# Natural Gas Rebounds From Seven-Year Low on Demand Speculation



By Reg Curren

Aug. 24 (Bloomberg) -- Natural gas futures rebounded from a seven-year low on speculation fuel demand will strengthen as the world economy emerges from the worst recession since the 1930s.

Futures gained as the heads of the U.S. and European central banks said the recession is ending. A recovery would help increase factory demand for gas, which accounts for about 29 percent of U.S. consumption.

"At some point gas is going to be sensitive to some recovery, with either factories turning on or steel capacity utilization up," said **Tom Orr**, director of research at brokerage Weeden & Co. in Greenwich, Connecticut. "You also can't go down forever. It was overdue for a rebound."

Natural gas for September delivery rose 12 cents, or 4.3 percent, to $2.924 per million British thermal units at the 2:30 p.m. close of floor trading on the New York Mercantile Exchange after touching $2.726, the lowest since Aug. 8, 2002. Gas declined 24 percent from Aug. 7 through Aug. 21, the biggest two-week drop since July 2008.

The world economy is pulling out of recession, Federal Reserve Chairman **Ben S. Bernanke** and European Central Bank President **Jean-Claude Trichet** said at an annual meeting of central bankers in Jackson Hole, Wyoming.

Crude oil October delivery rose 43 cents or, 0.6 percent, to $74.32 a barrel on the New York exchange.

Ratio With Oil

"Positive economic news is going to help natural gas," said **Chris Jarvis**, president of Caprock Risk Management LLC in Hampton Falls, New Hampshire. "This move today has more to do with the oil-to-gas ratio being so out of whack because from a technical and structural level it's way oversold."

The price ratio of natural gas to crude oil was near the widest since gas futures began trading on the exchange in 1990, reaching 25.8-to-1 today, according to data compiled by Bloomberg. The average over the past year is about 12.8 to 1.

The ratio reached its widest on Aug. 21 at 26.35-to-1.

Gas prices have declined 48 percent since the end of December as industrial demand fell because of the recession and output of the fuel from new onshore fields in the U.S. led to a glut. The price for crude futures surged 67 percent in the same period.

Prices for the industrial and power-plant fuel will probably remain under pressure with stockpiles above 3 trillion cubic feet and no imminent threat of supply disruption from tropical storms or hurricanes, **Michael Fitzpatrick**, vice president for energy at MF Global Ltd. in New York, said in a note to clients.

Gas Output

"The larger problem may be the production that becomes shut because storage and pipeline facilities can hold no more," he said. "The surplus could be severely tested" with an increase in demand.

Gas production is forecast to decline 2.8 percent to average 56.98 billion cubic feet a day in 2010 from an estimated 58.65 billion this year, according to the Energy Department's Energy Information Administration monthly Short-Term Energy Outlook on Aug. 11.

There were 695 natural-gas rigs working in the U.S. last week, down 57 percent from a peak of 1,606 in September 2008, based on data published by Baker Hughes Inc.

U.S. gas inventories gained 52 billion cubic feet to 3.204 trillion in the week ended Aug. 14, the **Energy Department** reported on Aug. 20. Stockpiles were 19 percent higher than the five-year average for the week.

Should weekly storage increases match the five-year average between now and the end of October, inventories would reach about 3.88 trillion cubic feet, department data show.

The current high to start the winter in the U.S. is 3.545 trillion cubic feet reached on Nov. 2, 2007.

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