



WEEK IN REVIEW

PUBLISHED SEPTEMBER 20, 2011

H I G H L I G H T S

<p>D'ALEO'S BLOG</p> <ul style="list-style-type: none"> - <i>The Great Appalachian Storm of 1950</i> - <i>NESIS Snowstorms</i> - <i>ENSO Models Tilting To La Nina</i> <p>Page 2</p>	<p>BASTARDI'S BLOG</p> <ul style="list-style-type: none"> - <i>Caution, We Are About To Enter An Increased Spin Zone</i> - <i>Major Global Temperature Drop</i> - <i>October Outlook</i> <p>Page 2</p>	<p>NATURAL GAS</p> <p>Natural Gas Market Insight by Analyst Alan Lamme: <i>Making a Bullish Case For Natgas In a Mega-Bear Environment</i></p> <p>Page 3</p>	<p>AGRICULTURE</p> <p>Agriculture Market Insight by Dave Smith: <i>Is Wheat The New Corn?</i></p> <p>Page 4</p>
--	--	--	---

STAYING AHEAD OF THE REST WeatherBELL Analytics Ensures You're Prepared

WeatherBELL Analytics meteorologists Joe Bastardi and Joe D'Aleo provide clients with detailed and informative seasonal forecasts months in advance to ensure each client is accurately prepared. **In May of 2011**, Joe Bastardi published the first version of his winter forecast. In his original post, he outlined the main deciding factors for his November through March forecast. By June 1, Bastardi published his complete winter forecast, and it has remained the same to this day. Now almost four months later, winter forecasts are being issued across the weather enterprise, many of which resemble that of the WeatherBELL Analytics' winter forecast. While the forecasts may be in agreement, Joe Bastardi



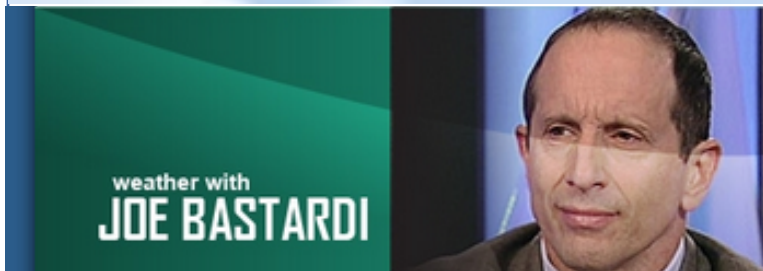
was the first to publish his ideas to WeatherBELL Analytics clients. As the winter months approach, small details within the forecast will be honed in on and minor changes may occur. The winter forecast will be viewable on the WeatherBELL Premium page next week.

A Note From Our Meteorologists:

After a “year without a summer” in the Northwest, above normal warmth has arrived late. That warmth will spread east in October, but the Indian summer is not indicative of what will follow in the late fall and early winter. Also note that it was the coldest summer in the UK since 1994... Is this a sign of things to come this winter?



BLOG HIGHLIGHTS



BASTARDI'S BLOG HIGHLIGHTS

- **Caution, We Are About To Enter An Increased Spin Zone-** Joe Bastardi anticipates an active end to the hurricane season, with at least 2 storms making an impact on the United States before the end of October. More information on the reasoning behind his end of season forecast can be found [here](#).
- **Major Global Temperature Drop On The Way Next 6 Months-** Bastardi forecasts a global temperature drop from 0.33C above normal to negative 0.15C below normal or lower by March. Bastardi's full analysis can be seen [here](#).
- **October Outlook: Mainly Mild, But Still Some Wild-** Joe Bastardi shows a preliminary "thumbnail sketch" of his October forecast. He looks at the analog years relating to active hurricane months with a La Nina, a cold PDO and a warm AMO. A summarized version of Bastardi's preliminary October forecast can be seen [here](#).

D'ALEO'S BLOG HIGHLIGHTS

- **The Great Appalachian Storm of 1950-** Joe D'Aleo provides readers with a description of the "storm of the century" that hit the eastern part of the United States during Thanksgiving weekend in 1950. The storm was unique in that it featured heavy snow, extremely strong winds, and both record high and record low temperatures. Read D'Aleo's full description [here](#).
- **NESIS Snowstorms-** D'Aleo looks at the unusually snowy conditions over the past decade, especially over the last 5 years. D'Aleo looks at the NOAA Northeast Snowfall Impact Scale (NESIS) and analyzes the past 44 impact snowstorms since 1956. More information can be found [here](#).
- **ENSO Models Tilting To La Nina-** New initializations to the ENSO models show cooling, indicating a increasing tilt toward La Nina. For more information, click [here](#).

IN OTHER NEWS

- **La Nina Reprise Has Important Implications Globally-** *WeatherBELL Analytics meteorologists Joe Bastardi and Joe D'Aleo anticipate the return of La Nina to have significant global effects. Harsh winters and widespread cooling are topics of concern that will be closely watched by Bastardi and D'Aleo. For more information on where and why, click [here](#).*
- **Early Arctic Ice Recovery and Siberian Snow-** *Arctic ice has been increasing since the second week in September, which can be seen in a plot comparing the JAXA Arctic Ice Extent of 2011 to 2007. To view this plot, as well as ice cover and snow depth images, click [here](#).*

WEATHERBELL NEWS

MAKING A BULLISH CASE FOR NATGAS IN A MEGA-BEAR ENVIRONMENT

by Alan Lammey, WeatherBELL Analytics Energy Market Analyst

Is it just me? Or did somebody super-glue the October natural gas futures contract to the \$3.80/MMBtu mark? While some of you are incredibly bearish on natural gas in the near term and the longer-term, I'm going to layout a case today that natural gas could very well be at the tail end of the 3-year bear market that we've been in since 2009. Rubbish, some of you say? Well, maybe not, let's take a closer look...

Now, some of you might be thinking that I'm not seeing things clearly if I'm suggesting that this incredibly over-supplied, over-bloated, natural gas market is headed back toward a bullish price environment. One of my favorite sayings is that 'when markets are going up, they aren't going up forever. And conversely, when markets are going down, they aren't going down forever either.' In my opinion, the latter is the case for natural gas.

Just one caveat before I get started: I'm not suggesting that gas futures will return back to the Wild West days, trading between \$5 and \$14, with incredible volatility that we saw from 2000 to the end of 2008. But what I am implying is that gas futures, which have been stuck in a \$3.50 to \$5 rut could be in for a new range of sorts, perhaps trading between \$4 and \$7 in 2012 and beyond. Does this mean that gas futures won't fade lower in the weeks ahead? Not at all. In fact, I wouldn't be surprised to see a test of the \$3.45 to \$3.65 area between now and mid-October before the end of this downward trend is completed.

So, if we have all this tremendous gas supply, there's new shale drilling happening on a continual basis, why do I think the US market could be in for a new higher range in the months and years ahead? For starters, last week, the '12 calendar strip fell to \$4.40, while the calendar '13 gas came off to \$4.92. The reason this price event is significant is because the forward curve of natural gas futures, not just the prompt month, is now sitting on all-time lows -- and many things point to a potential rebound higher on the horizon. (More page 6)

A LOOK AHEAD:

- *Joe Bastardi will stay focused on the tropics where he expects activity to pick up again. Given the repetitive pattern in the United States of slow moving inland troughs, tropical activity would present a landfall threat to the eastern Gulf and/or the East, from Florida north.*
- *Joe D'Aleo will be tracking the on and off welcome showers in the Southern Plains where farmers are awaiting soil moisture recharge before planting winter wheat and the dryness that is stressing late maturing crops in the western and northwestern growing areas. Growing areas have suffered death by a thousand cuts growing season with drought, flood, severe weather, wind, hail, untimely heat and late and early frosts.*

WEATHERBELL NEWS

IS WHEAT THE NEW CORN?

by Dave Smith

As discussed many times, corn is hitting record prices and weather (and some diseases) has been a fundamental driver. In addition, China has been importing, which has further reduced supply. But China has been importing more wheat supplies as opposed to corn, their usual import.

Aflatoxin levels in the new corn crop coming out of the U.S. Plains is being seen by some as the worst ever. While some levels of aflatoxin are considered acceptable - generally under 100-150 parts per billion - anything over 300 parts per billion is generally not usable, according to grain experts. But some producers in the Plains are harvesting corn testing at 500 parts per billion or more. Plant pathologists, extension agents are just blaming weather - saying conditions during grain fill were perfect for the fungus... producers being discounted \$1 bushel in some areas.

China

"I think there seems to be more and more wheat being fed in China as a replacement for corn and I think there are probably a couple of alternative origins for cheaper wheat than U.S. corn. China's feed industry is expected to consume 15 to 20 million tons of wheat in 2011/12 if corn prices remain high," a Canadian Wheat Board official based in Beijing said on Tuesday. On Tuesday the trend continued. U.S. corn futures are expected to open higher Tuesday on demand expectations, outside market support and farmers' reluctance to sell. In overnight trade, December corn was up 11 1/4 cents to \$7.03 1/2 per bushel. In fact, corn trading today is around 140K with about 45 minutes left in current session. In perspective, that is the lowest day trading session since December 2010.

"We see a lot of switching from corn to wheat in China," Haiguang Shi, a vice president of the Canadian Wheat Board, told Reuters at a grains conference in Singapore. "Wheat prices are 15 percent below corn, so that's why a lot of feed mills are shifting to feed wheat." Dealers noted the market may also have derived some support from weekly USDA data which showed the condition of the U.S. corn crop had deteriorated with 51 percent in good or excellent condition. This is down from 53 percent a week earlier and sharply below 68 percent from a year earlier.

Corn prices have declined sharply so far in September. After reaching a high of \$7.79 on August 29, December 2011 corn futures traded to \$6.76 early in the trading session on September 19. The lower prices have occurred even as USDA lowered the 2011 production forecast by more than 400 million bushels, suggesting that consumption during the 2011-2012 marketing year will be restricted and that year ending stocks will be minimal.

"With the recent slump in U.S. corn prices, we think it is a good time to import," said Li Qiang, chief analyst with Shanghai-based consultants JC Intelligence Co. Ltd. "Domestic supplies have dried up. Based on the current balance sheet, it is normal to buy in several batches to bring in altogether 9 million tons in the year starting from October," said Li. China will sell about 3.7 million tons of state corn reserves by November in a bid to cool record prices and take the heat off food inflation, which the government fears may fuel social unrest. (More page 5)

WEATHERBELL NEWS

IS WHEAT THE NEW CORN? (CONT.)

Any purchases by China would reaffirm ideas that while corn struggles to find buyers as the market climbs near \$8, buyers see any breaks below \$7 as a solid buying opportunity. U.S. corn supplies are expected to remain tight for the foreseeable future, with some analysts saying it could take years to replenish stockpiles that have dwindled to historically low levels.

Livestock Impacted By Drought Too

Texas cattle ranchers will cull the most breeding cows ever this year as drought increases feed costs, driving livestock prices to a record. Cattle futures that gained 16 percent in the past year in Chicago may reach an all-time high of \$1.36 a pound in as few as seven months, said Rich Nelson, the director of research at Allendale Inc. Feed costs have surged, with corn heading for the highest annual average price ever.

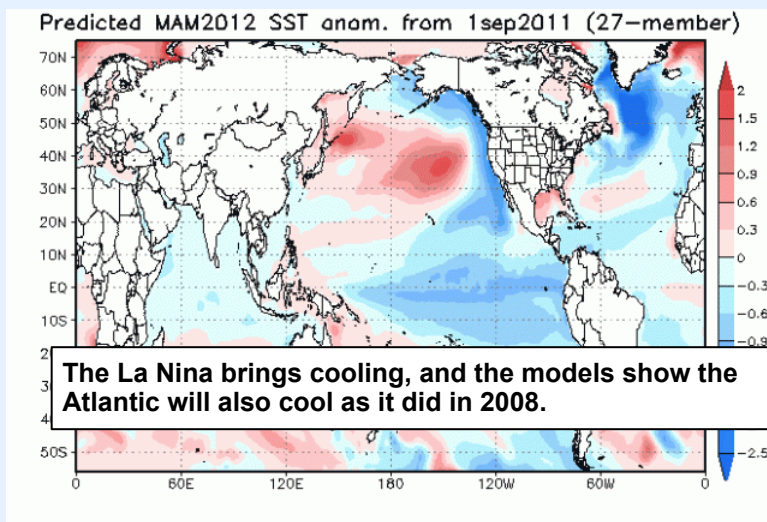
Restaurant Menu-Price Increases As A Result

Tighter supplies will mean higher prices. Texas Roadhouse Inc., based in Louisville, Kentucky, already raised prices at its steakhouses twice this year. The company has more than 350 restaurants across 46 states, each with a butcher cutting about 300 pounds of beef a week. Atlanta-based Wendy's Co. is adding more chicken products on its menus as "significant increases" in beef costs pressured profit margins.

WeatherBELL Winter Wheat Forecasts

Joe D'Aleo has been giving agricultural customers advanced warning for their planting season to prepare customers for all types of weather events in 2011. Here are some 2011-2012 Winter Wheat Thoughts:

1. Winter wheat was 6% planted, versus 8% last year, with an average of 10%. Texas and Oklahoma are lagging awaiting rainfall to recharge soil moisture. Some rains are likely the next two weeks from frontal activity, favored in September and October. The tropical season failed the Southern Plains, though Lee helped the central Gulf.
2. The 30 day departure from normal rainfall (%) shows the effects of Irene and Lee with abundant rains in the central Gulf, Tennessee Valley, Mid-Atlantic and eastern Corn Belt.
3. As the westerlies descend and cooler air returns to the north and central U.S, showers normally increase in the central Plains into northern Texas. This will encourage farmers to plant winter wheat, although the prospects of a dry late fall-winter into early spring looms large with La Nina's return. Best chance may come early with cold air and snow in December/January.



WEATHERBELL NEWS

MAKING A BULLISH CASE FOR NATGAS IN A MEGA-BEAR ENVIRONMENT (CONT.)

In fact, one of the catalysts that suggests this market could be turning around happened last week. There appears to be an exiting of the 'bear spread' between the prompt month and the back of the forward curve, which has been held solidly for a very long duration of time by hedge funds, speculators, etc. This is a subtle red flag to me, but it's still an indicator that the biggest players in the gas market are seeing certain factors that have contributed to this multi-year ultra-bear market are changing.

What factors you say? First off, the initial production (IP) rate differentials between Haynesville shale vs. all other shale plays suggest that other plays would have to drill nearly 3 to 5 times as many wells to keep up with the past 3 years of production in Haynesville -- and that's just not happening. In other words, it would take 3 to 5 wells to match the production of one average Haynesville well. Rigs have been migrating to other far less prolific shales and toward more shale-oil based plays, with a much larger concentration in oil-based initiatives than dry-gas initiatives.

Now, just to be clear, I don't expect some major drop in gas production, but what I'm expecting in coming months is an indication that a peak in gas production has been reached, followed by a modest, but continual decline. I'm also expecting that the declines in gas production data will coincide with an increase in demand -- as power generation demand is ramping up on the curve via coal plant retirements, which will be replaced with combined cycle generation. This is due to the new Obama Administration/EPA mandated clean air policies that will undoubtedly happen in the future. In the more near term basis, gas demand will continue to increase via coal switching on a relative MMBtu basis, as well as the coming coal plant retirements across the US.

Also, according to General Electric, GE gas power turbines orders are surging right now as power generation companies move to build new gas fired generation. This surge in order is likely because the power industry well knows that the clean air mandates are most definitely going to happen. So with historically low interest rates happening in the here and now -- and the potential for rates to spike higher in the near future -- it would be financially irresponsible of the power generators to put off plans to build and finance these initiatives with such cheap funds.

Meanwhile, liquid natural gas (LNG) imports will continue to be extremely minimal coming into the US due to the massive arb between US natural gas prices and foreign natural gas prices. For example, while the US natgas prices are currently trading between \$3.80 and \$4, European NPB gas is selling near \$6 for October and well over \$7 for November. This massive \$6-\$7 premium is keeping LNG imports away from the US.

In Mexico, Mexican imports of US natural gas are likely to remain strong and even increase with the lack of investment from Pemex on domestic supply. Coming from the North, Canadian imports will continue to suffer on lower supply and domestic demand. Meanwhile, Japanese LNG demand has risen notably as a result of the earthquake earlier this year, which resulted in the Japanese nuclear disaster. Currently Japan has only 11 of its 54 nuclear reactors in service and the country has turned to importing larger quantities of LNG to produce power. (More page 7)

WEATHERBELL NEWS

MAKING A BULLISH CASE FOR NATGAS IN A MEGA-BEAR ENVIRONMENT (CONT.)

Then when you factor in the weather aspect, the scenario becomes even more bullish. WeatherBELL Analytics, chief meteorologist Joe Bastardi expects a potential string of consecutive multi-year winters that are bitterly cold, possibly returning to a 1970s-era deep freeze across North America. Even if this forecast doesn't hold true, the gas market looks bullish. But if Bastardi is correct in his forecasts, then the bigger, more-macro picture looks even more bullish indeed.

In the more near term, on the gas storage front, I'm expecting an 94 Bcf build to gas storage inventories, when the Energy Information Administration makes its report Thursday for the week ended Sep. 16. This week's storage report will be compared to a 78 Bcf build during the same week last year, while the five-year average estimated at around 72 Bcf.

From the technical perspective, gas futures prices appear likely to fade down toward the \$3.60 or lower area in coming weeks. On the downside, key support is seen at \$3.805, followed by \$3.76, while more major support resides between \$3.73 and \$3.62. Beyond the latter, it would open the door for a move down to the \$3.50 to \$3.45 zone between late Sept and the end of October. On the upside, key resistance is seen at \$3.96. However, it would take multiple closes above \$3.99 to \$4.05 to suggest that continued strength is possible, potentially testing the \$4.15 to \$4.28 area.

In the oil market, October oil futures are trading near \$87/bbl and continue to be guided by the equities market as well as the volatility in the US dollar as it responds to the euro via European banking and debt crisis. The European debt crisis has been a key driver for the markets over the past several months. In fact, over the last several months oil has shown a nearly 96% correlation with movement in the equities market.

Technical indicators for October oil suggest that key resistance resides between \$86 and \$90 a barrel, followed by \$93.57, while \$95 and \$97 are the longer bullish objectives. Conversely, key support resides at \$85, \$83, \$81.70, and \$79.50.

If your company is looking for truly the best weather forecast data in the industry, please contact Alan Lammey at alan.lammey@weatherbell.com or 281-658-0395.

SALES INFORMATION

ENERGY

Alan Lammey:

alan.lammey@weatherbell.com

(281) 658-0395

AGRICULTURE

Dave Smith:

dave.smith@weatherbell.com

(312) 420-4937