



Natural Gas Gains on Speculation Supply Fell More Than Average

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By Reg Curren

Dec. 22 (Bloomberg) -- Natural gas futures advanced in New York on speculation a government supply report later this week will show stockpiles fell more than average.

The Energy Department will probably report on Dec. 24 that inventories dropped 173 billion cubic feet last week, based on the median of 10 analyst estimates compiled by Bloomberg. The typical decline is 128 billion.

"We've got some stronger demand as the fundamentals turn positive for gas," said [Chris Jarvis](#), president of Caprock Risk Management LLC in Hampton Falls, New Hampshire. "On the supply side we still have rigs at six-year lows, so it won't take much to really start cutting through storage."

Natural gas for January delivery rose 4.6 cents, or 0.8 percent, to settle at \$5.715 per million British thermal units at 2:48 p.m. on the New York Mercantile Exchange. The price ranged from \$5.531 to \$5.767. It reached an 11-month intraday high price yesterday of \$5.929.

The number of gas rigs working in the U.S. was 773 last week, according to data from Baker Hughes Inc. The number has increased since reaching a low for the year of 665 in July, though it's down 52 percent from a peak of 1,606 rigs in September 2008.

"With the way the weather maps are tracking and industrial demand picking up, we could get 2.2 trillion or 2.3 trillion cubic feet out of storage this winter," Jarvis said.

A report on the U.S. economy on Dec. 15 signaled that demand for gas from industrial users, which account for 29 percent of consumption, may be rebounding. Output at factories, mines and utilities climbed 0.8 percent in November, the Federal Reserve said.

Storage Withdrawal

A withdrawal from storage of that amount would put supplies closer to the five-year average than had been anticipated, he said.

Daily gas output will decline about 3 percent to a forecast 58.37 billion cubic feet a day in 2010 from 60.21 this year, according to the Energy Department's Short-Term Energy Outlook, released on Dec. 8.

"We see a net withdrawal of 177 billion cubic feet, a draw that would materially tighten the current year-over-year surplus and the surplus as compared to the past five-year average," [Scott Speaker](#), JPMorgan Chase & Co.'s natural gas strategist in New York, said in a note to clients today.

Stockpiles fell 207 billion cubic feet in the week ended Dec. 11 as cold weather boosted demand for heating fuel. Analysts had forecast a withdrawal of 178 billion. Inventories stood at 3.566 trillion cubic feet, 14 percent above the five-year average, the [department](#) said.

Dwindling Surplus

"Should our expectation for this week come in within a few units of the actual, we would be expecting three subsequent robust draws as well," Speaker said. The year-over-year surplus, which was 381

billion cubic feet, may be reduced to less than 125 billion by Jan. 8, according to his report.

The midday update of the U.S. government forecast showed cold weather will be the dominant pattern through the first week of January, said [Jim Rouiller](#), a senior meteorologist at Planalytics Inc. in Wayne, Pennsylvania.

The cold weather will “target the gas-intensive” cities of the Midwest and Great Lakes area, he said.

The price decline toward \$5.50 per million Btu attracted those looking for cheaper contracts than had been available in recent days, said [Peter Beutel](#), president of trading adviser Cameron Hanover Inc. in New Canaan, Connecticut.

Trading Range

“Once it gets to that level you see a bit of bargain hunting,” he said. “We’re probably going to try to trade between \$5.30 and \$5.90. There does seem to be support around \$5.50.”

Wholesale natural gas prices at the benchmark [Henry Hub](#) in Erath, Louisiana, fell 22.98 cents, or 4 percent, to \$5.5572 per million Btu, according to data compiled by Bloomberg.

Gas futures volume in electronic trading on the Nymex was 191,097 contracts as of 3:20 p.m., compared with a three-month daily average of 247,000. Volume totaled 194,195 yesterday. Open interest was 703,968 contracts, compared with the three-month average of 713,000. 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 22, 2009 16:18 EST

