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Natural Gas Rises Most Since March on Signs Slump Is Easing

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By Reg Curren

May 6 (Bloomberg) -- Natural gas futures rose more than 7 percent, the biggest gain since March, after an employment report spurred speculation that the worst of the recession may be over.

Gas rose after an ADP Employer Services report today showed companies in the U.S. cut 491,000 workers from payrolls in April, less than the median estimate of 645,000 in a Bloomberg News survey of 28 economists. A rebound in the economy would help lift gas consumption by factories and power producers, which together account for 58 percent of U.S. demand.

"You can't dismiss the economic optimism that has grown with the ADP number," said **Phil Flynn**, senior trader at Alaron Trading Corp. in Chicago. "We're starting to look forward and this isn't just a U.S. phenomenon because we're starting to see numbers from around the globe that are better than expected. We've looked into the abyss and we're pulling back from it."

Natural gas for June delivery rose 27.2 cents, or 7.5 percent, to settle at $3.887 per million British thermal units at 3:03 p.m. on the New York Mercantile Exchange, the biggest one-day gain since futures rose 13 percent on March 19.

Gas has fallen 31 percent this year as companies including Chrysler LLC and General Motors Corp. idled plants because of sliding demand. Gas use by factories in the U.S. may drop 7.4 percent this year as the recession cuts consumption, the Energy Department said in a report on April 14.

Chrysler filed for bankruptcy protection on April 30 and General Motors may have to follow suit.

Economic Reports

The ADP figures followed other economic reports in the past two weeks that have shown an easing of the slump. On April 24, orders for U.S. durable goods fell less than forecast and sales of new houses were higher than projected, the Commerce Department said.

"There's some positive information out there that people are looking to build on," said **Brad Florer**, a trader at Kottke Associates Inc. in Louisville, Kentucky. "Bulls are looking at two things right now: some economic news that they can grab hold of and maybe verify that a bottom has been put in, and that under $4, physical buyers look at this as a good place to get in."

A move for gas prices toward $4 per million Btu may trigger additional buying as futures break through the top of a down channel that has been in place since prices started falling in July, Florer said.

"Until then, you've got to be looking at this as an opportunity to sell" into the rally, he said. "This market still has a long way to go, there's tons of gas and there's no real weather threat and the economy is still a big giant question mark."

Stockpile Forecast

The **Energy Department** will probably say that gas in storage increased 92 billion cubic feet in the week ended May 1, according to the median of 17 analyst estimates compiled by Bloomberg. Estimated gains ranged from a low of 88 billion to a high of 101 billion cubic feet. Supplies in the previous week's report were 23 percent higher than the five-year average.

The typical change for the week over the past five years is an increase of 68 billion cubic feet. The department is set to release its weekly supply report tomorrow at 10:30 a.m.

A decline in U.S. drilling will begin to show up in supplies later this year, said **Chris Jarvis**, president of Caprock Risk Management LLC in Hampton Falls, New Hampshire.

"People are playing the recovery, and the area that will do well is commodities," he said. "There's a huge supply of natural gas, though it's not going to take much for these production cuts, which were driven by lower prices, to show once the economy starts to turn."

Rig Count

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. show. 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.

Devon Energy Corp., the largest independent oil and natural-gas producer in the U.S., said today the company expects output in the Barnett Shale gas formation in North Texas to crest in the current quarter after reductions in drilling.

The company has eight rigs drilling in the region, down from a peak of 39 in the fourth quarter, **David Hager**, executive vice president for exploration and production at Oklahoma City- based Devon, told investors today on a conference call.

The Barnett Shale helped lift U.S. production 7.2 percent to 21.5 trillion cubic feet in 2008, according to the Energy Department.

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