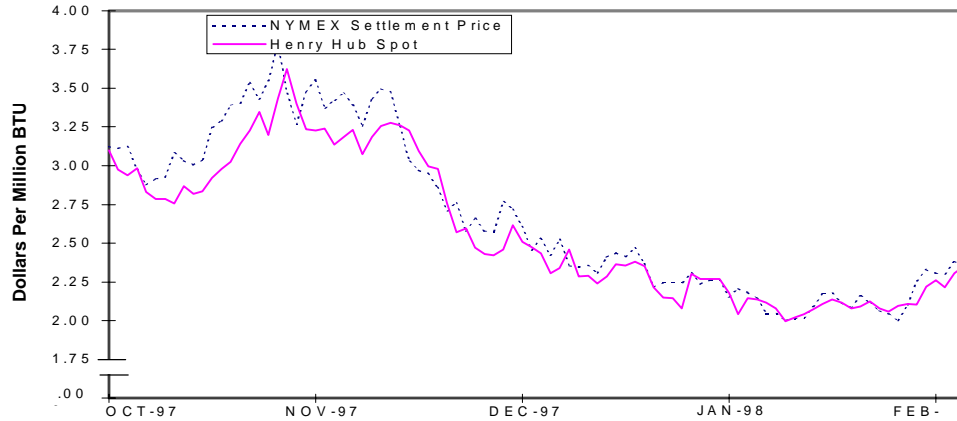


**NYMEX Future Prices vs Henry Hub Spot Prices**

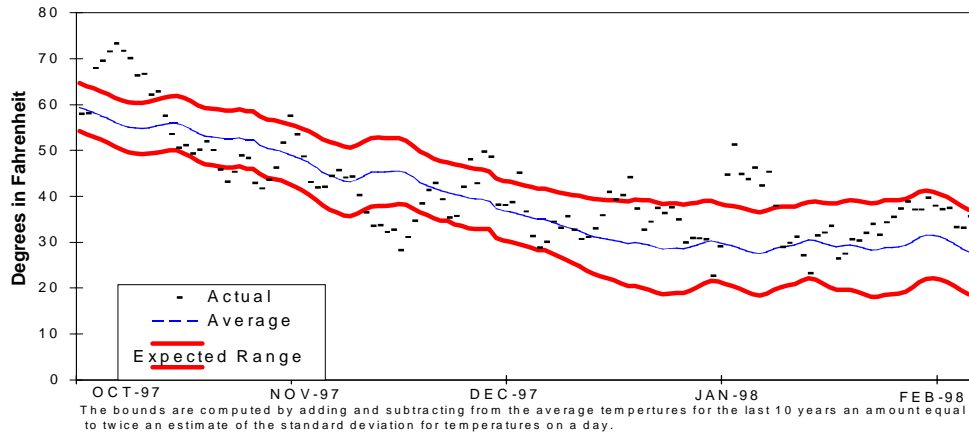
HENRY HUB PRICE		
	SPOT	FUTURES
	Feb	Mar
	Del	Del
	(\$ per MMBtu)	
2/02	2.18-2.26	2.329
2/03	2.22-2.30	2.307
2/04	2.17-2.26	2.299
2/05	2.27-2.34	2.383
2/06	2.33-2.37	2.359



**Average temperature for Four Major Gas Consuming Metro Areas**

(Chicago, Kansas City, New York, and Pittsburgh)

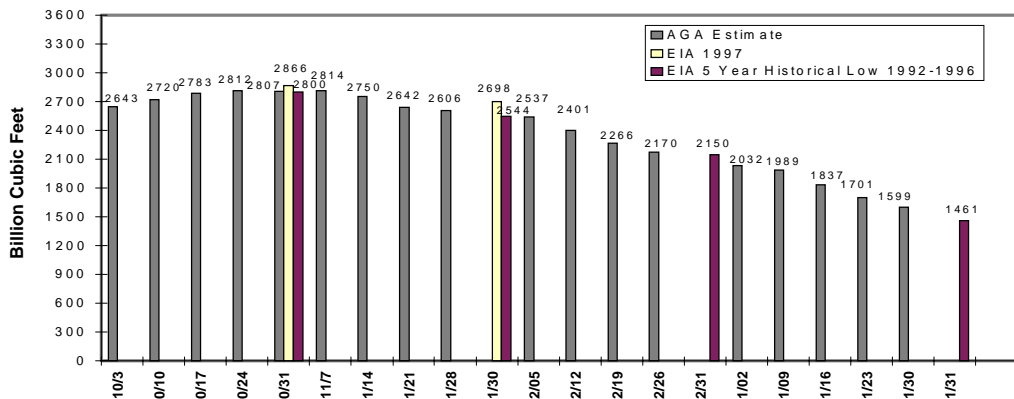
Average Temperature for Four Major Gas Consuming Areas			
	Actual	Normal	Diff
1/31	40	32	8
2/01	38	32	6
2/02	37	31	6
2/03	38	31	7
2/04	33	30	3
2/05	33	29	4
2/06	36	28	8



**Working Gas In Storage**

Working Gas Volume as of 1/30/98		
	BCF	% Full
EAST	985	55
WEST	215	45
Prod Area	399	43
U. S.	1599	50

Source: AGA



The NYMEX futures price for March delivery at the Henry Hub opened Monday, February 9, at \$2.310 per MMBtu, \$0.049 less than Friday's settlement price. Temperatures continued to be above normal in most areas of the country this past week. For the four cities tracked by this report, the composite average temperature was 6 degrees above normal for the week ending Friday, February 6. The American Gas Association's (AGA) estimate for withdrawals from storage for the week ended Friday, January 30 was just 102 Bcf. With the lack of both weather-driven demand and other obvious fundamental supply-related developments, most industry observers were surprised by the upward trend in both spot and March futures contract prices. The Henry Hub average spot price gained about 25 cents over the week ended Friday, February 6, while the March futures contract gained almost 30 cents from the closing price on its first day of trading as the near-month contract on Thursday, January 29. Conversely, the spot price for West Texas intermediate crude oil fell \$0.80 per barrel last week and was trading for \$16.75 on Friday, February 6. The United Nations attempted to reduce, or at least defer, the tension surrounding the issue of weapons inspections in Iraq by calling for nations to observe an "Olympic truce" for the duration of the Winter Olympics (set to end February 22) in Nagano, Japan.

**Storage:** The AGA estimates that net storage withdrawals during the last week of January were 102 Bcf. For the entire month of January, AGA data indicate that about 500 Bcf of working gas was withdrawn from storage, leaving almost 1,600 Bcf on hand. This is almost 20 percent or 250 Bcf more than at the same time last year (1,599 vs. 1,349 Bcf). The Consuming East and the Producing regions account for almost all of this increase between years, 147 and 101 Bcf, respectively. If the moderate temperatures continue, as forecasted by the National Weather Service and others, the differential between years is likely to persist and could even grow. Last year, temperatures in February and March were above normal in most parts of the country, with cumulative heating degree days during the period 11 percent less than normal. EIA data for February and March of last year indicate that net withdrawals were 512 Bcf during the last 2 months of the heating season. If current weather forecasts prove correct, storage levels at the end of March could be close to 1,200 Bcf, based on the EIA estimate of more than 1,700 Bcf of working gas on hand at the end of January (reported last week on this page) (1,703-512 Bcf). This would be the highest level of working gas at the end of the heating season since the 1995 level of 1,332 Bcf.

**Spot Prices:** Despite the apparent lack of "fundamentals" to drive prices up, spot prices increased at most locations last week, perhaps, as some market participants suggested, being "pulled" up by the equally surprising upward trend in the March futures price. Spot gas at the Henry Hub, which traded at \$2.10 per MMBtu on Friday, January 30, was up 25 cents by the end of the week, trading at \$2.35. Prices in many, if not most, other markets were up 20 cents or more. In the Rockies, the increase was closer to 15 cents. Only Canadian gas experienced a price decline over the week, and only at certain western border points (e.g., NW Sumas: down 7 cents at \$0.96 per MMBtu, and Westcoast-S2: down 8 cents at \$1.14). Another frequently suggested reason for the increases was that some market participants were having to cover short positions.

**Futures Prices:** The March contract for delivery at the Henry Hub got the upward price trend going on Friday, January 30, and, though faltering slightly on Tuesday and Wednesday, finished surprisingly strong at \$2.370 per MMBtu this past Friday. As the price climbed, volatility increased, particularly early on (high-low spreads on Friday, Jan 30 and Monday, Feb 2 were 19 and 16 cents, respectively). But by Friday, February 6, the trading range had narrowed to 8 cents, perhaps indicating some level of market acceptance for the week's upward price shift. The fact that the March contract opened today down almost 5 cents at \$2.31 per MMBtu might suggest that most short positions have been covered and the lack of significant demand factors is again being acknowledged in the market.

**Summary:** Warmer-than-normal temperatures continued to prevail in most areas of the country, and the AGA storage withdrawal estimate further underscored the relative strength of inventories this season. The compelling weather story involved the apparently El Nino-driven storm that pounded California with torrential rains, high winds, and extensive flooding, and its "mirror image" that hit much of the East Coast with similar effects, but neither storm appeared to have any obvious direct impact on the natural gas industry. Nonetheless, both spot and futures prices moved up fairly robustly throughout the week.