



Natural Gas Falls as Lower Power Use Expected on Mild Weather

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By Reg Curren

July 28 (Bloomberg) -- Natural gas fell for a second day in New York on forecasts of mild weather next month that would curb demand for air conditioning, reducing consumption of the fuel at power plants.

Seasonal temperatures are forecast for the eastern half of the U.S. through Aug. 11, according to MDA Federal Inc.'s EarthSat Energy Weather. Power generation represents 29 percent of gas consumption. Prices extended their declines after a Conference Board report showed that consumer confidence this month fell more than expected.

"The tendency here is to believe we're so well supplied that the market needs to see warmer weather or storms or some problem in the distribution system," said [Michael Rose](#), director of trading at Angus Jackson Inc. in Fort Lauderdale, Florida. "The market needs a catalyst to move up and we're just not seeing that."

Natural gas for August delivery fell 6.9 cents, or 1.9 percent, to settle at \$3.535 per million British thermal units at 2:50 p.m. on the New York Mercantile Exchange. The August contract expires tomorrow. Gas prices have fallen 37 percent this year.

The September futures contract fell 8.1 cents to \$3.687 on the exchange.

Stockpiles rose to 2.952 trillion cubic feet for the week ended July 17, 18 percent above the five-year average, the [Energy Department](#) said last week.

"The front-month will dive a bit going into the contract rollover," said [Chris Jarvis](#), president of Caprock Risk Management LLC in Hampton Falls, New Hampshire. "Anybody who had bought to hedge will roll those forward or take them off and it tends to put pressure on that front month."

Consumer Confidence

A less confident U.S. consumer might slow a recovery in the economy and blunt any potential demand increase from factories and manufacturers. Industrial consumption represents 29 percent of U.S. demand.

"The economy is still a gigantic question mark," said [Brad Florer](#), a trader for Kottke Associates Inc., a commodity futures broker in Louisville, Kentucky. "There's no weather, no demand, and supplies are up near all-time highs, so all those things combined keep relentless pressure on the market."

[Inventories](#) of gas probably rose 70 billion cubic feet last week, [Martin King](#), an analyst at FirstEnergy Capital Corp. in Calgary, said in a note to clients.

Gas inventories probably rose 74 billion cubic feet last week, based on the median of eight analyst estimates compiled by Bloomberg.

"This next report will firmly place U.S. storage above 3 trillion cubic feet, with one reporting week still left in July," he said. "This is by far the earliest that storage has ever reached the 3 trillion threshold."

Storage Gains

The average change in storage over the past five years for the week ended July 24 is an increase of 51 billion cubic feet, according to the Energy Department. Supplies at the end of July have averaged 2.593 trillion cubic feet for the past five years, according to department data.

"High seasonal inventory levels should keep a firm fundamental lid on prices through the autumn of 2009 and the winter of 2010," said [Chris Kostas](#), an analyst at Energy Security Analysis Inc. in Wakefield, Massachusetts. "Without hurricane disruption or a cold winter, depressed prices could linger into early next year."

The Atlantic hurricane season, which began June 1 and runs to the end of November, has yet to produce a named tropical storm. The most active period for storms begins in August and peaks in early September, according to the [National Hurricane Center](#) in Miami.

Price Incentive

Lower prices are needed to give producers "incentive to cut their output," which is little changed from a year ago, [Laurent Key](#) and [Stephanie Aymes](#), analysts at Societe Generale, said in a note to investors.

Gas rigs operating in the U.S. rose by 10, or 1.5 percent, to 675 last week, the biggest percentage increase since the week ended Oct. 31, Baker Hughes Inc. data show. The number of rigs working in the U.S. has declined 58 percent since reaching a peak of 1,606 last September.

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