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Natural Gas Advances on Expectations Worst Is Over for Demand

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By Reg Curren

May 26 (Bloomberg) -- Natural gas futures rose for the first time in three days in New York after a U.S. government report showed confidence among consumers reached the highest level since September.

An increase in spending by consumers might spur production by industries that fuel operations with gas. The Conference Board's sentiment index to 54.9 in the biggest gain since April 2003, the New York-based research group said today. Oil and stock markets also gained on the report.

"It's the combination of the dollar, the stock market, crude, everything turning around" that lifted gas, said **Stephen Briggs**, a partner at Intermarket Management LLC in Verona, New Jersey, a brokerage and energy risk-management firm. "Plus, there's a lot of buying pressure because the open interest was heavily short."

Natural gas for June delivery rose 2.2 cents, or 0.6 percent, to settle at $3.537 per million British thermal units at 3:12 p.m. on the New York Mercantile Exchange. The futures touched $3.388, the lowest since May 1. Gas has dropped 37 percent this year and is down 74 percent from a 2008 high of $13.694 reached in July.

June options expired today and the futures contract ends tomorrow. The more heavily traded July futures gained 0.7 cent to $3.643.

Crude oil for July delivery advanced 78 cents, or 1.3 percent, to $62.45 a barrel on the exchange, reversing a decline of 3.5 percent. The Standard & Poor's index of 500 stocks rose for the first time in five days, gaining 2.6 percent to 910.3.

'Bull Mode'

"The fact that natural gas flipped positive at the close is indicative of the fact that we have equities and crude oil in bull mode," said Chris Jarvis, president of Caprock Risk Management LLC in Hampton Falls, New Hampshire. "I would expect natural gas to follow suit."

"As long as equities move higher, it's an all-clear to buy energy," Jarvis said. "Gas is going to get dragged up with it."

Factory and power-plant consumption account for 58 percent of U.S. gas demand.

Speculators who held short positions in natural gas were forced to buy contracts back with the June options expiring today and the futures tomorrow, Briggs said.

A speculative short is a bet that prices will decline. Shorts outnumbered long positions by 135,210 contracts on the New York Mercantile Exchange in the week ended May 19, the Washington-based Commodity Futures Trading Commission said on May 22.

Gas was lower for most of the day after analysts forecast the economy will expand at a slower pace and not return to the levels seen before the recession started in December 2007. Overall U.S. gas consumption will probably contract 1.9 percent this year on reduced demand from factories, the Energy

Department said earlier this month.

Slow Growth

Americans may have to get used to economic growth of 2 percent a year or less as the recession and financial crisis combined to crush consumer confidence, Mohamed El-Erian, chief executive officer of Pacific Investment Management Co., the biggest bond fund manager, said today.

Ample supplies of the fuel will keep a lid on prices in the coming year, said **Tim Evans**, an energy analyst with Citi Futures Perspective in New York.

U.S. gas supplies for the week ended May 15 were 22 percent higher than the five-year average as industrial users trimmed purchases, an Energy Department report showed on May 21.

“For now this is a market that can’t catch a break from the weak demand and the rising surplus,” said Evans. “The weather is benign and that leaves us missing our industrial demand and still looking at a bearish storage trend.”

Stockpiles probably gained 115 billion cubic feet last week and may add 125 billion this week and next, all of which exceed the average rise for this time of year, Evans said.

The average inventory change for last week over the past five years is a gain of 91 billion cubic feet, according to the Energy Department, which is scheduled to release its weekly supply update at 10:30 a.m. on May 28 in Washington.

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

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