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Funds Slash Bearish Gas Bets as Prices Plunge: Energy Markets 2011-12-19 13:21:30.420 GMT

By Moming Zhou

Dec. 19 (Bloomberg) -- Hedge funds reduced bearish bets on natural gas for a fourth week even as warmer-than-normal weather and a rising storage surplus pushed prices toward the biggest annual decline since 2006.

The funds and other large speculators cut net short positions, or bets on falling prices, by 23 percent in the week ended Dec. 13, according to the Commodity Futures Trading Commission's Commitments of Traders report on Dec. 16. Traders slashed net shorts by 70 percent in the past four weeks. Gas declined on Dec. 12 to the lowest level since September 2009.

Prices have tumbled 29 percent this year as above-average temperatures lowered heating demand and boosted inventories.

U.S. gas production will rise to a record high this year on output from shale formations, according to the U.S. Energy Department. Gas inventories were 10.3 percent above the five-year average on Dec. 9, according to the department.

"The bears lightened up their positions into the end of the year because they had pretty decent profit," Phil Flynn, an analyst with PFGBest in Chicago, said in a telephone interview on Dec. 16. "It's a good time to put some money away going into the year-end."

Futures dropped 20.8 cents, or 6 percent, to \$3.279 per million British thermal units on the New York Mercantile Exchange in the week covered by the CFTC report. Prices fell 2 percent to \$3.065 as of 8:17 a.m. today on the exchange. In 2006, futures slid 44 percent from a record high of \$15.378 in December 2005 in the aftermath of Hurricane Katrina.

The weather will be warmer than normal east of the Mississippi River through mid-January, National Weather Service forecasts said on Dec. 15.

Degree Days

Heating degree days, a measure of demand for heating fuels during cold weather, are forecast to total 821.3 in December, 13 percent lower than last year and 4 percent below the 10-year average, according to Commodity Weather Group LLC in Bethesda, Maryland.

About 51 percent of U.S. households use gas for heating, according to the Energy Department.

"The fundamentals are still pretty weak on the weather front," said Cameron Horwitz, an analyst in Houston at Canaccord Genuity. "You don't necessarily believe that prices have bottomed. But if you've been short on gas and you've been making pretty good money, it's time to take some money off the table."

Marketed gas output will average 65.9 billion cubic feet a day in 2011, up 6.6 percent from last year, the Energy Department's Energy Information Administration said in its monthly Short-Term Energy Outlook on Dec. 6.

Shale Output

Shale gas production is expanding continually and will grow to 12.2 trillion cubic feet a year by 2035, making up 47 percent of total output compared with just 16 percent in 2009, the Energy Department estimated in the Annual Energy Outlook report released on April 26.

Gas stockpiles dropped 102 billion cubic feet, or 2.7 percent, in the week ended Dec. 9 to 3.729 trillion cubic feet, the department reported on Dec. 15. The decrease was smaller than the five-year average drop for the week of 142 billion cubic feet, department data show. Inventories are still near the record of 3.852 trillion cubic feet in the week ended Nov. 18.

“Gas is one of the few commodity markets that has had a very good trend, which is downward,” said Teri Viswanath, a Houston-based analyst at BNP Paribas SA. “If there is any holiday cheer, it’s the fact that gas prices have done what they ought to.”

Bearish Bets

Net short positions in natural gas held by managed money, including hedge funds, commodity pools and commodity-trading advisers, in futures and options combined in four contracts fell 4,880 futures equivalents to 15,946 in the week ended Dec. 13, the CFTC data showed

The measure includes an index of four contracts adjusted to futures equivalents: Nymex natural gas futures, Nymex Henry Hub Swaps, Nymex Henry Hub Penultimate Swaps and ICE Henry Hub Swaps. Henry Hub, in Erath, Louisiana, is the delivery point for Nymex futures, a benchmark price for the fuel.

In other markets, net-long positions in crude oil slid 0.9 percent to 200,986, the CFTC data showed.

Net-long bets on heating oil fell 15 percent to 26,513 contracts. Net-long bets on gasoline increased 2.9 percent to 60,580 futures and options combined, the CFTC data showed.

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