

**Natural Gas Drops to Two-Week Low on Weather, Record Supplies**  
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By Mario Parker

Nov. 12 (Bloomberg) -- Natural gas futures dropped to a two-week low as forecasts for warmer weather across most of the U.S. signaled reduced demand for the heating fuel.

Above-normal temperatures will stretch from Idaho to New York through Nov. 25, according to the Climate Prediction Center in Camp Springs, Maryland. The U.S. Energy Department tomorrow will probably report a seventh consecutive week of record gas supplies. About 52 percent of households use gas for heating.

**"We're off to a slow start with the heating season," said Chris Jarvis, president of Caprock Risk Management LLC in Hampton Falls, New Hampshire. "Weather is still a dominant factor with natural gas."**

Gas for December delivery fell 13.3 cents, or 3 percent, to settle at \$4.37 per million British thermal units at 2:57 p.m. on the New York Mercantile Exchange, the lowest closing price since Oct. 28. The futures have dropped 22 percent this year.

"The main driver is the continued warm weather forecasts," said James Ritterbusch, president of Ritterbusch & Associates, a Galena, Illinois-based consultant. "We're looking at temperatures much above average across a broad swath of the upper U.S. We're going to have to see some type of shift before we see buying."

Natural gas inventories rose to 3.788 trillion cubic feet in the week ended Oct. 30, reaching a record for the sixth straight week, according to the Energy Department, which estimates storage capacity at about 3.9 trillion cubic feet.

#### Inventory Increase

Tomorrow's report may show that supplies last week rose 16 billion cubic feet, based on the median of 20 analyst estimates compiled by Bloomberg. The five-year average increase for the week is 30 billion cubic feet.

**"The last six or seven weeks it's been well under the five-year average," Jarvis said. "But it's like a balloon and you keep filling it up with air. It's tougher to get more in there."**

Gas also followed other commodities lower as the dollar gained, Jarvis said. A stronger dollar diminishes the appeal of commodities as a hedge against inflation.

Crude oil for December delivery dropped \$2.34, or 3 percent, to settle at \$76.94 a barrel in New York. Prices have gained 73 percent this year. The Reuters/Jeffries CRB index of 19 commodities was down 1.6 percent at 3:08 p.m.

**"The dollar's starting to strengthen up a bit," Jarvis said. "Natural gas doesn't really participate in that, but a stronger dollar will put a drag on all commodities. If we get a weak commodity market that pressures gas."**

Futures fell below a key technical point of \$4.40 per million Btu, according to Lisa Zembrodt, an analyst at Summit Energy Services Inc. in Louisville, Kentucky.

#### Reduced Demand

Gas prices have been battered this year amid lower demand from factories, steel mills and chemical plants caused by the recession. Natural gas demand will fall by 1.9 percent this year and 1.1 percent in 2010, the Energy Department said this week in its monthly Short-Term Energy Outlook.

"The recession damaging industrial demand was really a big" factor in prices dropping, Zembrodt said.

Gas output will increase by 2.8 percent this year and decline by 3.8 percent in 2010, according to the outlook. Producers are pumping more natural gas than is needed, Zembrodt said.

There were 734 gas rigs operating in the U.S. last week, down 54 percent from a peak of 1,606 in September 2008, according to data published by Houston-based Baker Hughes Inc.

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