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High Temperatures = Low Prices

Despite the "Old Farmer's Almanac" and many other forecasters calling for a very cold winter, fall has gotten off to a relatively mild start. Of course, our friends at "OFA" called that too so it may be time to bundle up!

While prices have continued to fall throughout the nation during this period, the western US markets have been particularly hard hit. The main reason seems to be liquidity related to national credit woes as there does not appear to be any shortage of capacity to inject gas into western storage fields.

As I write this, near record high temperatures seem to be the order of the day in much of the west and mid-west. However, that's about to change.

The big question is, how much will the cold weather help? How much demand is being lost to industrial slow-down related to the slowing economy? How much of that information is already priced into the market?

One thing is sure: just about everyone who could short US NG already did. After covering more than 6000 net short positions last week, large speculators still remain net short by more than 166,000 contracts. These are contracts that must be purchased at some point. Has that trend begun?

Last week funds reduced their open positions by a record 180,000 contracts! If this is a sign that these traders are exiting the market in large volume, the ensuing rally should be a doozy!

NOVEMBER BIDWEEK ROUNDUP

The Nymex natural gas futures contract for November delivery at Henry Hub settled at **\$6.469**. This was up slightly from its lows, which were set earlier in the week. Never before had an annual low NG price been set during the month of October. This year, the market made five new lows during that time. Bidweek was choppy. Initial weakness gave way, ultimately providing one good selling opportunity before weakening again. Western markets were the lowest they've been since October 2002.

Here are the "Inside FERC" First of the Month Index prices for **November 2008**:

<u>SoCal</u>	<u>San Juan</u>	<u>Questar</u>	<u>CIG</u>	<u>Permian</u>	<u>Ventura</u>	<u>HSC</u>	<u>Henry</u>
3.74	2.84	2.61	2.78	3.24	6.08	5.72	6.47



Market Outlook

The market seems to be bottoming on the charts, however we have seen this before and trader consensus remains bearish. Friday's close was extremely strong and may be a sign of things to come. In a shoulder month we are basically at the whim of Mother Nature. Although news of economic slow-down has been a weight on energy markets as a whole, the vast majority of winter NG consumption goes for heating.

Our bias is still cautiously bullish. The market recently achieved some very important technical objectives, so any fundamental support at all should spark a nice recovery. Last week's COT report showed a record exit by the funds, but they still remain historically net short. The market needs a close above \$7.08 to build sustainable bullish momentum. This should lead to a test of \$7.94. A break of the \$6.45 level could lead to a re-test of \$6.00

Underground Storage Summary, Week Ending October 24, 2008 (Bcf)

<u>National Total</u>	<u>Last Year</u>	<u>Consuming East</u>	<u>Consuming West</u>	<u>Producing</u>
3,393	3,490	2,004	451	938