



Natural Gas Tumbles After Report Signals Adequate Fuel Supplies

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By Reg Curren

Jan. 14 (Bloomberg) -- Natural gas futures fell in New York after a government report indicated that U.S. supplies of the heating and power-plant fuel will be sufficient to meet demand.

Prices declined as most traders anticipated a steeper stockpile drop than the 266 billion cubic feet reported by the Energy Department, said [Cameron Horwitz](#), an analyst at SunTrust Robinson Humphrey Inc. in Houston. Mild weather across much of the U.S. may limit fuel use in the weeks ahead.

"Over the past few days there was hype of a record-breaking number," he said. "It didn't come in, so you get a sell-off. With a few weeks of mild weather ahead it's going to be hard" to push prices higher.

Natural gas for February delivery fell 14.5 cents, or 2.5 percent, to settle at \$5.588 per million British thermal units at 2:38 p.m. on the New York Mercantile Exchange. The contract has risen 12 percent in the past year.

The futures contract, which had risen on the anticipation of a record withdrawal, began to drop in the final minutes before the supply report was released as some traders sought to lock in gains, said [Michael Rose](#), director of trading at Angus Jackson Inc. in Fort Lauderdale, Florida.

Inventories fell to 2.852 trillion cubic feet in the week ended Jan. 8 from a revised 3.118 trillion the prior week, the Energy Department report showed. Analysts had forecast a decline of 260 billion.

Trading Range

Futures prices will probably trade in the \$5.50 to \$6 range until lower temperatures predicted for February begin to show more in weather forecasts, Horwitz said.

The department revised its stockpile total lower for the week ended Jan. 1 from 3.123 trillion cubic feet after receiving new data from one or more of the companies that participate in its weekly survey, according to the Energy Information Administration's Web site.

Above-normal temperatures will cover most of the U.S. through Jan. 23, according to MDA Federal Inc.'s EarthSat Energy Weather. Mild weather will reduce demand from the 52 percent of U.S. households that rely on natural gas for heat.

Temperatures in Chicago will be as much as 15 degrees above average by Jan. 21, according to the Rockville, Maryland-based forecaster.

"We had a huge number, so it was buy the rumor, sell the fact, plus the weather maps do look bearish," said [Chris Jarvis](#), president of Caprock Risk Management LLC in Hampton Falls, New Hampshire. "Gas prices are getting hit because of that."

Narrower Surplus

The reduction in the surplus when compared with the five-year average to 4.4 percent from 11 percent in the previous report, combined with a return to cooler weather later this month, may push prices toward \$6.50, Jarvis said.

EarthSat Energy predicted below-normal temperatures for February in the eastern half of the U.S. and a continuation of that in the Northeast and Texas into March, according to its 30- to-60-day outlook.

The record weekly gas inventory decline, 274 billion cubic feet, was set in the seven days ended Jan. 25, 2008, according to department data.

Limits on energy speculation proposed by the Commodity Futures Trading Commission today may curtail the investment of large banks and swaps dealers in markets for natural gas, Jarvis said.

"It's going to be more difficult to trade," he said. "I don't think it will have a huge impact in the crude-oil market but it will in natural gas because it's a smaller market and limits haven't really been applied before."

Jarvis's firm provides analysis, hedging recommendations and trading of energy products on the New York Mercantile Exchange.

Industrial Gas Users

Concern over the strength of factory demand for natural gas, which represents about 29 percent of U.S. consumption, also weighed on futures, Rose said.

"When you look at the industrial sector, things still aren't that great," he said. "There was a jobless number today that wasn't very good. The recovery is coming in fits and starts."

Purchases of gas by factories, steel mills and chemical plants through the first 10 months of last year fell 9.8 percent as the worst recessions since the 1930s shuttered plants.

A Labor Department report today showed that weekly jobless claims rose a more-than-anticipated 11,000 in the week ended Jan. 9, to 444,000.

Economic Report

"There's nothing to make us go higher unless we get some economic numbers that are a surprise," Rose said. "Once winter ends, all we will do is build supplies."

Wholesale natural gas at the benchmark **Henry Hub** in Erath, Louisiana, advanced for a second day, climbing 15.81 cents, or 2.8 percent, to \$5.7682 per million Btu, according to data compiled by Bloomberg.

Gas futures volume in electronic trading on the Nymex was 293,028 contracts as of 2:48 p.m., compared with a three-month daily average of 238,000. Volume totaled 340,547 yesterday. Open interest was 759,022 contracts, compared with the three-month average of 720,000. The exchange has a one-business-day delay in reporting open interest and full volume data.

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