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By Naureen S. Malik

June 14 (Bloomberg) -- Natural gas futures surged the most since January after a government report showed a smaller-than-expected gain in stockpiles last week.

Gas rose as much as 8.5 percent after the Energy Department said U.S. stockpiles expanded by 67 billion cubic feet to 2.944 trillion. Analyst estimates compiled by Bloomberg showed an increase of 75 billion and a survey of Bloomberg users predicted a gain of 74 billion. The five-year average stockpile gain for the week is 88 billion cubic feet.

"I am really impressed with this number," said Stephen Schork, president of Schork Group Inc., a consulting group in Villanova, Pennsylvania. "A belief in the market in the past couple of months is that producers are finally cutting back, and certainly this kind of number on very weak weather-related demand is certainly going to buttress that opinion."

Natural gas for July delivery increased 16.8 cents, or 7.7 percent, to \$2.353 per million British thermal units at 10:47 a.m. on the New York Mercantile Exchange. If prices settle there, it would be the biggest one-day gain since Jan. 23. Gas was trading at \$2.211 per million Btu before the report was released at 10:30 a.m. The futures are down 21 percent this year.

A supply surplus to the five-year average for the week ended June 8 fell to 29 percent from 31 the previous week, the Energy Department said.

The surplus has declined each week since reaching a six-year high of 61 percent at the end of March as the mildest winter since 2000 reduced heating-fuel demand. Some electric generators switched from coal to gas as prices tumbled to a decade low in April.

Volatile Temperatures

"It's going to come down to the weather," said Phil Flynn, senior market analyst at Price Futures Group in Chicago.

"We have a lot of volatility in the temperature; it's more volatile than the natural gas markets these days."

Hotter-than-normal weather will move from the Midwest to the Northeast next week, said MDA EarthSat Weather in Gaithersburg, Maryland.

The high in New York City will rise from 78 degrees (26 Celsius) tomorrow, 1 below normal, to 93 degrees, 12 above normal, on June 22, according to AccuWeather Inc. in State College, Pennsylvania. Washington's high will increase from 80 degrees, 4 below normal, to 11 above normal at 97 degrees during the same period.

Air Conditioners

Cooling demand was 16 percent to 18 percent above normal in the central U.S. during the week ended June 9 and averaged 0.6 percent below normal nationwide, according to Weather Derivatives. The Belton, Missouri-based forecaster said cooling demand in the lower 48 states will be 22 percent above normal June 20 through June 24.

Demand from electric generators, which account for about 36 percent of U.S. gas consumption, peaks in the third quarter when hot weather drives air-conditioning use, according to the Energy department.

Duke Energy Corp. “almost always” runs gas-fired power plants before coal generation when gas prices are below \$4.25 per million Btu, Jim Rogers, the company’s chief executive officer, said during an energy conference at Stanford University yesterday.

U.S. power plants will burn 20 percent more gas this year, peaking at an average of 30.24 billion cubic feet a day from July through September, according to Energy Department data.

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