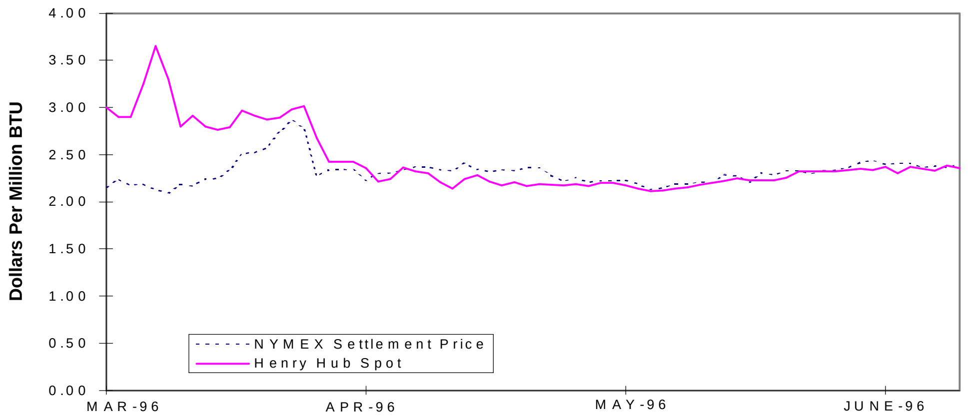
Natural Gas Weekly Market Update

EIA

Energy Information Administration
Office of Oil and Gas
June 10,1996

HENRY HUB PRICE	CASH	FUTURES
	June Del	July Del
	($ per MMBtu)	
6/03	2.35-2.39	2.406
6/04	2.33-2.37	2.364
6/05	2.32-2.35	2.379
6/06	2.36-2.40	2.362
6/07	2.34-2.38	2.395

NYMEX Price Futures vs Henry Hub Spot Price

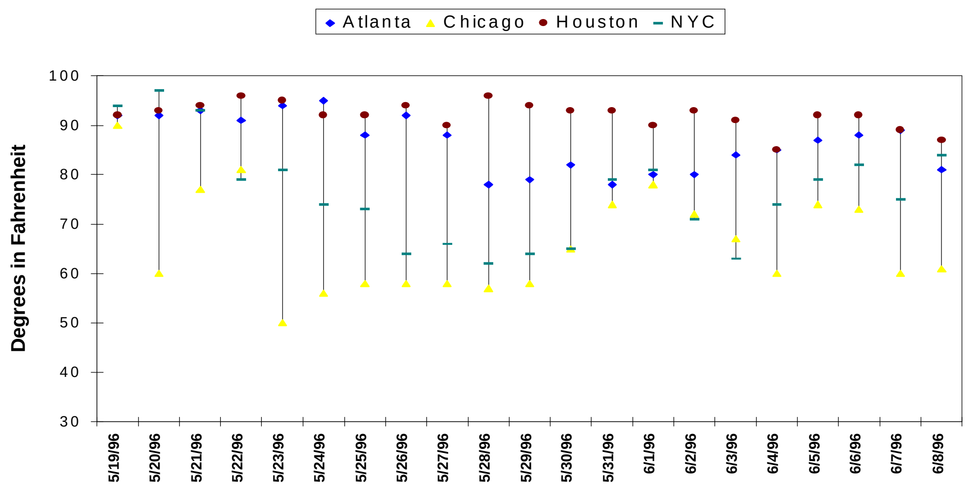


Note: THe Henry Hub spot price is from the *GAS DAILY* and is the midpoint of their high and low price for a day.

Average Temperature for Four Major Gas Consuming Areas

	Actual	Normal	Diff
6/02	70	71	-1
6/03	69	71	-2
6/04	67	72	-5
6/05	72	72	0
6/06	74	72	2
6/07	71	73	-2
6/08	70	73	-3

High Temperature for Four Selected Cities

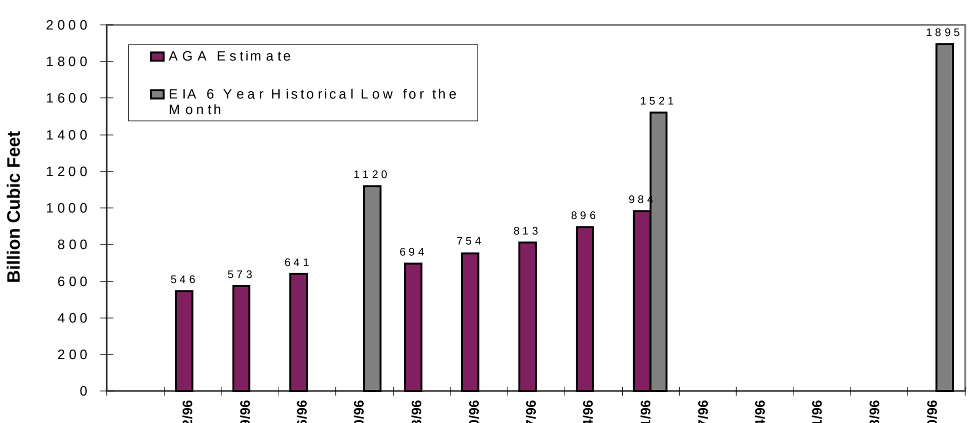


Working Gas Volume as of 5/31/96

	BCF	% Full
EAST	470	27
WEST	270	56
Prod Area	244	27
U. S.	984	31

Source: AGA

Working Gas In Storage



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Normal, mild temperatures have prevailed over much of the United States since the middle of last week. In our narrow weather survey, only Houston had consistent 90 degree temperatures, and there temperatures had moderated from the average high of 93 degrees the previous week. Futures and cash prices have been very similar and also relatively stable at about $2.36 per MMBtu. These market conditions contrast with those at the close of the heating season and beginning of injection season in April. Yet, the current price of options for futures contracts implies a higher price volatility than day-to-day changes in price indicate. Thus, the market seems to suggest that such events as sudden upward shifts in temperatures throughout the United States could still result in significant price increases.

Storage: According to AGA estimates, net storage injections during the past week were 88 Bcf, about 24 and 28 percent, respectively, of estimated dry gas production and consumption for the same period. For the second week in a row, net storage injections were high relative to the weekly average at this time of the year for both the current and the past six storage refill seasons. Nonetheless, AGA estimates of working gas levels at 984 Bcf are still significantly less than EIA historical lows for this time of the year. These continued low levels suggest that the gas industry may be comfortable with lower storage levels during the heating season given improvements in inventory management and deliverablility.

Spot Prices: Daily cash prices for June delivery near the Henry Hub have generally been a few cents less than the futures prices for July delivery (the most current contract for delivery). These similar prices on the spot and futures markets indicate that current supplies are generally more than adequate to cover expected short-term needs for natural gas. In contrast, spot prices for current delivery during the past winter often were $0.40 per MMBtu greater than futures prices for next month delivery. At that time, gas markets faced the likelihood of wide shifts in demand between days and the increased chance of shippers of gas on pipeline systems incurring very expensive imbalance penalties.

Futures Prices: The futures price for the nearby (July) contract (the most current futures contract) closed the week near $2.40 per MMBtu, only $0.01 less than the closing price for the nearby (June) contract at the end of the previous week, and opened on Monday, June 10, near the same price. More importantly, futures prices out to January are generally flat, with prices for August delivery only a few cents less than for January delivery. Prices for future month deliveries appear more like the pattern for a commodity that has insignificant storage costs. Only a few years ago, the difference between an August and a January price was more than $0.50 per MMBtu. Such changes reflect the significant restructuring of the gas industry during the past several years. The changes have also led to interest in new financial markets. Thus, in addition to the current Kansas City Board of Trade (KCBOT) contract, a second natural gas futures contract for delivery in West Texas began its first full week of trading on the New York Mercantile Exchange (NYMEX) on Monday, June 3rd. By Tuesday there were already about 1,000 futures contracts (open interest) in existence.

Summary: Although price volatility has moderated in recent weeks, price risk is still an important consideration in the gas industry.

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Report is available with 3 graphs on the Internet; http://www.eia.doe.gov/fuelnatgas.html