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Natural gas resumed its volatile ride this week, with 7% intraday swings not uncommon. Our sense is that the volatility will persist into shoulder season (April) leading to a collapse in Canadian and US pricing. This week we received yet another bearish statistic, with November US natural gas production up 9% year-over-year. Also, there were some signs that Chesapeake's much applauded 0.5Bcf/d shut-in has not yet materialized, leading to skepticism that talk and action are two very different things. Evidence continues to increase that many other major producers, such as Exxon, are refusing to shut-in production as their economics are much more influenced by liquids pricing.

Oil stocks continued to increase this week, with many names up over 20% so far this year. Our oil positions have done quite well, and we have slowly scaled back the weightings in some names by crystallizing some profits. As a result the cash weighting has increased somewhat in the past few days. While valuations are still quite compelling, we have learned that certain trades at times can become a bit crowded in the short-term.

The spread between WTI and Brent materially increased this week for the first time in several months (~\$16 spread). Inventories at Cushing are once again rising to elevated levels, placing pressure on the WTI benchmark, and unfortunately are hurting the realized price for Canadian oil producers. Strength in Brent continues to show that worldwide oil demand remains very healthy, and some recent statistics such as this morning's job number out of the US should bode well for crude oil demand growth.

The year is off to a great start. Much of this year's gains can be attributed to stocks playing catch up with the price of oil due to terrible stock performance in the final months of 2011. Stocks still remain cheap, and we have not changed our bullish outlook for the remainder of 2012.



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