event, but it is highly likely that a full-fledged La Niña event lasting at least eight months has arrived. We started out the year with a strong El Niño, so it may seem surprising that we have transitioned La Niña so quickly. However, historically, about 35 - 40% of El Niño events are followed by a La Niña within the same year. Given current trends, he expects the current La Niña to cross the threshold needed to be defined as "moderate" strength--temperatures at least 1.0°C below average in the equatorial Eastern Pacific by September.

It is well-known that both the number and intensity of hurricanes in the Atlantic tend to increase during La Niña events. The last time we had a strong El Niño event followed by a La Niña event in the same year, in 1998, we had an Atlantic hurricane season 40% above average in activity, with 14 named storms, 10 hurricanes, and 3 intense hurricanes. The season was relatively late-starting, with only one named storm occurring before August 20. Dr. Masters says this year's season may be similar, though four or more intense hurricanes are a good bet due to the record warm SSTs.

Additionally, La Niña can bring warmer than normal temperatures during the summer, according to WSI Corp. who said the rapidly evolving La Niña indicates more heat across the northern United States as the summer progresses. "In the Atlantic, record warm ocean temperatures also favor warmer-than-normal temperatures across a majority of the U.S."

## **2010 Hurricane Season**

Hurricane Alex, the first Atlantic June hurricane since 1995, affected portions of southern Texas on June 30th, making landfall 110 miles south of the US-Mexico border. Alex had sustained winds of 105 mph, marking the most intense Atlantic hurricane during June since Hurricane Alma in 1966.

Offshore oil and gas operators in the Gulf of Mexico have re-boarded platforms and rigs, and restoring production following Hurricane Alex. Cumulative gas shut-in during the storm totaled 3.22 Bcf of production. Neither the drilling rigs nor the containment vessels involved in the BP oil spill response have been required to evacuate or halt operations.

Two disturbances in the tropics could strengthen and reach the Gulf of Mexico by this weekend if conditions allow. One of the systems could head toward the eastern Gulf where more of the oil and gas production is located. It is possible that one tropical wave could evolve into a tropical depression later this week.

Bottom-line, we're having a hot summer but traders are still having a tough time pushing natural gas prices sustainably higher. Hurricane activity going forward will be key. Even though we haven't seen a lot of activity yet, all indicators still point to a very active hurricane season so don't let your guard down yet. Hedges should already be in place.

## **Technical Analysis**

NYMEX September contract

Upside resistance is \$5.40, \$6.16, \$6.72

Downside support is \$4.14, \$3.81, \$2.41



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