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Energy and Interest Rate Forecasts
February 8, 2003

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Natural Gas Price Forecast February 8, 2003

– A Look Back –

– 1-Year Ago –

– December 13, 2001 Forecast –

*“The intra-day target located at **\$2.24** remains a very strong support level should the market make it that low.”*

The market fell hard to the predicted level of very strong market support around **\$2.24 and remained glued to that general area the better part of the month of January 2002.**

January 21, 2002 Forecast –

*“The market has experienced significant support around the previously predicted price of **\$2.24** (Feb-2002 contract). In the event this support level fails, there is additional market support down at the **\$1.96** to **\$1.97** (Mar-2002 contract) price region.”*

The market did fall exactly to **\$1.96 for an intra-day Low on **January 28, 2002**, and has remained a major market Low for over a year.**

– Most Recent Forecast –

NGH3 Contract

Recent market action has warranted a slight adjustment to the upper level of the high probability resistance level as follows.

The high probability target resistance area is located at **\$5.90** to **\$6.38** (This forecast is contingent on prices not first falling below **\$4.65**) with particular emphasis in the upper portion of the range, **\$6.14** to **\$6.38**. If a reversal occurs at/near this range, I anticipate the intra-day high that is established to persist at least 1 to 2 months as a minimum. If correct, we currently have **\$0.29** to **\$0.77** of upside risk exposure from Friday’s close. There does exist a price target up at **\$7.19**, though I don’t think this is of concern at this time given the apparent strong resistance at **\$5.90** to **\$6.38**.

– Forecast Accuracy –

N/a



– Current Market –



The market finally broke through the 2-week long resistance at **\$5.60** and moved into the lower portion of the high probability resistance price zone [**\$5.90**, **\$6.38**]. Astute traders will likely be raking in some cash as market weakness finally establishes itself in the near-term.

– Current Forecast –

No Change

Note

The price target range is not a forecast that the market will move to the stated price level. Rather, in the event the market does move to the forecasted target price level, market resistance (support) is likely to occur at the stated level of probability.

Market Resistance

A price zone where a rising market is likely, at the stated level of probability, to stop and reverse downward (reversal) or stop and move in a sideways fashion (consolidate).

Market Support

A price zone where a falling market is likely, at the stated level of probability, to stop and reverse upward (reversal) or stop and move in a sideways fashion (consolidate).

Strip Pricing

The above forecasts do not address NYMEX strip pricing. The forecasts are for the designated contract only.

Please take note of the chart on the following page. Last week's "minimum highs" are charted as potential 3-Week Extreme moves. The charted "monthly Lows" serve as extreme market moves to the downside for both the 3- and 4-week forecasts.

Natural Gas Pricing Downside Risk / Upside Potential For Extreme Market Moves March 2003 Contract Pricing February 8, 2003				
	Confidence Intervals			
	95.0%	97.5%	99.0%	99.5%
Monthly High	\$7.33	\$7.62	\$7.96	\$8.22
Weekly High	\$6.54	\$6.69	\$6.87	\$6.99
Weekly Low	\$5.27	\$5.15	\$4.99	\$4.90
Monthly Low	\$4.65	\$4.46	\$4.28	\$4.15

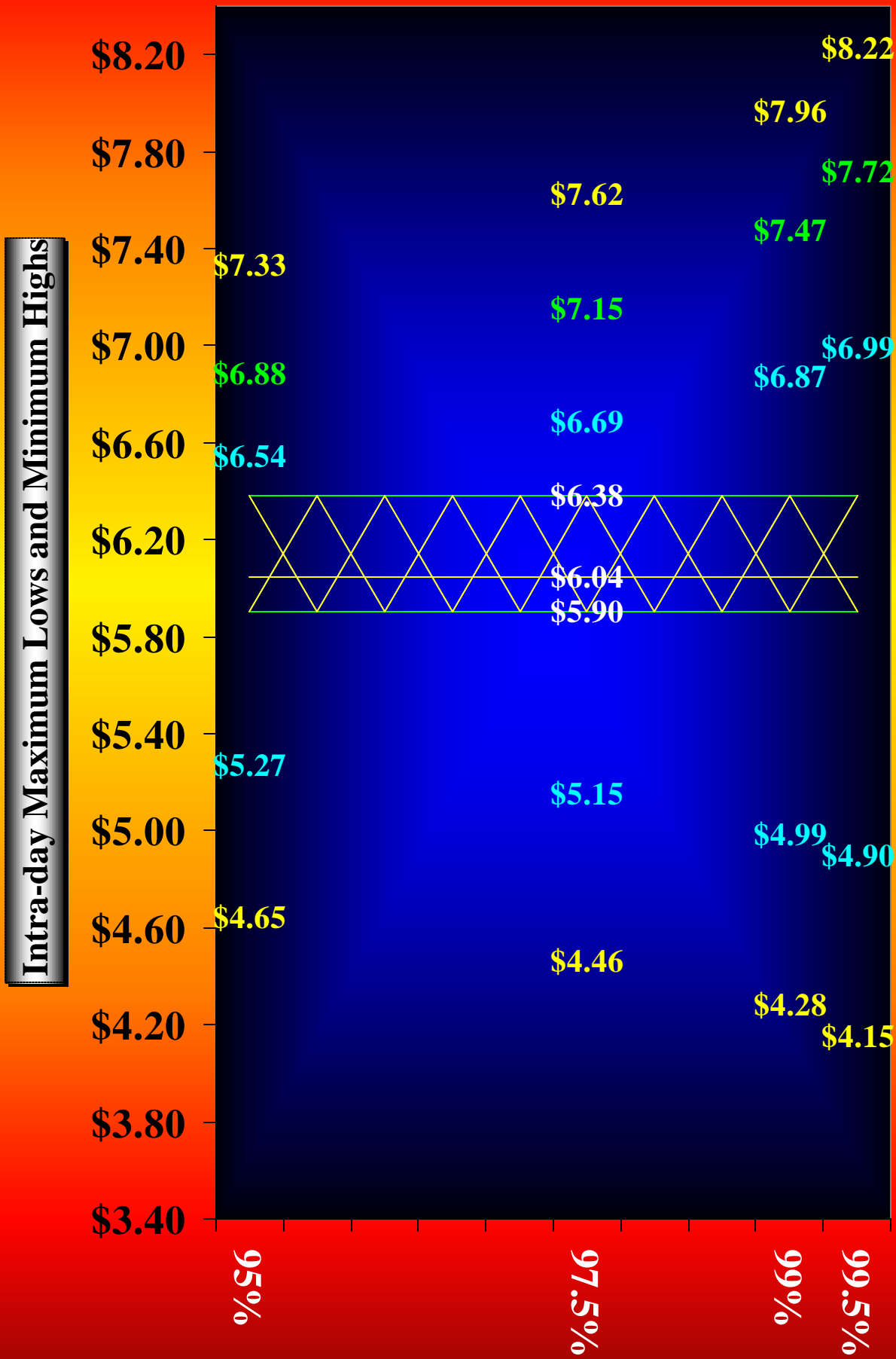
In the long run, all price movement should be contained within the above stated price levels at the stated probabilities for a given time frame.

Example Table Interpretations

In the long run,

- The **95% Weekly** confidence interval should contain all **Weekly** price movement **95%** of the time.
- The **99% Monthly** confidence interval should contain all **Monthly** price movement **99%** of the time.
- The market should **rise at least** to the **99.5%** confidence interval **Monthly High** only **¼ of 1%** of the time $[(1-0.995)/2 = 0.0025 = \frac{1}{4} \text{ of } 1\%]$.
- The market should **fall at least** to the **95%** confidence interval **Monthly Low** only **2.5%** of the time $[(1-0.95)/2 = 0.025 = 2.5\%]$.

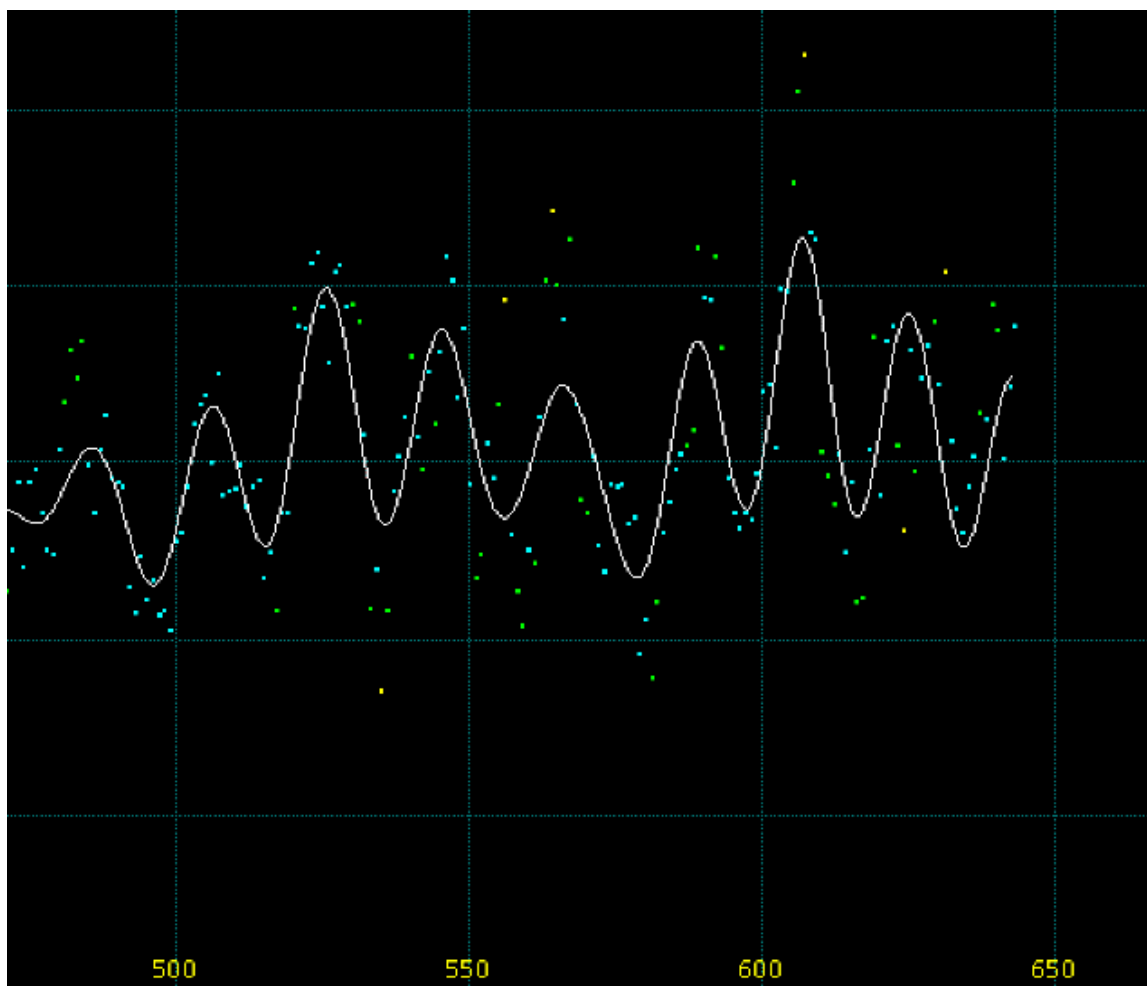
Natural Gas Futures
- Risk/Reward Profile -
- March 2003 Contract Pricing -
"Downside Risk" and "Upside Potential"
Extreme Market Moves
for the Upcoming **5** , **15** and **20** Trading Days



___ Confidence Interval

Natural Gas Price
Market Cycles
February 8, 2003

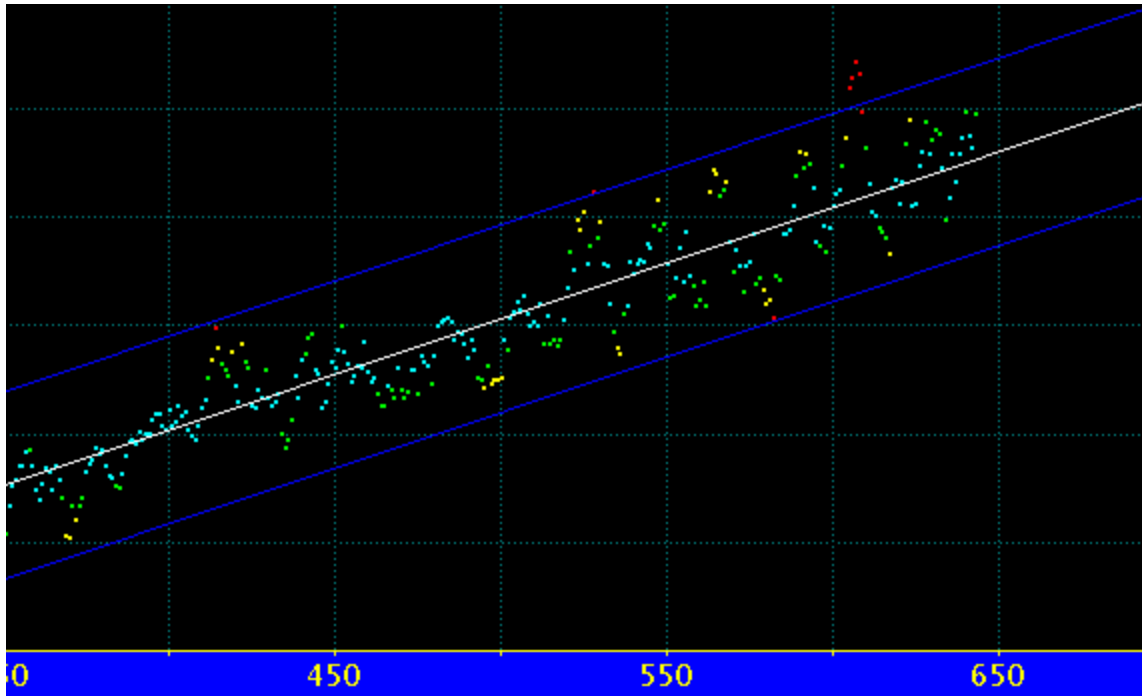
This look at market cycles continues as an observation only and not a forecast, as this uniform cycle can cease at any time. As the cycles represent a mathematical data transformation of typical pricing data (and not the market pricing data itself), the chart does not reveal much information this week. In the event this cycle turns down hard into next week, the market should close at **\$5.74** or less at some point in the next five (5) trading days. Again, this is not a forecast.



Natural Gas Price
Market Risk/Reward
February 8, 2003

Yet Another Look at Price Extremes

This is another data transformation of the natural gas futures prices with the blue lines representing extreme moves. Over the next week, it's highly unlikely the market will move outside this range [**\$4.93**, **\$6.69**] on an intra-day basis.



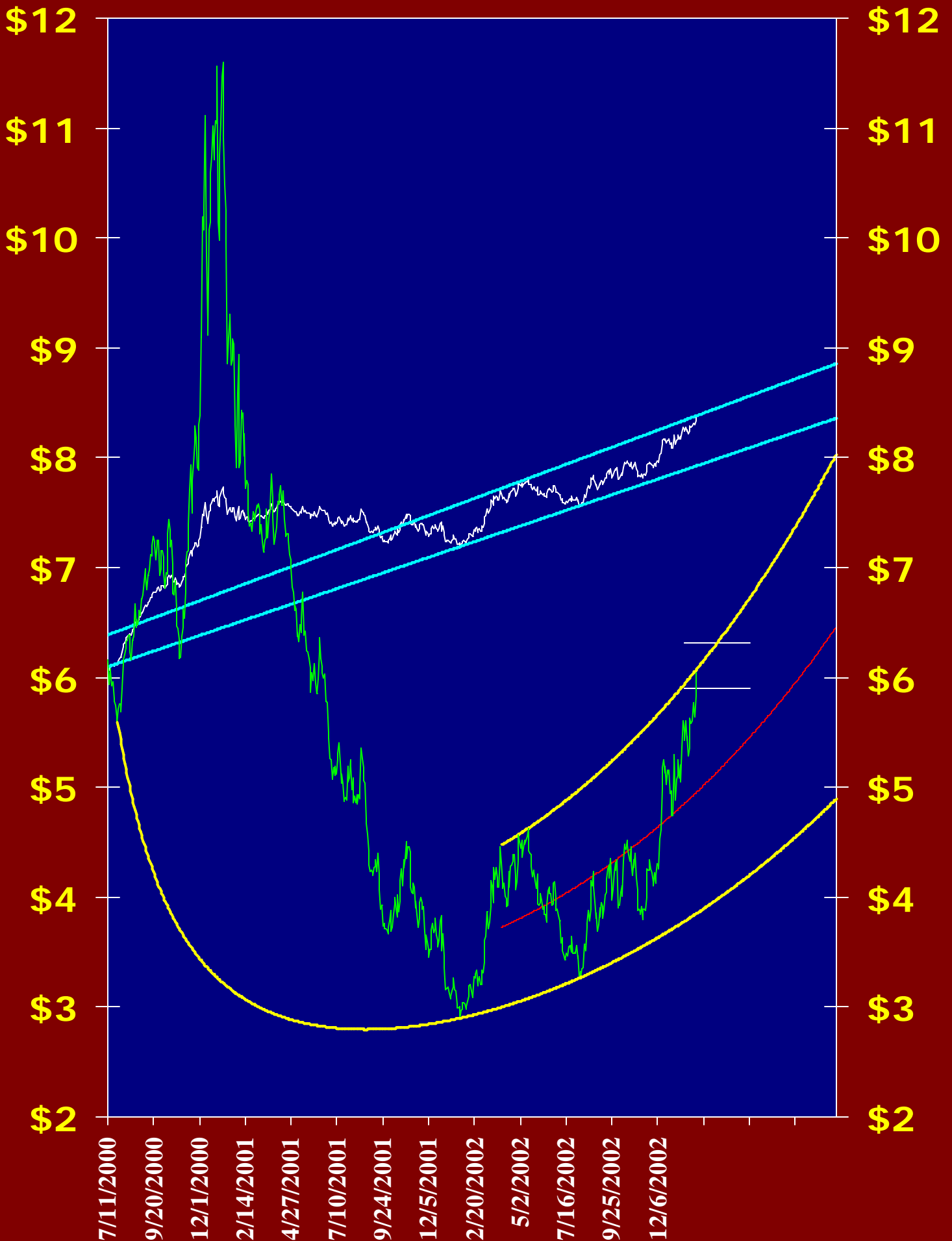
Natural Gas Futures
Stealth Channel
February 8, 2003

I initially noticed this particular trending (see below) of the natural gas futures market a couple of weeks ago, but was hesitant to include it in my discussions. Given the course of price movement over the past two weeks, I now feel it is a worthy market trend – especially if the market adheres to the rising resistance Stealth curve. If the charted trend is correct and persists, it reveals some important information regarding future price movement.

- The overall market direction remains up
- The market is currently situated at a market extreme
- The market is currently in the top half of the Stealth Channel (markets tend to trend in the top or bottom half of the channel for long periods of time as opposed to crossing the median line (red) often).
- The Stealth Channel is widening over time indicating the potential for heightened market volatility
- The top portion of the Stealth Channel (market resistance) is rising at a faster rate than the bottom portion of the channel (market support).
- The market can fall and/or rise huge amounts and still remain within the Stealth Channel
- The validity of this Stealth Channel is increased due to the fact that the market has nicely bounced off the Stealth median line on numerous occasions.
- In the event the market continues to adhere to this particular Stealth Channel, in approximately 7 to 8 months we will see prices in the [**\$4.90**, **\$6.50**] range if in the lower portion of the Stealth Channel or [**\$6.50**, **\$8.00**] if in the upper portion of the Channel (prices are not NYMEX strip but March 2003 equivalent pricing).

The high probability resistance zone of [**\$5.90**, **\$6.38**] is charted for reference sake.

Natural Gas Futures
w/ "Stealth Channel" and
High Probability Resistance
(March 2003 Front-month)





30-Year Interest Rates February 8, 2003

– Previous Forecast –

Symbol TYX

If interest rates continue their decline from two (2) weeks ago, there is convincing evidence the market will find support with “moderate to high” probability in the fairly narrow **4.6%** to **4.7%** range. Since this target range would also form a double bottom from September 2002, I would upgrade this to a “high probability” support area. Given the confirmation of several projected targets coinciding in the above stated range in addition to the double bottom opportunity, this could very well end the long-term decline in interest rates. If correct, it appears late March to early April would be an opportune timeframe for a double bottom to occur with a long-shot chance at mid-February. This forecast is invalidated in the event 30-year rates first rise above **5.22%**.

– Current Market –



– Forecast Accuracy –

N/a

– **Current Forecast** –

Symbol TYX

No change from above except to note that there is also the possibility of a triple bottom, the second occurring mid-February (February 17th +/-) and the third occurring late March to early April. I also would remove the “long-shot” probability I assigned earlier to the potential mid-February event. – Just another scenario of which to be aware.

On a fundamental note, rising rates could conceivably occur coincidentally with the beginning of an Iraqi war (if it ensues), which will not bode well for Bush’s re-election hopes – at least from a domestic economic perspective. This will likely keep Bush even more focused on foreign affairs with the passage of time, since the bond and stock markets should each suffer as a result of rising interest rates.



Crude Oil Price Forecast February 8, 2003

- A Look Back –
- 3+ Months Ago –
- November 3, 2002 Forecast –

“To the extent Crude Oil and Gold prices are correlated, Gold futures are primed to make a massive move of unknown direction in the very near-term. There is strong support for Crude as indicated in the chart below.”

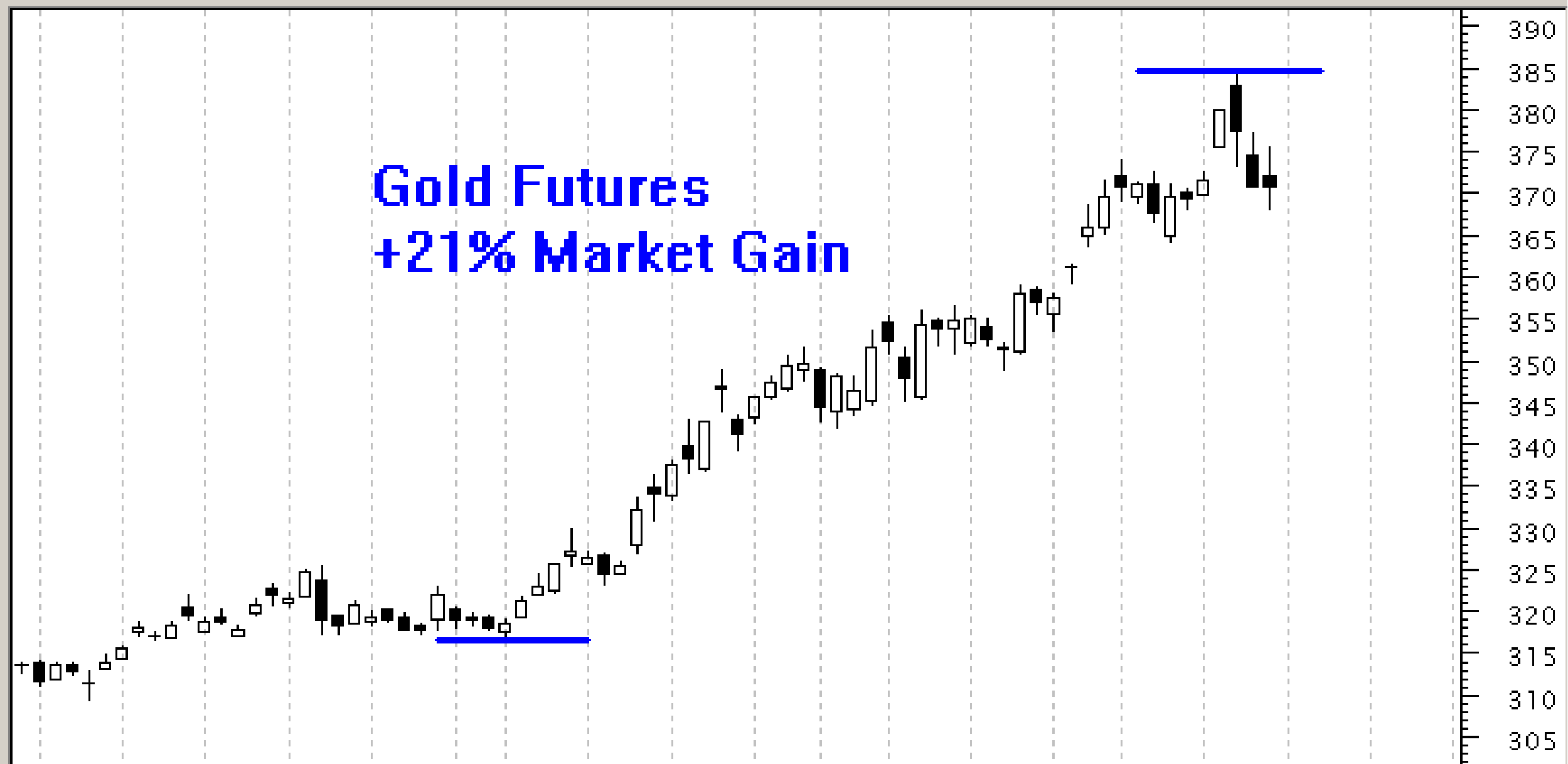
The Gold futures market has risen over +21% since the large move initiated on December 2, 2002 (see below) and the predicted Crude Oil futures Support turned into a major market Low. Crude and Gold have since tracked nicely upward with significant respective moves.

– Previous Forecast –

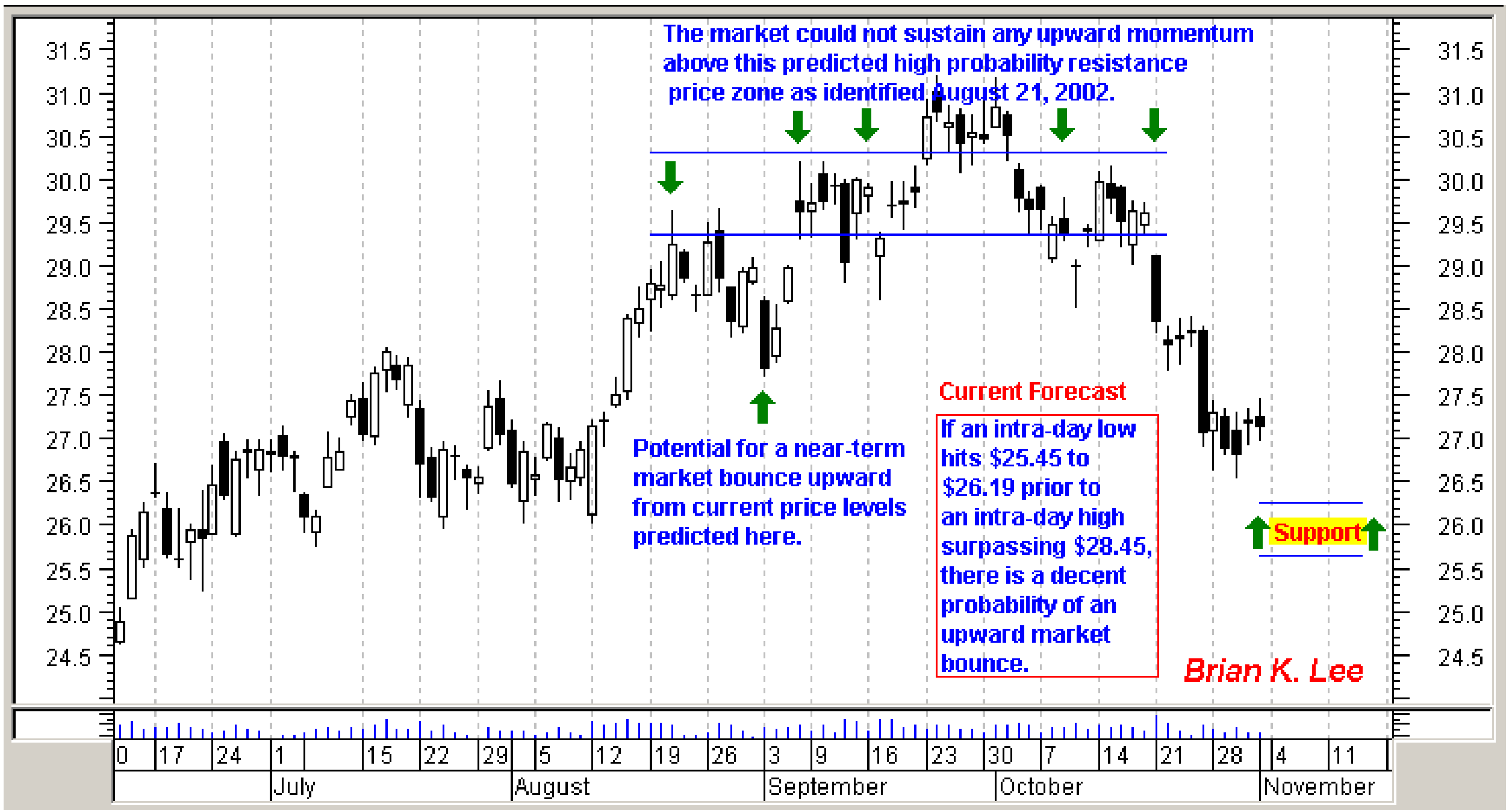
CLH3 Contract

There exists a “high to very high” probability target resistance area at **\$36.46** to **\$38.93** with particular emphasis in the lower portion of the range, **\$36.46** to **\$36.85** (see chart below).

Gold Futures +21% Market Gain



21	28	4	11	18	25	2	9	16	23	30	6	13	21	27	3	10	17
November						December						2003			February		



– Current Market –

Note: CL03J Contract is charted below since CL03H was unavailable at the time of printing.

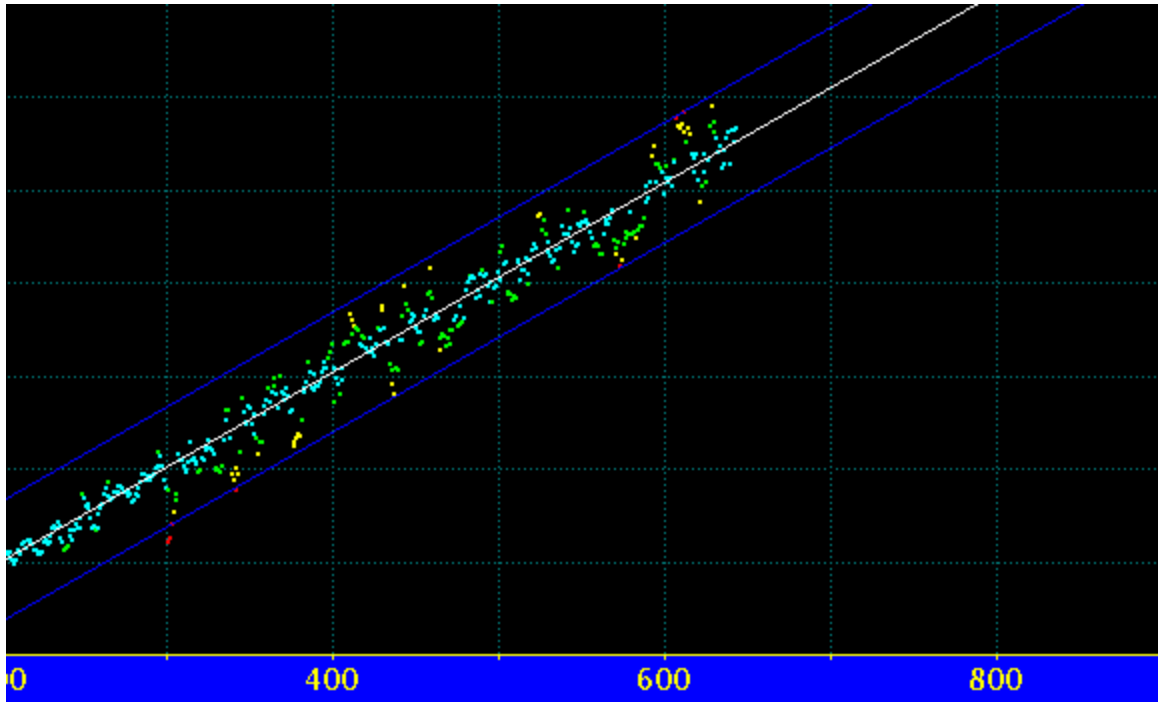


– Current Forecast –

No change.

Crude Oil Price
Market Risk/Reward
February 8, 2003

Based on the market analysis of transformed price data - Over the next week, it's highly unlikely the market will move outside this range [**\$29.88, \$37.99**] on an intra-day basis. This is based on the transformed price data remaining within the blue boundaries shown below.



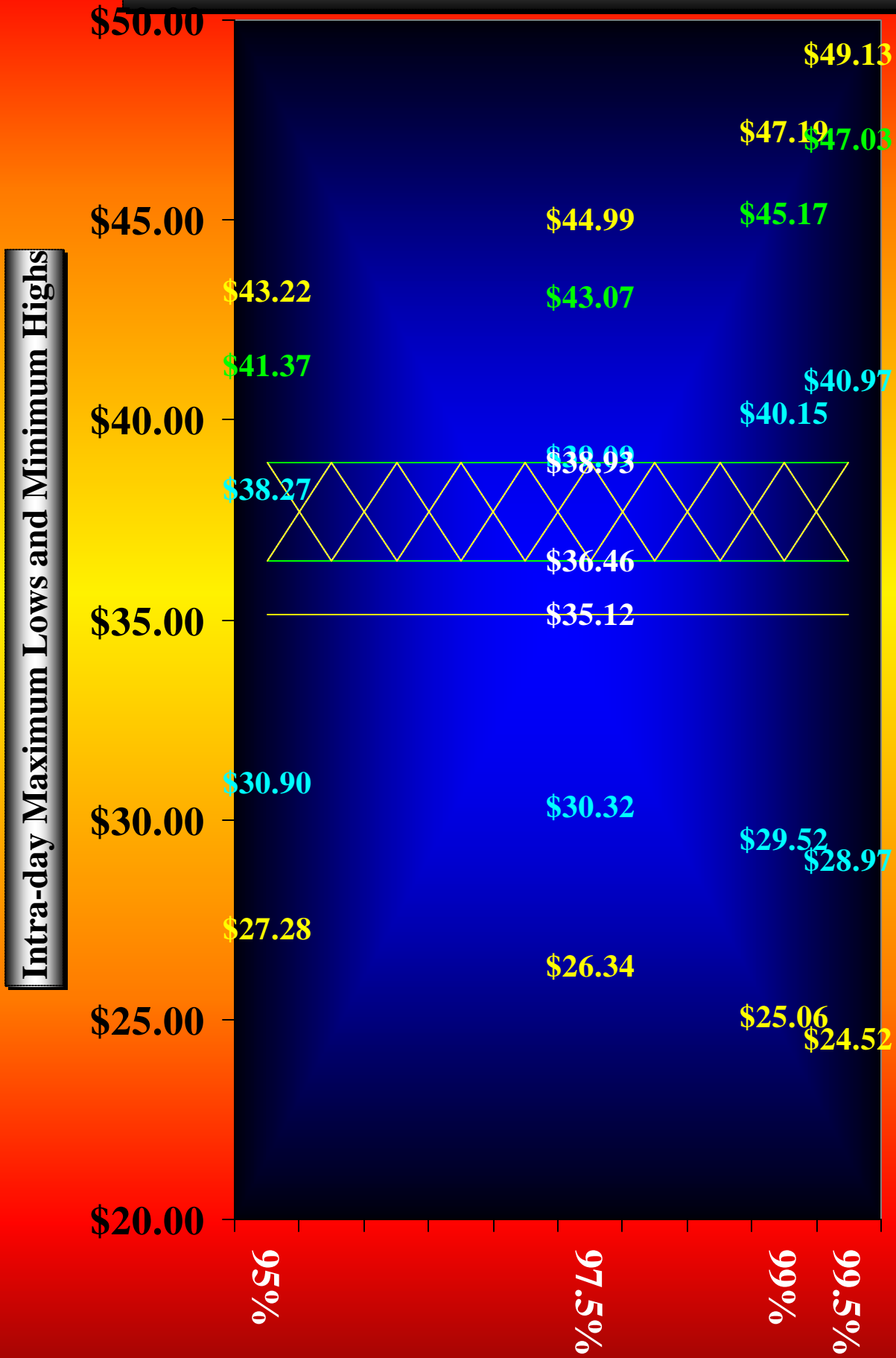
As was the case with natural gas futures, please take note of the chart on the following page. Last week's "minimum highs" are charted as potential 3-Week Extreme moves. The charted "monthly Lows" serve as extreme market moves to the downside for both the 3- and 4-week forecasts.

Crude Oil Pricing Upside Potential / Downside Risk For Extreme Market Moves March 2003 Contract Pricing February 8, 2003				
	Confidence Intervals			
	95.0%	97.5%	99.0%	99.5%
Monthly High	\$43.22	\$44.99	\$47.19	\$49.13
Weekly High	\$38.27	\$39.09	\$40.15	\$40.97
Weekly Low	\$30.90	\$30.32	\$29.52	\$28.97
Monthly Low	\$27.28	\$26.34	\$25.06	\$24.52

In the long run, all price movement should be contained within the above stated price levels at the stated probabilities for a given time frame.

- Brian

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Intra-day Maximum Lows and Minimum Highs

___ Confidence Interval