

Bloomberg.com

Natural Gas Futures Rise to 11-Month High on Inventory Decline

[Share](#) | [Email](#) | [Print](#) | [A A A](#)

By Reg Curren



Dec. 10 (Bloomberg) -- Natural gas futures surged to an 11-month high after a government report showed a bigger-than-estimated drop in U.S. stockpiles as cold weather spurred demand for the heating fuel.

Inventories fell 64 billion cubic feet in the week ended Dec. 4 to 3.773 trillion cubic feet, the [Energy Department](#) report today showed. Analysts forecast a decline of 45 billion, based on the median of 21 estimates compiled by Bloomberg. It was the first drop since March, after supplies rose to a record at the end of November.

"Sustained cold weather will be enough to keep the market up for the next month or month-and-a-half as we go through winter," said [Gene McGillian](#), an analyst and broker at Tradition Energy in Stamford, Connecticut. "Considering the weather from here to Minnesota, next week's number is going to be a big withdrawal."

Natural gas for January delivery rose 40.9 cents, or 8.2 percent, to settle at \$5.298 per million British thermal units at 2:54 p.m. on the New York Mercantile Exchange, the highest closing price since Jan. 12. Futures have declined 5.8 percent this year.

Below-normal temperatures will cover the country from Chicago to New York and as far south as Texas over the next two weeks, according to Commodity Weather Group of Bethesda, Maryland. About 52 percent of U.S. households rely on natural gas for heat.

Weather Outlook

"Right now it's all about the weather," said [Jason Schenker](#), president of Prestige Economics LLC, an Austin, Texas- based energy consultant who forecast an inventory decline of 55 billion cubic feet. "If we continue to see cold weather, prices could move higher."

The potential of lower temperatures to bring big withdrawals in the weeks ahead has increased because of today's report, Schenker said.

Gas futures rose before the inventory update as a Labor Department report showed the average number of Americans filing first-time claims for unemployment benefits over the past month dropped to a one-year low. The report spurred speculation that companies are gaining confidence in the economic recovery.

A rebound in the economy may help restore demand for gas from factories, steel mills and chemical plants, which account for 29 percent of U.S. consumption. The worst recession since the 1930s cut gas demand from industrial users by 11 percent in the first nine months of this year.

Jobs Data

"The economic data is a positive for natural gas because it's a domestic commodity," said [Chris Jarvis](#), president of Caprock Risk Management LLC in Hampton Falls, New Hampshire.

The four-week moving average of initial jobless claims declined to 473,750 last week from 481,500, Labor Department figures showed.

U.S. gas stockpiles reached a record 3.837 trillion cubic feet in the week ended Nov. 27, according to Energy Department data. Lower demand from industrial consumers and increased output in the U.S. combined to swell storage levels.

"We had the bullish surprise on the expectations in today's report and we can look ahead to some above-average withdrawals in the next two to three reports," said [Tim Evans](#), an energy analyst with Citi Futures Perspective in New York.

Lower temperatures will help pare a natural gas surplus, said Evans, who had predicted a supply decline of 60 billion cubic feet.

Gas inventory levels were 513 billion cubic feet, or 16 percent, above the five-year average, today's report showed.

Cold Weather

Stockpile levels normally increase from April until mid- November, when colder weather boosts consumption. Demand typically exceeds production and imports during the cold-weather months and peaks in January and February.

A large short position in the gas market will probably exaggerate moves to the upside as speculators close out positions, McGillian said.

Speculative short positions, or bets prices will fall, outnumbered long positions by 161,068 contracts in the week ended Dec. 1, up 2.3 percent from a week earlier, according to the Washington-based Commodity Futures Trading Commission.

"If I was short, I'd be getting a little nervous right now," McGillian said. "Short-covering pressure could boost the market to \$6. Prices may be consolidating around \$5.30 and looking to move up."

Speculators have held net short positions in Nymex natural gas futures since March 2007.

Wholesale natural gas prices at the benchmark [Henry Hub](#) in Erath, Louisiana, fell 24.77 cents, or 4.7 percent, to \$5.0196 per million Btu, according to data compiled by Bloomberg.

Gas futures volume in electronic trading on the Nymex was 349,324 contracts as of 3:12 p.m., compared with a three-month daily average of 251,000. Volume totaled 314,602 contracts yesterday. Open interest in the previous trading session was 713,358 contracts, compared with the three-month average of 714,000. The exchange has a one-business-day delay in reporting open interest and full volume data.

To contact the reporter on this story: [Reg Curren](#) in Calgary at rcurren@bloomberg.net

Last Updated: December 10, 2009 16:13 EST

