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ICAP/NYMEX Storage Auction Recap and Market Buzz

Biiiiiiiiiggggggggggig Draw This Week Folks, Actually the Biggest Draw in More Than Two Years.

And, by gosh everybody was ready for it. Particularly Marshall Adkins of Raymond James: He bested the lot and nailed this week's draw of -179 Bcf. The late blast of cold weather has certainly perked folks up a bit, but it looks like it may only be a temporary condition. Most folks see the current blast of arctic air lasting into early February. Average temps are forecast to be about 5-6 degrees below normal nationwide. One source tells us this should produce a draw in excess of 200 Bcf. "But overall, I still expect February to average out above-normal nationwide, while temps will be near normal in the New England area," a Chicago-based source says. Not everybody agrees with this rosy assessment, but more on that later.

We noted this week that most market analysts began seriously speculating on what the end-of-season-total will look like, and oddly enough, the same split of opinions we saw three months ago remains essentially the same. Lots of folks continue to sing the die-hard "above normal Winter" song, believing we'll be looking at 1600-1700 Bcf of gas in the Big Hole by the end of March. All the rest, which amounts to only a grim few these days, still see a colder-than-normal Winter and as such, an end-of-season tally of roughly 1350-1450 Bcf remaining, which would be around 300 Bcf below last year. Analyst Andy Weissman and Dave Melita of Houston-based Weather Insight are firmly in this camp. So is Raymond James, although they see an end-of-Winter tally of closer to 1,500 Bcf.

Steve Mitchell, president of Weather Insight, sent us a brief note from his top forecaster that said while most folks still don't agree on the final outcome of the Winter storage scene, "The only thing for certain, is the 2006/2007 Winter will not be average!" True enough. He says that Melita has from the beginning been firmly in the "cold camp." But it wasn't until after the crazy November mixed bag of weather that the "stakes got higher and the division between the camps really began to emerge. "One camp claims El Nino is the cause of this brief warmup, while the other camp says El Nino is not the driving force behind this Winter's weather pattern. In other words, there were a few typical El Nino characteristics but there were also some typical La Nina characteristics in the US weather pattern. So then came December, it was the warmest US December in recorded history. The "warm Winter" camp claimed victory and began taking out their party supplies," Mitchell says.

So now comes the rub, he says. "If El Nino was the prevailing force behind the warm Winter pattern, then all camps must also have to agree that El Nino can't change overnight; it

takes months for the sea surface temperatures to cool and change the prevailing weather pattern. So, we had the El Nino camp (warm Winter) saying that winter is over and the strong El Nino may even continue into Spring and influence this upcoming tropical season,” Mitchell says.

“As you can imagine, those of us in the non-El Nino camp (or cold camp) were taking the heat from both the December weather and the critics. Our customers and others were asking, “At what point will you admit you’re wrong and change your forecast?” We said, “When we see the meteorological drivers that will support such a pattern.”

“Sure enough,” Mitchell says, “almost two weeks later (last week) the first arctic air blast blew into the country. Right now, we’re calling for second and third arctic air intrusions which are not only on their way, but will be progressively colder than the previous blasts.”

During a recent interview, Melita admitted to missing the December forecast “but the meteorological triggers were always in place to support such a reversal from the warm temperatures, it just took three weeks longer than I thought it would.” So, if Melita’s forecast for the remainder of the Winter is correct, it maybe one of the greatest reversals in history. In other words, we may go from the warmest December on record to one of the coldest months on record in the same Winter season.

The Desk tea leaves are forecasting an end-of-season tally firmly above 1,600. We’re thinking 1,602 Bcf to be exact, about 100 Bcf less than last year.

Analyst Andy Weissman scoffs at such a beefy end-of-season story. In his latest analysis, he says there is a very high likelihood we are now at the beginning of a five-week stretch “where the cumulative withdrawal from storage has the very real potential of being greater than a trillion cubic feet. This is a total withdrawal of nearly 600 Bcf more than the same five weeks last year,” Weissman says. “Through the end of March, we believe a reasonable range for the most likely weather is between the 30-year norm and the 10-year average. Given this, end-of-March storage would be approximately 1,378 Bcf or 321 Bcf less than at the end of last Winter. This is a cumulative withdrawal over the course of the Winter heating season of 2,072 Bcf, 493 Bcf more than last Winter’s total withdrawal.”

We’ll see. We think Andy will be buying the beer this time...

As for this week, working gas in underground storage was 2,757 Bcf or 20.7 percent above the five-year average for the week ending Jan. 19, according to EIA’s Weekly Natural Gas Storage Report. The net withdrawal during the report week was 179 Bcf, which is 19 Bcf more than the five-year average withdrawal of 160 Bcf for the week. This net withdrawal is the largest weekly net withdrawal this heating season and the largest since Dec. 9, 2005. It ends a string of lower-than-average withdrawals (based on data from the past five years) since the beginning of December 2006. Net withdrawals of this magnitude are not uncommon, the EIA says, occurring about 10 percent of the time during the heating season. The volume of natural gas in storage is still currently 10 percent higher than last year at this time. In contrast to the relatively large volume of gas in storage in the East and producing regions, the overall storage level in the West is just 11 Bcf, or 3.6 percent, higher than the five-year average. The trend of extreme weather

conditions in many parts of the West this Winter continued during the report week, resulting in the highest net withdrawal in the region recorded in EIA's weekly database, which contains data from the last 13 years. Temperatures for the United States as a whole, as measured by heating degree-days (HDDs), were about 3.9 percent warmer than normal for the week ending Jan. 18, according to the National Weather Service. In particular, warmer-than-normal temperatures continued in key consuming markets, such as the mid-Atlantic where HDDs were 23 percent below normal.

Looking closer at the Gas Lotto picks this week, the big surveys as a group were slightly on the low side. Dow Jones (the Lowballer among surveys) said -170 Bcf, Bloomie said -172 Bcf, Reuters said a very respectable 176 Bcf and BNP Paribas was slightly lower at 175 Bcf.

As for the independent analysts, we have a correction from last week. We said that Gabe Harris of WoodMac was last week's Lowballer along with Andy Weissman. In fact, Harris was only 2 Bcf off the mark, which was better than 90 percent of the market. This week Harris had another decent pick – 175 Bcf, 4 Bcf off the mark, which again is better than the majority of the market. Analyst Andy Weissman was this week's Highballer among analysts at -181 Bcf, Drew Wozniak, The Woz, is this week's Lowballer, with a -161 Bcf draw. Ron Denhardt of Boston-based SEER was close this week, but not close enough with a -174 forecast, thus breaking his three-week streak. Marshall Adkins of Raymond James is this week's winner with a -179 Bcf forecast, Steve Gregory of Weather Insite called a -171 Bcf draw, Robry825 called a -174 Bcf draw, which also was the final ICAP Auction number. PIRA said -171 and Bentek Energy also called a relatively low -173 Bcf draw, about in line with various other surveys.

Among the big banks, JPMorgan Chase had a forecast draw of -171, Tom Driscoll of Lehman Bros called a -170 Bcf draw, same as Fimat. Morgan Stanley called a -176 Bcf draw, Jefferies & Co. called a very respectable -175 draw, Wachovia said -167, and UBS said -160, this week's Notably Bad Forecast winner. Prudential said -183 Bcf and BofA said -173. In all, it was a particularly good week for all analyst categories, the best overall forecasting round this year.

In auction action this week, the market forecast settled on a draw of -174, a modest 5 Bcf off the EIA report number. Sources suggest that trading was light this week.