



Kase Commentary on Natural Gas

week ending November 07, 2008
www.kaseco.com (505) 237-1600

Volume XVI, Issue 39

Recap and Outlook	1
Summary of Analysis	1
Analysis	2
Monte Carlo Simulation	5

Outer Month Contract May 2009	6
Strategy	7
Signal Review Table	8
Outer Month August 2009	9

Kase Trades, Stops and Reversal Values

	Timers 2	Positions 3	Stop 1 4	Stop 2 5	Stop 3 6	Rev 1 7	Rev 2 8	Rev 3 9	Watch for Close 10
NGZ08	S	Flat	6.974	7.034	7.114	0.208	0.268	0.348	\$7.40
NGF09	S	Flat	7.10	7.155	7.219	0.15	0.205	0.269	\$7.60
NGG09	S	Flat	7.187	7.266	7.353	0.187	0.266	0.353	\$7.63

S = short, L = long, November = X, December = Z, January = F, August = Q

Recap of Last Outlook: The last Commentary called for a continued decline to at least \$6.29 for the December contract and a low of \$6.24 was made.

OUTLOOK For those new to the Commentary, see “Summary of Analysis” below for more detail. The bias is still negative calling for at least \$6.60 and potentially \$6.43 and then \$6.31 in the near term. There is still a 20% chance for \$7.40 and higher. So the secondary scenario is for a close over \$7.40 before \$6.60 is broken and then \$8.00, \$8.12 and potentially \$8.48. Normal odds are 80/20 for the primary and secondary scenarios. Odds do not apply to random events but to the technical picture as of the above date. Targets are within +/- \$0.04.

PEC Dallas Luncheon - November 21, 2008
Cynthia A. Kase, CMT, MFTA will present “Improving Hedging Techniques: How to Control Risk in Today’s Markets” at the monthly luncheon of the Petroleum Engineer’s Club in Dallas, TX. For more information and to RSVP please download the [PECD Brochure](#).

Summary of Analysis
Over the past two weeks the market attempted a recovery, but failed to rise above key resistance at \$7.40. There is still a small change that the correction will extend, but a completed intraday triple top and a close back below \$8.00 at \$6.76 indicate that it is likely over and prices will again drop.

Currently prices are just above key support at \$6.60, which will likely be met early next week. On a close below \$6.60, which has 80% odds, a drop to \$6.43 and then \$6.31 would be expected. Both of these levels have been and continue to be key support targets.

Below \$6.31 there is support at the December contract’s low of \$6.24, but a decline to \$5.97 and then \$5.76 is likely.

First resistance is \$7.11. A close above this level right away would indicate the correction is still underway and \$7.40 is likely.

The key resistance target is \$7.40. On a close over \$7.40 there is intermediate resis-

tance at \$7.58 and \$7.86, but at that point, the market would likely rise to \$8.12 and potentially \$8.48.

So the negative primary scenario calls for \$7.40 resistance to hold on a closing basis, and a decline to at least \$6.60 and then likely \$6.31 and lower. The secondary scenario is for a close over \$7.40.

January and February are trading some \$0.20 to \$0.25 above December and also favor moves lower. First support is \$6.86 for January and \$6.95 for February. The key upper resistance levels that must hold in the primary scenario are \$7.60 and \$7.63 for January and February, respectively.

The new outer month of August 2009 favors at least \$7.14 and likely \$6.80. However, there is still about a 20% chance that \$7.90 resistance could be tested first. On a close above \$7.90, \$8.51 and higher is called for.

So the primary scenario for August is a drop to \$7.14, while holding \$7.90 on a closing basis and the secondary scenario for is a close over \$7.90.

Analysis

After falling to \$6.24 nearly two weeks ago the market corrected to \$7.36 where an intraday triple top formed as shown in the chart below. The completion point for the triple top was the swing low of \$7.082, which was later broken, indicating that the correction is likely complete.

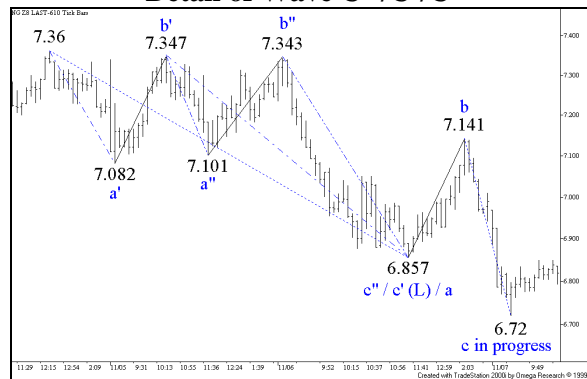
NGZ08 Intra-Day Triple Top



Thus far, a low of \$6.72 has been made and even though the triple top have been confirmed until the swing low of \$6.33 is taken out there is still a small chance for a further correction. The market has already tried to recover once, making a swing high of \$7.141, but failed. As will be discussed in the resistance section of this analysis, a price just above \$7.082 at \$7.11 is a major resistance threshold.

The waves down from \$7.36 indicate that \$6.60 is a major target that connects to \$5.97 and \$5.76, which have been discussed for weeks now. For wave a, \$7.36 – 6.857 – 7.141 the smaller than target at \$6.82 has already been met and now the equal to target at \$6.60 is called for.

**NGZ08 Waves Down from \$7.36
Detail of Wave C''/C'/C**



X	Y	Z	6.60	6.43	6.31	5.97	5.76
7.36	7.082	7.347	3X, XC, P2				
"	6.857	7.141	E	I	L	3X	XC
"	6.72	6.85		S		I	L
7.141	"	"	S, P1	E	I, P3	3X	

Wave a connects \$6.60 to \$6.43 and \$6.31 as the intermediate and larger than targets, respectively. Note that these levels were major support targets during the decline to \$6.24. On a close below \$6.31 a drop to \$5.97 and then potentially \$5.76 may take place as the trend terminus and XC targets for wave a.

The \$6.60 level is also the trend terminus, XC and P2 projection for the wave \$7.36 –

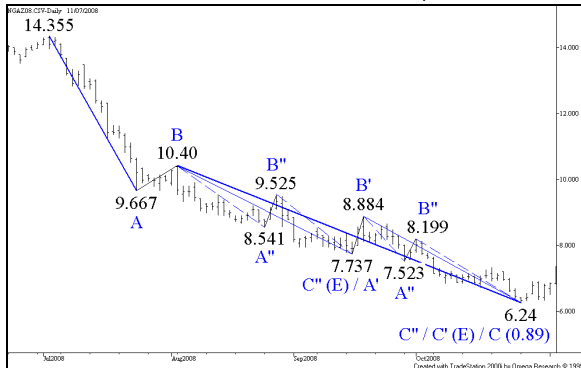
7.082 – 7.347 as well as the smaller than target and P1 projection for the wave \$7.141 – 6.72 – 6.85. The second wave connects to \$6.43 as the equal to target and then \$6.31 as the intermediate and P3 projection. The trend terminus is \$5.97.

The entire formation, \$7.36 – 6.72 – 6.85, projects to \$6.43 as the smaller than target and connects to \$5.97 and \$5.76 as the intermediate and larger than targets.

So, on a close below \$6.60, the chances of a continued correction are greatly dampened and then \$6.43 and \$6.31 would be expected. On a close below \$6.31 the low of \$6.24 would probably be taken out and \$5.97 and then \$5.76 would be met.

Both \$5.97 and \$5.76 are confluent targets for the early wave formations down from the high of \$14.355. The \$5.76 objective is more important to the wave structure than \$5.97 because it is the equal to target for Wave A, \$14.355 – 9.667 – 10.40.

NGZ08 Waves Down from \$14.355



X	Y	Z	5.97	5.76
14.355	9.667	10.40		E
10.40	8.541	9.525		3X
9.525	7.737	8.884	L	
8.884	7.523	8.199	L	

That said, the \$5.97 level is the larger than target for the waves \$9.525 – 7.737 – 8.884 and \$8.884 – 7.523 – 8.199. It is also in the Dev3 daily and warning line weekly positions for the perpetual contract, and is in line

with the perpetual low of \$5.99. So there is strong support at \$5.97.

Perpetual and NGZ08 Support DevStops

NG Long	Warn	Dev1	Dev2	Dev3	Dev4.5
Daily - Perp	6.67	6.43	6.15	5.94	5.59
Weekly - Perp	5.99	5.43	4.76	3.98	3.47
Daily - Z	6.75	6.52	6.25	5.94	5.74
Weekly - Z	6.08	5.51	4.82	4.00	3.49

On the December chart a price just above \$6.60 at \$6.67 is in the 62% retracement position for the move up from \$6.24 to \$7.36. This again confirms that on a close below \$6.60 the potential for a further positive correction is unlikely.

NGZ08 Retracements to \$7.36

From:	6.24	6.33	6.512
62%	6.67		
89%	6.36	6.44	6.61

The \$6.31 target is the 89% retracement from \$6.24 to \$7.36 as well as the 78% retracement from \$5.99 to \$7.36 on the perpetual chart.

Perpetual Retracements to \$7.36

From:	5.99	6.33
50%	6.68	
62%	6.51	
78%	6.29	6.56
89%	6.14	6.44

So, to summarize, there is initial support at \$6.60, a very confluent and important target that will likely be met early next week. A close below this level will bias price to \$6.43 and then \$6.31, both of which have, in the past, been major support targets. Upon a close below \$6.31, look for \$6.24 to be met and then for a likely decline to the lower targets of \$5.97 and \$5.76.

Resistance

As stated earlier a price of \$7.11, just above the swing low of \$7.082 which was the completion point for the triple top, is first resistance. It is the trend terminus and XC

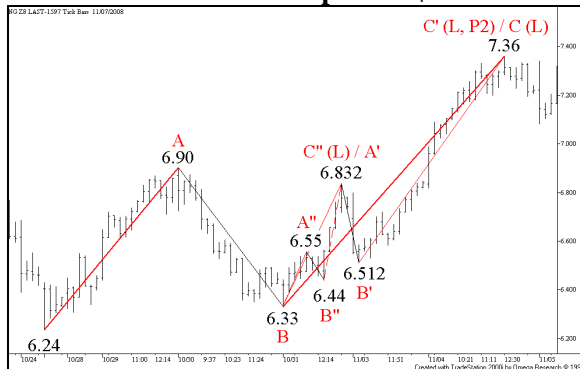
projection for the small wave \$6.72 – 6.85 – 6.737.

NGZ08 Wave Projection

X	Y	Z	7.11
6.72	6.85	6.737	3X, XC

Above \$7.11 there is still key resistance just above \$7.36 at \$7.40. This was the larger than target for Wave A, \$6.24 – 6.90 – 6.33 and a close above this level will call for an extension above \$8.00 to \$8.12 as the XC projection and potentially \$8.48 as the trend terminus.

NGZ08 Waves Up from \$6.24



X	Y	Z	7.40	7.86	8.12	8.48
6.24	6.90	6.33		P2	XC	3X
"	7.36	6.72	S	E		L
6.33	6.832	6.512		XC, P3		
"	7.36	6.72			I	

Note that on a close below \$6.60, odds of a recovery will be dampened, but not wiped out. Wave A may still extend above \$8.00 should the swing low of \$6.33 hold. This is the bottom of Wave B and lines up with support at \$6.31. So this increases the importance of support at \$6.31 because on a close below that I not only would the low of \$6.24 most likely be met, but also Wave A would be negated.

The \$7.40 target is the smaller than target for the entire formation \$6.24 – 7.36 – 7.67. This connects to \$7.86 as the equal to target and \$8.48 as the larger than target.

The wave \$6.33 – 6.832 – 6.512 met its larger than target and P2 projection at \$7.36. The XC and P3 projection for this wave is \$7.86.

The final wave \$6.33 – 7.36 – 6.72 projects to \$8.12 as the intermediate target.

The resistance DevStops show that \$7.58 is in the Dev3 daily and warning line weekly positions for December. However, this target was not a confluent level in the wave analysis and may not prove to be a strong resistance target on a close over \$7.40.

Perpetual and NGZ08 Resistance DevStops

NG Short	Warn	Dev1	Dev2	Dev3	Dev6
Daily – Perp, Z	-	-	-	7.58	8.14
Weekly - Perp	7.36	7.91	8.59	9.37	10.71
Weekly - Z	7.56	8.09	8.78	9.59	10.97

Initial resistance at \$7.11 is the 62% retracement from \$7.36 to \$6.72. A close above \$7.11 before \$6.60 is taken out would indicate that a further correction to \$7.40 is underway.

NGZ08 Retracements to \$6.72

From:	7.36
21%	6.85
38%	6.96
50%	7.04
62%	7.12
89%	7.29

The \$7.40 target is the 21% retracement from \$11.643. Above this the 21% retracement from the high of \$14.355 to \$6.24 is \$7.86.

NGZ08 Retracements to \$6.24

From:	9.549	9.906	10.40	11.643	14.355
21%				7.37	7.94
38%	7.50	7.64	7.83	8.30	9.34
50%	7.89	8.07	8.32	8.94	10.30
62%	8.28	8.51	8.81	9.58	11.26
89%	9.19	9.50	9.94	11.05	13.46

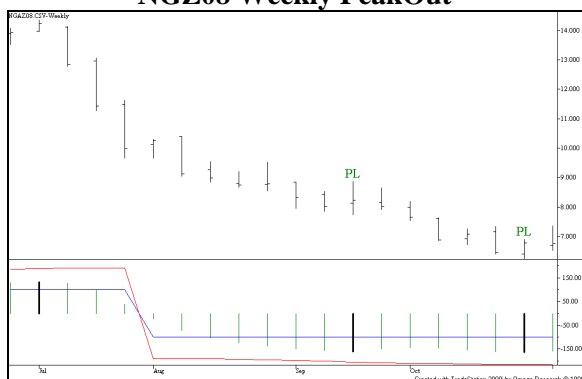
The \$7.58 target is the 21% retracement from \$13.694 to \$5.99 on the perpetual chart. Again, this is not a confluent wave target, but it does show up in a major retracement position and the DevStops as shown earlier.

Perpetual Retracements to \$5.99

From:	8.32	8.808	9.60	10.799	13.694
21%					7.61
38%			7.37	7.83	8.93
50%		7.40	7.80	8.39	9.84
62%	7.43	7.73	8.22	8.96	10.75
89%	8.06	8.50	9.20	10.27	12.85

The only positive sign is a completed weekly PeakOut. Note though that the last time there was a weekly PeakOut the market broke lower soon after, so not much weight can be put into this signal.

NGZ08 Weekly PeakOut



So there is still potential for a recovery back to \$7.40 and higher. A close above \$7.11 before \$6.60 is taken out would indicate that the correction is attempting to continue and would favor \$7.40. Above \$7.40 there is resistance at \$7.58 and \$7.86, but at that point a move above \$8.00 to \$8.12 and potentially \$8.48 would be called for.

Monte Carlo Simulation

The Monte Carlo simulation confirms that on a close over \$7.11 a further correction is underway. This is because it is in the 5% probability spot of the normal down case, meaning that above \$7.11 there is only a

5% chance that the market is still in a downward biased scenario.

The key resistance target of \$7.40 has only 5% odds in the no bias case. In the normal and strong up scenarios though \$7.40 has 15% and 30% odds, respectively.

Percentile	--	-	0	+	++
5	5.82	5.94	6.21	6.42	6.59
10	5.93	6.06	6.32	6.52	6.71
15	6.01	6.16	6.39	6.61	6.80
20	6.07	6.22	6.46	6.69	6.87
30	6.17	6.33	6.57	6.80	6.98
35	6.21	6.38	6.62	6.85	7.03
45	6.30	6.47	6.71	6.95	7.13
50	6.34	6.51	6.76	7.00	7.17
60	6.43	6.60	6.85	7.10	7.28
70	6.53	6.70	6.95	7.20	7.39
80	6.64	6.81	7.06	7.32	7.50
85	6.70	6.87	7.13	7.40	7.58
95	6.91	7.09	7.36	7.62	7.86

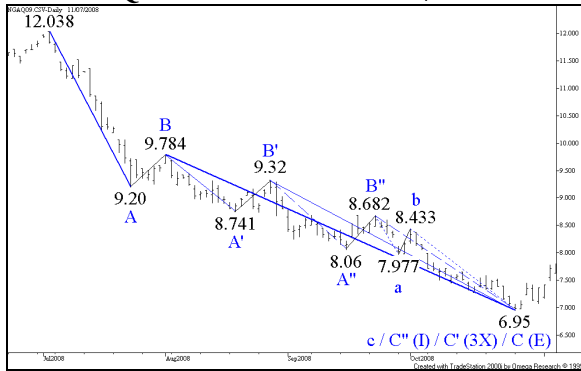
First support at \$6.60 has 35% odds in the no bias case. These odds increase to \$60% and 80% in the normal and strong down cases.

Also, on a close below \$6.60 the odds of a recovery are only about 15% in the normal up case and 5% in the strong up scenario. So as the analysis indicated below \$6.60 the odds of a further correction are greatly dampened.

Outer Month August 2009

This week, the August 2009 contract is reviewed as the new outer month focus. For August, the formation down to \$12.038 was very regular, where Wave A, \$12.038 – 9.20 – 9.784 met its equal to target at \$6.95. Wave A/C, \$9.784 – 8.741 – 9.32 met its trend terminus at \$6.95 and the wave \$9.32 – 8.06 – 8.682 met its intermediate target.

NGQ09 Waves Down from \$12.038



X	Y	Z	6.68	6.46	5.86
12.038	9.20	9.784			I
9.784	8.741	9.32		XC	
9.32	8.06	8.682	L		
8.682	7.977	8.433	3X	XC, P3	

For Wave A, the next major objective is \$5.86, the intermediate target. There is also support at \$6.68 and \$6.46 which are the trend terminus, XC and P3 projections for the wave \$8.682 – 7.977 – 8.433.

Immediate support is \$7.14, the larger than target and P2 projection for the wave \$7.80 – 7.468 – 7.674. This then connects across the row of \$6.80, the trend terminus, XC and P3 projection.

NGQ09 Wave Projections

X	Y	Z	7.14	6.80	6.68
7.80	7.468	7.674	L, P2	3X, XC, P3	
"	7.37	7.403	S	I	L
7.674	"	"		3X	

There is also support at \$6.68 the larger than target for the Wave \$7.80 – 7.37 – 7.403. The smaller than and intermediate targets for this wave are \$7.14 and \$6.80, respectively.

The \$6.83 target is confirmed in the \$Dev3 daily and warning line weekly positions.

NGQ09 Support DevStops

NG Long	Warn	Dev1	Dev2	Dev3
Daily - Q	-	7.25	7.09	6.83
Weekly - Q	6.83	6.64	6.24	5.78

The \$7.14 target is the 78% and 89% retracement from \$6.95 and \$7.075 to \$7.80, respectively.

NGQ09 Retracements to \$7.80

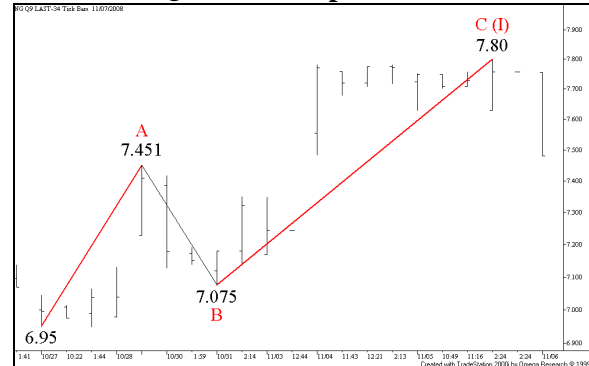
From:	6.95	7.075
62%	7.27	7.35
78%	7.14	7.23
89%	7.04	7.15

So, a drop to at least \$7.14 is expected and a close below this level will bias August to the low of \$6.95 and likely \$6.83 and lower.

August Resistance

Wave A, \$6.95 – 7.451 – 7.075 met its intermediate target at \$7.80. This indicates that there is a 75% chance the correction is over

NGQ09 Waves Up from \$6.95



X	Y	Z	7.90	8.22	8.51	8.75
6.95	7.451	7.075	L		3X, XC	
"	7.80	7.37	S	E	I, P2	L

The larger than target for Wave A is \$7.90 and a close over this level will favor a move back above \$8.00 to \$8.51 as the trend terminus and XC projection.

There is also resistance at \$8.22, which is the equal to target for the wave \$6.95 – 7.80 – 7.37. This wave connects to \$8.51 as the intermediate target and P2 projection and \$8.75 as the larger than target. It is also Dev6 on the daily chart.

NGQ09 Resistance DevStops

NG Short	Dev1	Dev2	Dev3	Dev4.5	Dev6
Daily - Q	-	-	-	7.90	8.25
Weekly - Q	8.10	8.50	8.96	9.26	9.75

A target right at \$8.00 shows up in the retracements, but is not confluent in the wave analysis. This is the 21% retracement from \$12.038 to \$6.95.

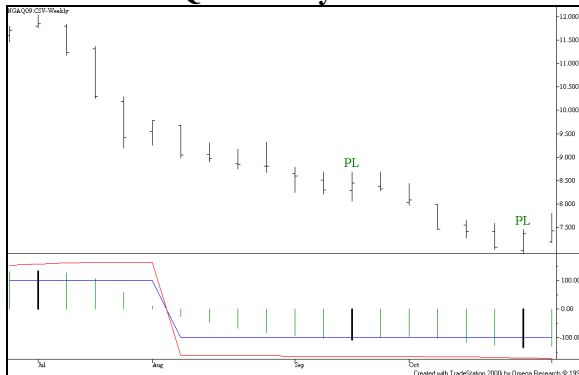
NGQ09 Retracements to \$6.95

From:	8.433	8.682	9.029	9.32	9.784	12.038
21%						8.02
38%				7.86	8.03	8.89
50%		7.82	7.99	8.14	8.37	9.49
62%	7.87	8.02	8.23	8.41	8.70	10.09
78%	8.11	8.30	8.57	8.80	9.16	10.92
89%	8.27	8.49	8.80	9.06	9.47	11.48

Also note that the 62% retracement from \$8.433 to \$6.95 is \$7.90 and that the 89% retracement is just above \$8.22.

A weekly PeakOut is the only positive sign that shows a further correction may take place.

NGQ09 Weekly PeakOut



So for a further recovery to ensue, a close over \$7.90 must take place. Above \$7.90, \$8.51 is likely with potential to \$8.75.

Strategy

Currently shorter bar lengths and intraday charts are recommended for both long and short trades because the market is sitting right on key support at \$6.60. On a close below \$6.60, longer bar lengths and daily charts will be recommended once again.

Signal Review Summary

Trading Summary: Timers were 50% short from 7.024 two weeks ago. Throughout the past two weeks the fast monitor was used for exits during long trades whereas the normal monitor was used to exits short trades. The weekend is entered short.

Position Summary: Position holders were short two weeks ago from \$6.79. However, due to a KPO divergence that triggered on October 28 and a Dev1 hit, the position was exited 100% at \$6.519.

On October 29 a long position was entered at \$6.691 due to a buy signal on the daily chart. This position was exited on November 6 at \$7.01 for a gain of \$0.319 when a half-day divergence and Dev1 hit took place. The weekend is entered flat.

Signal Review Trade Notes

Due to the straightforward nature of trades taken the past two weeks, there are no signal review notes.

Tick and Index Table

Contract	Z	F	G
Timing Chart	987	233	144
Fast Monitor Chart	2584	610	377
Intraday Index	-45e	-45i	-50e

Signal Review Table (Hypothetical)

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Trade	Position	TV	Entry	Time	Price	Indication	TV	Exits	Time	Price	Indication	%	Gain/Loss
1	S	987	10/20	1037	7.024	2nd Sell	4000	10/24	1223	6.316	PG	50	0.637
							4000	10/27	606	6.458	Inactivity	50	
2	L	610	10/28	1155	6.534	2nd Buy	2584	11/4	1157	7.270	PL	50	0.668
							2584	11/5	909	7.133	Dev1	50	
3	S	610	11/6	930	7.176	2nd Sell							0.396
												Total Gains/Loss	1.701

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of Kase and Company, Inc. Kase and Company, Inc. work products including, but not limited to, reports, comments, forecasts, analysis, and screenshots whether oral or written are "publications" and are not to be construed in any way as "consulting".



Kase Standard Mini-Trading Lessons Series – Lesson 5.4 – Kase’s Forecasting Methodology

While the mathematical calculations are extremely important to the Kase Forecasting methodology; the application of the calculations must be given equal consideration.

Kase has studied and uses many techniques such as Elliott Waves, retracements, momentum indicators, candlesticks, geometric patterns and so on, in the weekly analysis. However, many of these techniques have been slightly tweaked or modified through Kase’s experience with the energy markets to better suite the needs of the weekly forecasts.

Brief Review of Elliott Wave Rules

- The market trends in five waves
- Two of the waves, waves two and four, are corrective
- The of the waves, waves one, three and five are impulse waves in the direction of the trend
- Corrective waves break down into three-wave patterns called ABC corrections
- In a trending pattern two of the waves are usually the same size
- Wave three is never the smallest wave
- In an ABC correction, wave C is usually equal to wave A, but sometimes is larger.

The Kase Calculations

Knowing the specific calculations is not enough to put together a forecast. Each calculation has a specific application where it can be used. The following sections outline uses for each of the different calculations.

Rule of Three

For a trending pattern, it is important to determine the first wave of a trending pattern, or sub-wave within an impulse wave. The rule of three can then be used at anytime that Wave I has been identified. As noted above, the rule of three is the most important extension because it gives the value at which the trend will end.

The end point of the pattern within its present scale is the trend terminus or 3X calculation. If there is only one wave of the formation completed or if the forecaster cannot yet determine if the pattern is corrective or trending, the 3X calculation can be useful in determining where prices would go if a trend were to take place.

Smaller Than Rule

If the forecaster has identified Wave I, and Wave III is on the chart, then the task should be to identify what Wave V will be. Wave III can never be the smallest wave. In fact, it is generally the largest of the five waves. With that said, suppose Wave I and Wave III

are equal to each other, then it stands to reason that Wave V must be smaller than Wave III.

Another time the smaller than rule can be applied is if Wave I is 0.618 times smaller than Wave III. It would be proper to suppose that Wave V would be equal to Wave I or III. In the former case, it would be 0.618 times Wave III’s impulse portion.

Equal To Rule

In a situation in which Wave I is unusually small and Wave III is a fairly large impulse, Wave V will probably not be smaller than Wave III. Thus, it will be at least equal to Wave III if it does not extend. Furthermore, in general, waves two waves are generally equal.

Intermediate and Larger than Rules

If Wave I or A has already formed, Wave III or C may be larger. The most common rule we use for a larger wave is, as the name implies, the “larger than” calculation where the latter wave is a multiple of 1.618 times the first wave.

Less commonly, sometimes extensions stall partway between an equal to and larger than extension. When this happens the stall point is usually at the “intermediate” extension, which uses the 1.382 multiplier. While the forecaster does not know ahead of time if an extension will stall at the intermediate level, one can often predict that this may take place when the intermediate extension target is “confluent”.

P1, P2, and P3 Rules

In general, forecasters can calculate all three of these for Wave I and Wave III. They have specific rules for which waves they should work on, but it has been found that they generally work well on either the first or second wave.

XC Rule

This calculation is used whenever an extended Wave C or V has been identified.

Confluence

Confluence takes place when prices within the same small range are found repeatedly throughout the calculations. For example, in forecasting natural gas, Kase looks for a price within about a six-cent range. For crude oil, Kase uses about a 50-cent range.

The impulse and corrective calculations can be thought of as distinct types of projections. If there are multiple types of projections leading to the same price range, then that price range is important and has a higher probability of being met.