Natural Gas Weekly Market Update

Energy Information Administration
Office of Oil and Gas
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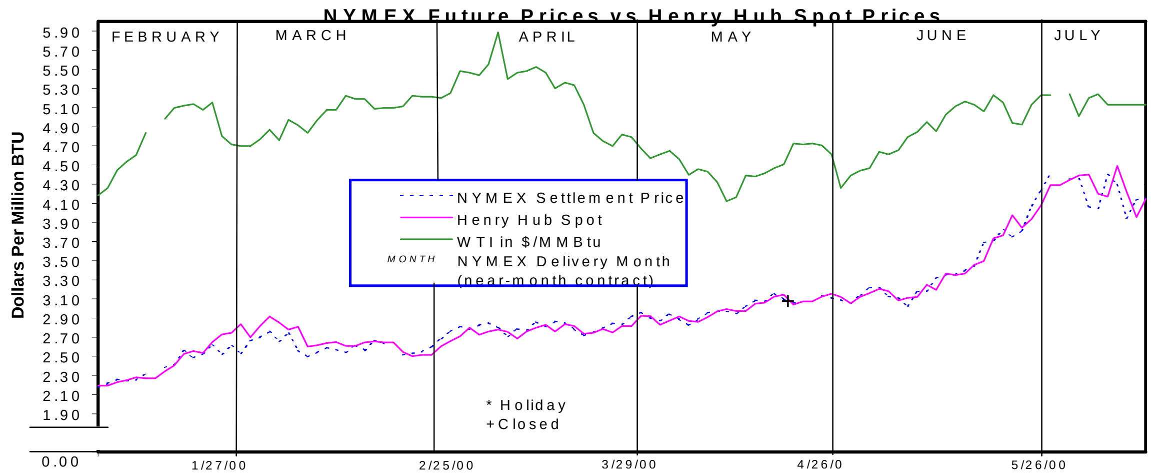
http://www.eia.doe.gov

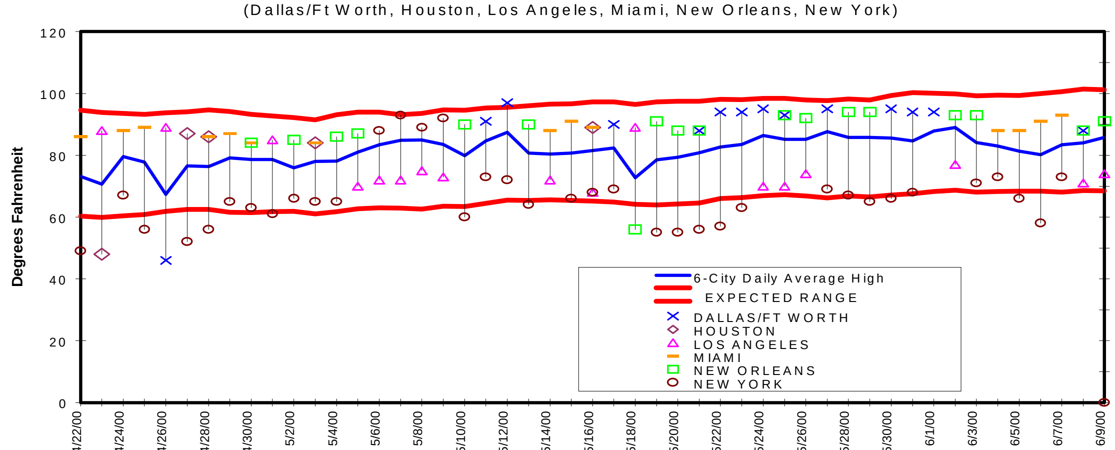
HENRY HUB PRICE		
	SPOT June Del	FUTURES July Del
	($ per MMBtu)	
06/05	4.14-4.20	4.398
06/06	4.41-4.57	4.294
06/07	4.17-4.28	3.945
06/08	3.89-4.02	4.133
06/09	4.11-4.18	4.160



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 WTI price, in dollars per barrel, is the "sell price" from the GAS DAILY, and is converted to $/MMBtu using a conversion factor of 5.80 MMBtu per barrel. The dates marked by vertical lines are the NYMEX near-month contract settlement dates.

Average High Temperature for Six Major Electricity Consuming Cities			
	Actual	Normal	Diff
06/03	84	84	0
06/04	83	84	-1
06/05	81	84	-3
06/06	80	84	-4
06/07	83	84	-1
06/08	84	85	-1
06/09	86	85	-1

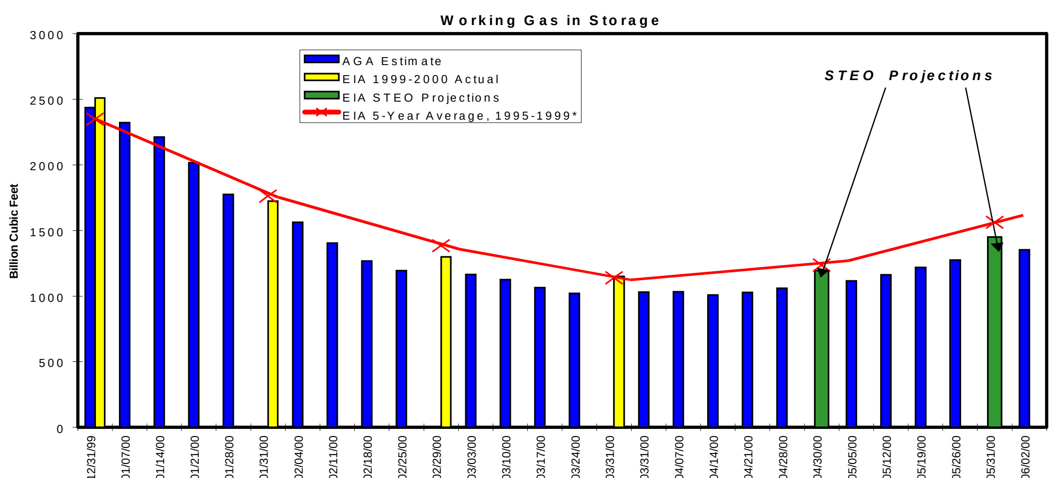
Daily Average of High Temperatures, and Daily Highest and Lowest High Temperatures for 6 Cities, May-September
(Dallas/Ft Worth, Houston, Los Angeles, Miami, New Orleans, New York)



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

Working Gas Volume as of 06/02/00		
	BCF	% Full
EAST	653	36
WEST	322	64
Prod Area	377	40
U. S.	1352	41

Source: AGA



*The data showing the EIA 5-year historical high inventory levels have been replaced with the EIA 5-year average inventory levels for 1995-1999.

Price volatility ratcheted up a notch in both cash and futures markets last week, as the daily settlement price of the NYMEX futures contract for July delivery rose and fell by up to 35 cents each day, driving cash prices up and down as the markets searched for the right level in the absence of new or compelling market forces. Henry Hub spot prices had a single-day gain of 32 cents and consecutive single-day losses of over 25 cents, and reached as high as $4.57 per MMBtu and as low as $3.89, before ending the week at $4.15, just 5 cents less than the previous Friday. Temperatures were generally moderate in most of the nation during the week, except the Southwest, where highs in the 90s and above prevailed. For the six cities monitored for this report (see Temperature graph), composite daily average temperatures ranged from 1 to 4 degrees below normal. Spot West Texas Intermediate crude oil ended trading on Friday down $0.15 per barrel from the previous Friday at $30.25 per barrel, or $5.22 per MMBtu, despite the development of more uncertainty surrounding the outcome of the June 21 OPEC ministerial meeting.

Storage: Net injections into storage reached their highest level of the refill season as AGA estimated that 78 Bcf was added to working gas in the week ended Friday, June 2. That Friday's drop in prices from Friday, May 26, the first significant price decline in months, along with generally seasonal to cooler-than-normal temperatures in the eastern third of the country, appear to have contributed to the increase. This injection estimate, equivalent to average additions of just over 11 Bcf per day, represents a significant increase over the average injection rate of only 7.6 Bcf per day for the prior month-to-date. Estimated net additions of 299 Bcf in the first 2 months of the refill season yields an estimate for working gas in storage of 1,449 Bcf as of the end of May. If injections were to continue at this higher rate, inventory levels would reach nearly 3,150 Bcf—5 percent higher than the EIA 5-year average (1995-99) of 2,985 Bcf.

Spot Prices: Cash prices in most markets were heavily influenced by developments in the futures market, mirroring the preceding trading day's movements in the near-month futures contract price. Only in the southwestern production basins, California, and the Rockies were there market conditions that overrode the futures market's lead, and only early in the week. Price volatility was a little less pronounced for spot prices than for futures prices. The Henry Hub trading range for any single day, typically less than a dime at this point in the non-heating season, ranged from $0.13 to $0.32 during the week. While spot prices were down both Wednesday and Thursday at virtually all locations tracked by *Gas Daily*—and falling by a quarter or more each day at most of them—they rebounded somewhat on Friday. Prices remain at unusually high levels, although the Friday-to-Friday price change was negative at most locations, with most losses in the 2-9 cents per MMBtu range. While having exceeded $4.00 per MMBtu at nearly all price points outside of the Rockies on Friday, June 2, spot prices only exceeded that threshold last Friday primarily in citygates in Chicago and California, and in some Northeast delivery points. In its most recent forecast, EIA projects that average wellhead prices will be up by 50 percent this summer compared to last summer ($3.20 per Mcf vs. $2.14) and by 60 percent this coming winter over last winter ($3.60 per Mcf vs. $2.25).

Futures Prices: In a volatile week, the July futures contract price ranged as high as $4.505 per MMBtu and as low as $3.830, and had the largest single-day settlement-price loss for any near-month contract so far this year (down $0.349 on Wednesday) before settling on Friday at $4.160, up $0.117 from the previous Friday. While the daily price range for the July contract did not reach the phenomenal 57-cent spread of Thursday, June 1 ($3.80-$4.37), it was 26 cents or greater every day until Friday, when it was "only" 16 cents. Monday's $0.355 increase to $4.398 per MMBtu, accompanied by reduced trading volume (about 30,500 contracts) relative to the past two weeks (average about 45,000), could not be sustained, as profit-taking by non-commercial traders started prices downward on Tuesday and early Wednesday. The sell-off expanded Wednesday afternoon following AGA's report of 78 Bcf of net injections into storage, but the July contract showed resilience, recovering nearly 19 cents on Thursday and another $0.027 on Friday.

Summary: High price volatility characterized cash and futures markets throughout the week, increasing risk for all traders. Estimated net injections of 78 Bcf exceeded market expectations, contributing to a large one-day drop in futures prices, which nevertheless rebounded on the apparent notion that the market will continue to be tight for the foreseeable future.