Natural Gas Weekly Market Update

EIA

Energy Information Administration
Office of Oil and Gas
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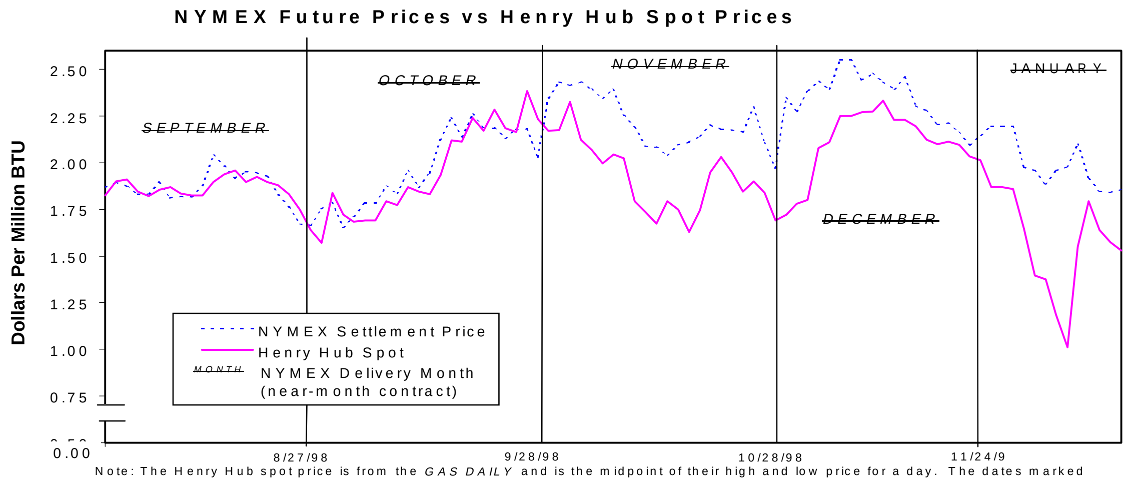
HENRY HUB PRICE
($ per MMBtu)

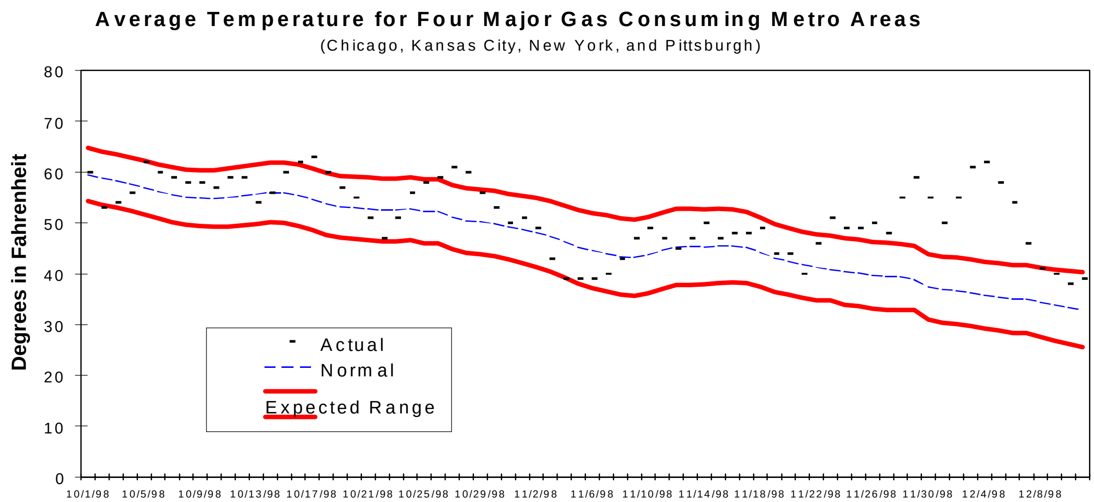
	SPOT December Del	FUTURES January Del
12/07	1.39-1.71	2.101
12/08	1.73-1.86	1.913
12/09	1.58-1.70	1.847
12/10	1.55-1.60	1.840
12/11	1.38-1.72	1.858



Note: The Henry Hub spot price is from the *GAS DAILY* and is the midpoint of their high and low price for a day. The dates marked by vertical lines are the NYMEX near-month contract settlement dates.

Average Temperature for Four Major Gas Consuming Areas

	Actual	Normal	Diff
12/05	58	35	23
12/06	54	35	19
12/07	46	35	11
12/08	41	34	7
12/09	40	34	6
12/10	38	33	5
12/11	39	33	6

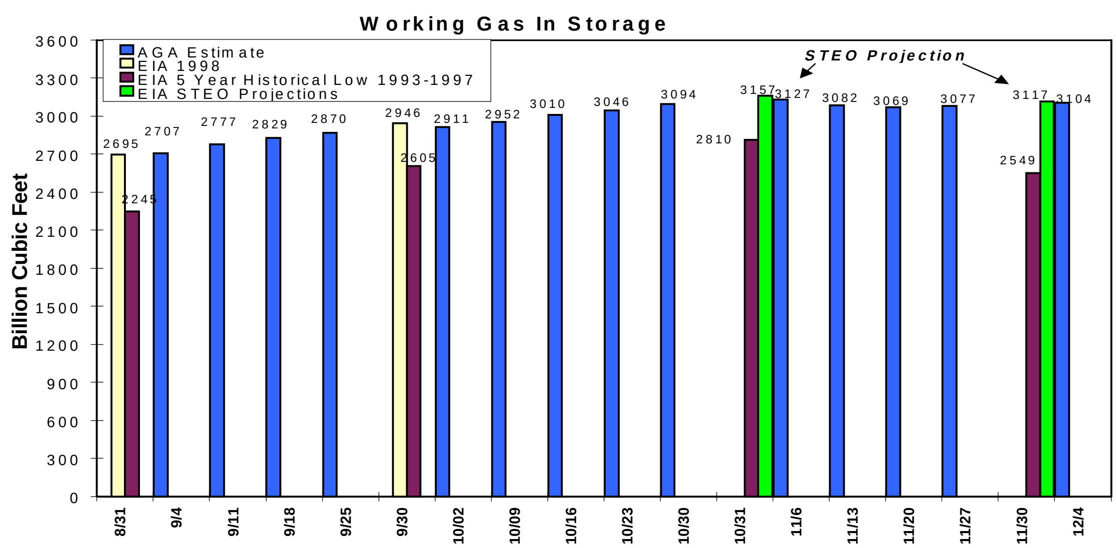


The bounds are computed by adding and subtracting from the average temperatures for the last 10 years an amount equal to twice an estimate of the standard deviation for temperatures on a day.

Working Gas Volume
as of 12/04/98

	BCF	% Full
EAST	1733	96
WEST	451	92
Prod Area	920	97
U. S.	3104	96

Source: AGA



The NYMEX futures contract for January delivery at the Henry Hub opened Monday, December 14, at $1.930 per MMBtu, $0.072 more than Friday's settlement price. Near normal weather returned to most parts of the country last week. Daytime temperatures in the four cities monitored for this report (Chicago, Kansas City, New York, and Pittsburgh) were in the high 40s at the end of the week with overnight lows in the 20s in all but New York City. Current forecasts are calling for a warming trend to return later this week bringing average temperatures in the Midwest and the Northeast to 8 to 10 degrees above normal. At the Henry Hub and other major markets, price variability was widespread with spot prices rising early in the week (increasing between $0.60 to $0.80 per MMBtu) then trending down about $0.30 after midweek. Spot gas at the Henry Hub was trading for $1.53 per MMBtu on Friday, about $0.50 more than a week earlier. The January futures contract began last week up about $0.12 at $2.10 per MMBtu, then trended down most days to end the week at $1.858. For the second consecutive week, the American Gas Association (AGA) reported that working gas in storage increased as net injections averaged almost 4 Bcf per day during the first week of December. Several major interstate transmissions lines issued operational flow orders (OFO) last week owing to the abundance of gas in their systems. Pipeline companies issue OFOs only when the operational integrity of their systems is in danger of being under-or over-pressured. In the past, OFO's generally have resulted from excessively high demand rather than a surplus of supplies. The price of West Texas Intermediate crude oil dropped below $11.00 per barrel and ended the week at $10.80—roughly equivalent to about $1.88 per MMBtu. Also, the price of low sulfur residual fuel oil was trading for $1.63 per MMBtu in New York City and for $1.06 along the Gulf Coast.

Storage: According to AGA, an estimated 27 Bcf was added to working gas during the week ended Friday, December 4. This is more than three times the amount reported to have been added during the previous week. A repeat of last week's atypical occurrence—having net additions in the heating season—provides further data on the overall abundance of current market supply. At the end of the first week of December, more than 3,100 Bcf of working gas remained in storage. Some market observers have commented that, without the arrival of some type of "cold spell" in the Midwest and East, more than 3,000 Bcf could still be in storage at the end of December. The last time this occurred was in 1990 when, according to EIA data, 3,068 Bcf was still available at the end of the year. It should be pointed out, however, that the 1990-91 heating season began (November 1) with 3,472 Bcf in storage. Last year, the level of working gas on hand at the end of December was 2,170 Bcf.

Spot Prices: Prices on the spot market rebounded last week, gaining more than $0.80 per MMBtu at the Henry Hub during trading in the first two days to reach more than $1.80 on Tuesday. This closed the price differential between the spot market and the near-month (January) futures contract to less than 12 cents per MMBtu. However, following reports of more moderate weather arriving on the weekend and more net additions to storage, prices on all markets trended down. By Friday, the price differential between the spot market and the near-month NYMEX contract was more than $0.30 per MMBtu ($1.53 vs. $1.858). The highly competitive price for low sulfur residual fuel in the Northeast and the Southwest reportedly had some industrial and utility customers switching to the lower cost fuel.

Futures Prices: The January NYMEX futures contract trended up at the beginning of last week, but similar to the spot price, prices declined once the prevailing market fundamentals—robust supply/stocks, more moderate weather forecast, low demand, and low-cost petroleum products—reasserted their dominance. By Friday, the January contract had lost almost $0.25 from Monday's high of $2.10 per MMBtu. The January contract is scheduled to close on December 29. Last year it settled at $2.307 per MMBtu.

Summary: The return of near normal weather provided an early week boost to last week's sagging prices, but it was not sustained as prices on both the spot and futures markets moved down after midweek. In the first week of December, more gas was added to the already robust stock levels and the industry's transmission system confronted operational difficulties caused by an oversupply of gas some days last week.