TENZING PACIFIC
INVESTMENT MANAGEMENT

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HOLDING: UNITED STATES NATURAL GAS (UNG)

What the bulls say:

- According the latest report by EIA, natural gas inventories in the 3rd week of Oct '17 were 1.2% below the 5-year average and forecast to reach 3.02% below average at the end of November 2017 and 4.2% in 3 months. Along with rising demand projection for the winter season, it should justify a bullish outlook on natural gas over the next few quarters.
- Recent political turmoil in Saudi Arabia and hurricanes hitting southern part of the US, where the majority of the US natural gas rigs located, are favorable for the oil & gas industry as they are widely predicted to support the price movement due to the uncertainty inherent in this industry.
- In longer term, China consumption of natural gas will be a key factor in driving the demand of the natural gas as its reliance on natural gas will increase from the current level of 6% of its total annual energy use to 10% in 2020 and 15% in 2030. Given the current size and the high growth rate of the China economy, these percentage figures will take up significant portion of the global natural gas demand.

What the bears say:

- Last week of October '17 was the 5th consecutive weekly fall in natural gas rig count but the gas price also fell 2.2% over the same period, which may signal some longer-than-expected bearish run for the industry.
- Constant changes in weather forecasts may trigger extreme volatility in price movements and pose serious threats on profitability of the futures of natural gas.

Prepared by: Sven Roering - Portfolio Manager, Managing Partner. Tuan Huynh - Analyst

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Risks:

- Roughly 50% of the US heating consumption provided with natural gas. If the optimistic forecast for the 2017 winter season in the US fails to become reality, the current inventories will be significantly underutilized and put downward pressure on the price of natural gas.
- UNG holds natural gas futures contracts and swaps that make it extremely sensitive to fluctuations of natural gas price, so it is not suitable for investors who prefer buy-and-hold strategies.

4 reasons to buy/sell:

- Positive outlook on the natural gas for next few quarters can drive its price upward significantly and quickly, given that the industry has been underperforming over the last 1-year period and seemed to reach its lowest point of this year.
- Given the recent bullish movement in natural gas, UNG provides the best tool to gain exposure to the industry while having some protection provided by roughly one third of the total holdings stacked in cash and other safe interest-bearing investments such as US Treasuries.
- Direct investment in commodities through an ETF like UNG also provides hedging for investments in stocks of natural resource producers and service providers.
- UNG's expense ratio of 1.12% is cheaper than other ETFs having exposure to price movements of natural gas.

Recommendation: [buy/sell]

We recommend a **BUY** rating on this asset.

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