



## Natural Gas Rises on Speculation Higher Demand Will Ease Glut

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By Reg Curren

Sept. 9 (Bloomberg) -- Natural gas futures advanced for a third day in New York on speculation a glut of the industrial and power-plant fuel will ease as output slows and demand rebounds later this year.

Gas has rallied 17 percent from a seven-year low on Sept. 4 as signs of an economic recovery spurred speculation that fuel use will increase. Production in the U.S. may decline after a 56 percent reduction over the past year in the number of active drilling rigs. Gas retreated from steeper gains after the Federal Reserve said consumer spending was "soft."

"When you take a look at what low prices are doing to production and eventually when there is an uptick in demand, we can cut through this gas storage pretty quickly," said [Chris Jarvis](#), president of Caprock Risk Management LLC in Hampton Falls, New Hampshire.

Natural gas for October delivery rose 2.2 cents, or 0.8 percent, to settle at \$2.829 per million British thermal units at the 3:05 p.m. on the New York Mercantile Exchange. Futures reached \$2.998 before falling back. Gas has declined 50 percent this year.

Manufacturing showed "modest improvements" in most regions of the U.S., the Fed said today in its Beige Book business survey. The amount of factory volume in use remains near its historic low, rising in July to 68.5 percent from 68.1 percent in June, the lowest level since record-keeping started in 1967.

A stronger economy would help lift demand for gas from factories and manufacturers, which account for 29 percent of consumption. Demand usually increases by early November as cold weather prompts consumers to turn on gas-fired heaters.

### Economic Reports

U.S. employers cut fewer jobs than expected in August, a report from the Labor Department on Sept. 4 showed. Employers trimmed 216,000 positions, below a forecast by economists of 230,000. A report on Sept. 1 from the Institute of Supply Management showed U.S. manufacturing expanded for the first time in 19 months.

Gas rose along with crude oil, which gained as the dollar dropped to the lowest level against the euro this year, and equity markets, which advanced on increasing signals the recession is easing.

Oil for October delivery advanced 21 cents, or 0.3 percent, to \$71.31 a barrel in New York. The Standard & Poor's index of 500 companies rose 0.5 percent to 1,030.23 at 3:38 p.m.

Inventories of natural gas are about 18 percent above the five-year average at 3.323 trillion cubic feet, according to data from [the Energy Department](#).

"The appearance of buying, whether short covering or bargain hunting, shows" the trend toward declining prices is ending, [Michael Fitzpatrick](#), vice president for energy at MF Global Ltd. in New York, said in a report to clients.

### Speculative Shorts

Speculative short positions, or bets prices will fall, outnumbered long positions by 169,846 contracts on the New York exchange in the week ended Sept. 1, according to a report last week from the Washington-based Commodity Futures Trading Commission. The number of short positions declined 3.9 percent from the previous week.

Supplies may have gained 72 billion cubic feet last week, based on the median of 17 analyst estimates compiled by Bloomberg. The average gain for the week over the past five years is 67 billion, according to the Energy Department, which is scheduled to release its weekly storage report tomorrow.

"Lower prices mean less investment in infrastructure and rig closings," Fitzpatrick said. "The more than 3 trillion cubic feet now stored will be used up quickly when demand inevitably returns. Market participants know that."

#### Gas Demand

Industrial use of natural gas fell 13 percent in the first six months of 2009 compared with the same period a year earlier as the recession that began in December 2007 cut consumer demand for goods and prompted plant closings.

Prices will probably languish for the next month or more as stockpiles are forecast to exceed the previous record for storage, said Jarvis.

"The \$2.80 level has been a big level of support for gas," Jarvis said. "I don't know how much further it can drop. You're seeing some stabilization in pricing and it will probably muddle around down here for a while."

Inventories will probably top the previous high of 3.545 trillion cubic feet, reached on Nov. 2, 2007, by early next month, based on average weekly increases.

U.S. gas stockpiles will probably rise to 3.84 trillion cubic feet by Oct. 31, the Energy Department's Energy Information Administration said today in its monthly Short-Term Energy Outlook. The department last month estimated peak storage capacity at 3.889 trillion cubic feet.

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