



## Natural Gas Gains on Better-Than-Expected Manufacturing Report

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By Reg Curren

Feb. 2 (Bloomberg) -- Natural gas rose the most in a month in New York after a report showed that manufacturing in the U.S. last month contracted less than economists forecast.

The Institute for Supply Management's factory index rose to 35.6 in January from 32.9 in the prior month, the Tempe, Arizona- based group said. Economists expected 32.5. Readings below 50 signal a contraction in the economy. Industrial users consume about 29 percent of gas supplies.

"Everybody is trying to be optimistic," said **Stephen Briggs**, a partner at Intermarket Management LLC in Verona, New Jersey. "They're looking for any ray of sunshine, so we'll get these spikes. I don't think we're going anywhere" higher in a sustained trend.

Natural gas for March delivery rose 14 cents, or 3.2 percent, to settle at \$4.557 per million British thermal units at 3:06 p.m. on the New York Mercantile Exchange. It was the biggest one- day gain since Jan. 2, when gas advanced 6.2 percent.

The heating and industrial fuel has dropped 19 percent this year and is down 67 percent from the 2008 high of \$13.694 reached July 2.

Lower prices for natural gas are also attracting buyers, Briggs said.

"It's pretty cheap here," said Briggs.

Cold weather in the U.S. has countered the decline in industrial demand and kept stockpiles from ballooning, said **Chris Jarvis**, president of Caprock Risk Management LLC in Hampton Falls, New Hampshire.

"Gas is a diversified product and it's not as economically dependent as some of these other commodities," he said. "Heating and utility end users dwarf the industrial sector. We've had a cold winter."

### U.S. Stockpiles

Inventories declined 186 billion cubic feet in the week ended Jan. 23 to 2.374 trillion cubic feet, the U.S. Energy Department said on Jan. 29. Analysts expected supplies of the heating and factory fuel to drop 180 billion. Stockpiles were 1.2 percent above the five-year average of 2.345 trillion, according to the Energy Department.

Gas consumption for residential use represents about 20 percent of demand, and power generation accounts for 30 percent.

Heating needs in the U.S. were 11 percent above normal for last week, said David Salmon of Weather Derivatives Inc. in Belton, Missouri.

Withdrawals of gas from storage may have reduced inventories by 181 billion cubic feet last week, he said. The average change for the week over the past five years is 183 billion cubic feet.

## Gas Production

"With prices this low, it's going to impact future production, which is bullish for natural gas," Jarvis said. "You're going to see new production drop off the map just because prices have gone so far south."

There were 1,150 gas rigs operating in the U.S. for the week ended Jan. 30, down from 1,606 in the week ended Sept. 12, the highest since at least July 1987, according to Baker Hughes Inc.

Declining exploration leads to lower production because new fields are needed to maintain output levels.

"The bigger issue to me is supply," said **Peter Linder**, an analyst and senior adviser at DeltaOne Energy Fund in Calgary. "When you really slow down drilling you're going to get a supply response" and higher prices later this year.

The number of gas rigs may fall as much as 65 percent from the 2008 peak amid weakening U.S. and global economies, according to a report by analysts led by J. Marshall Adkins at Raymond James & Associates Inc. in Houston.

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