Bloomberg.com

Natural Gas Rises Most in Six Weeks on Decline in Drilling

Share | Email | Print | A A A

By Reg Curren

May 1 (Bloomberg) -- Natural gas futures rose the most in six weeks on speculation a decline in drilling for the industrial and power-generating fuel will cut supplies later this year.

The number of gas rigs operating in the U.S. has dropped 54 percent since September as prices collapsed, data published by Baker Hughes Inc. showed. As rigs idle, natural gas production in the U.S. is forecast to be 5.4 percent lower in the fourth quarter of this year compared with the same period in 2008, according to a report from the Energy Department on April 14.

There is “some anticipatory buying that the bearish fundamentals we’ve been seeing are about to shift,” said **Tim Evans**, an energy analyst with Citi Futures Perspective in New York. “It’s the idea that supply is about to drop. We’ve had some shut-ins announced and had this dramatic decline in drilling activity.”

Natural gas for June delivery rose 17.3 cents, or 5.1 percent, to settle at $3.546 per million British thermal units at 3:05 p.m. on the New York Mercantile Exchange, the biggest one-day gain since March 19. Gas touched $3.155 per million Btu on April 27, the lowest price since September 2002.

Baker Hughes said natural gas rigs fell by one to 741, the lowest since Feb. 7, 2003. It was the smallest decline since November, the last time the gas rig count increased. The count was 54 percent below a peak of 1,606 on Sept. 12.

Gas supplies have yet to show a meaningful response to a decline in drilling as companies close off less productive areas first, Evans said.

Decline in Drilling

“This isn’t a subtle decline in activity,” he said. “The timing of the inflection point is unknown, though there is nothing we can do today to prevent a decline in U.S. gas production. It’s unavoidable.”

The drop in supplies will probably coincide with a recovery in the economy, pushing prices higher, Evans said.

“The further forward you look, over the next 18 to 24 months, the more likely you are to have a material decline in production and a recovery in demand and price,” he said. “This market will bottom. I don’t see a lot of risk-reward being short here.”

Confidence among U.S. consumers rose more than forecast in April to its highest level since before the collapse of credit late last year unleashed a financial panic that sent the economy into freefall.

The Reuters/University of Michigan final index of consumer sentiment rose to 65.1 from 57.3 in March, the biggest gain in more than two years. The index reached a three-decade low of 55.3 in November.

“We seem to be more optimistic about the economy,” said Evans.

Factory Report

Separately, an industry survey showed manufacturing in the U.S. shrank in April at the slowest pace in seven months. The Institute for Supply Management's factory index rose to 40.1 last month, higher than forecast, from 36.3 in March. Readings less than 50 signal a contraction.

Rising crude oil prices also helped to support natural gas prices, said **Chris Jarvis**, president of Caprock Risk Management LLC in Hampton Falls, New Hampshire.

"Natural gas will have a tough time getting lower," said Jarvis. "As long as crude oil moves higher toward that $55 level it will drag gas along."

Crude Gains

Crude oil for June delivery rose 3.9 percent to $53.11 a barrel on the New York exchange as the consumer confidence and manufacturing reports sparked buying.

Gas futures have dropped 37 percent this year on signs tumbling demand from factories and power plants will send inventory levels to a record high. Gains today accelerated as traders who had made bad bets on falling prices bought contracts to cancel those positions.

U.S. natural gas inventories increased by 82 billion cubic feet in the week ended April 24 to 1.823 trillion cubic feet, the Energy Department said yesterday. Supplies were 23 percent higher than the five-year average.

"Markets don't just discount bad news immediately. They don't go down in straight-line fashion, they sell off 10 cents and recover and then head back down," said **Jim Ritterbusch**, president of Ritterbusch & Associates in Galena, Illinois.

To contact the reporter on this story: **Reg Curren** in Calgary at **rcurren@bloomberg.net**.

Last Updated: May 1, 2009 15:56 EDT