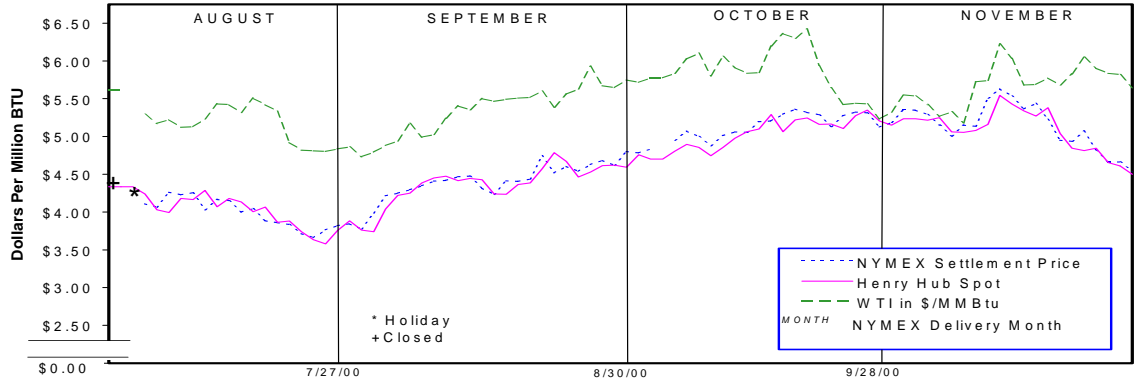
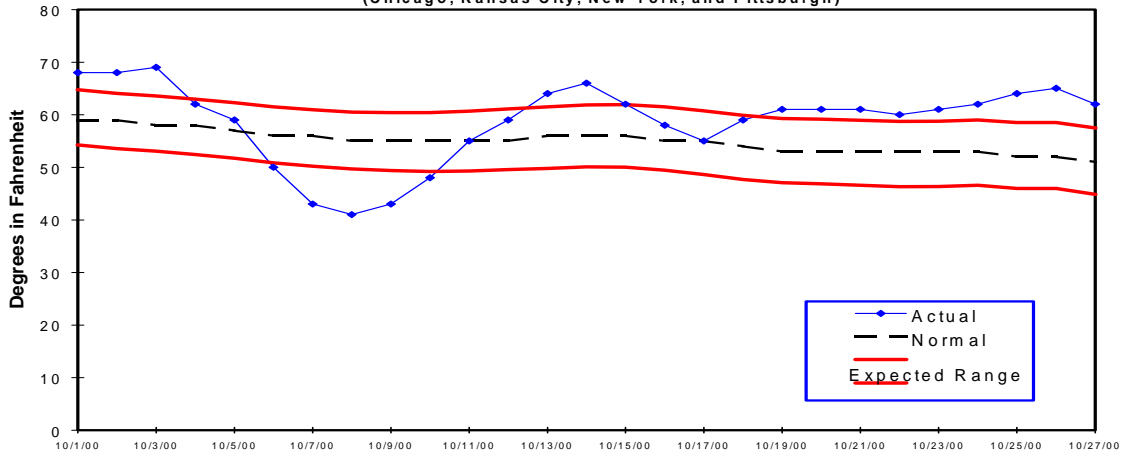


**NYMEX Natural Gas Future Price, Henry Hub Spot Price, and West Texas Intermediate Crude Oil Price**



Note: The Henry Hub spot price is from the GAS DAILY and is the midpoint of their high and low price for a day. The West Texas Intermediate crude oil 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 Temperature for Four Major Gas Consuming Metro Areas (Chicago, Kansas City, New York, and Pittsburgh)**



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.

**Average Temperature for Four Major Gas Consuming Areas**

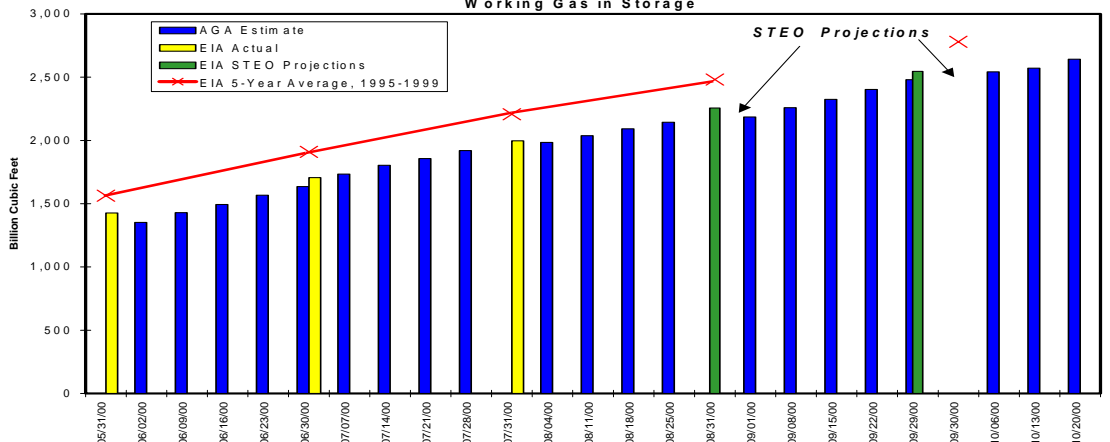
	Actual	Normal	Diff
10/21	61	53	8
10/22	60	53	7
10/23	61	53	8
10/24	62	53	9
10/25	64	52	12
10/26	65	52	13
10/27	62	51	11

**Working Gas Volume as of 10/20/00**

	BCF	% Full
EAST	1613	88
WEST	380	75
Prod Area	649	68
U. S.	2642	80

Source: AGA

**Working Gas in Storage**



Note: With this issue of the *Weekly Market Update*, we replace the refill-season temperature graph with the heating-season temperature graph.

The price slide that began the week before last continued last week in the futures and cash markets. Both spot and futures prices have lost up to \$1.00 per MMBtu or more since Thursday, October 12, when the NYMEX futures contract for a near-month delivery at the Henry Hub reached an historic high (\$5.630) and the Henry Hub spot price reached a 4-year high (\$5.55). Mild weather persisted nationwide, with temperatures generally displaying a classic "shoulder season" pattern: warm enough in the Northeast and Midwest to avoid significant heating demand, cool enough in the South and West to suppress cooling demand. As a partial consequence, storage injections over the last two weeks have been relatively high compared with either last year or with historic averages. After surging \$1.30 to close at \$33.80 per barrel on Monday, the spot price for West Texas Intermediate crude oil drifted down steadily to end the week at \$32.75 per barrel, or \$5.65 per MMBtu.

The National Weather Service's (NWS) latest 6–10 day forecast predicts continuing mild temperatures into the 2nd week of November. In its recently-released winter outlook, NWS foresees a return to "normal" (i.e., average during 1961-1990) winter temperatures in the Midwest, northern tier, and northern New England states; and warmer-than-normal temperatures for the rest of the Nation. The expectation of normal temperatures translates to colder weather than has prevailed during the past few winters, which have been among the warmest on record. Forecast highlights include increased chances for: (1) more snow than normal along the Appalachians into the Carolinas, (2) average temperatures 4 degrees colder than in the last three winters for Northeast cities (but still warmer than normal), (3) normal conditions—meaning significantly colder temperatures than in the last 3 winters—in the Plains states, and (4) warmer-than-normal temperatures in areas of the West and Southwest.



**Storage:** Net additions to working gas in underground storage surged last week, as the American Gas Association (AGA) estimated total net injections of 71 Bcf for the week ended Friday, October 20. This is the largest injection for this particular week of the refill season since AGA began publishing weekly estimates (January 1994). While the market was anticipating a relatively large injection estimate, 71 Bcf exceeded most, if not all, of the various expected figures circulated by market analysts. Net injections have exceeded expectations for two weeks straight, with predictable effects on futures prices. Injections of 47 and 22 Bcf into the East and Producing regions were the second largest for each region for this week, according to AGA data, and improved their storage situations with respect to EIA-estimated 5-year-average stock levels for these regions. The highly gas-dependent East region, with an estimated 1,719 Bcf of working gas, is just 4.2 percent below its estimated EIA 5-year average of 1,794 Bcf. Estimated net injections during the first 20 days of October were 153 Bcf, 22 Bcf greater than the EIA-estimated 5-year average.

**Spot Prices:** Spot prices in most locations fell 4 out of 5 days last week. With mild temperatures blanketing the Nation, weather-related demand was moderate. Tuesday was the only day showing price gains, mostly a nickel per MMBtu or less, primarily influenced by Monday's gains on the futures market. Some areas in the West showed minor variations on this pattern: the PG&E citygate price jumped \$0.23 per MMBtu on Monday to \$5.46, regaining the loss from Friday resulting from gas moving off of the system in response to a weekend high inventory operational flow order. This helped firm up prices for both Monday and Tuesday in the Rockies and the San Juan Basin, where additional upward pressure was

being felt from maintenance-driven curtailed flow on the El Paso Pipeline system to the south. Spot prices fell for the rest of the week, with significant drops on both Wednesday and Friday. On these days, losses ranged primarily from 10 to as much as 32 cents per MMBtu, as markets reacted to the seeming weak demand. Price drops in California and adjacent markets were dampened somewhat as nuclear-plant outages for planned maintenance kept gas demand up. For the week (Friday-to-Friday), spot gas at the Henry Hub lost \$0.35 per MMBtu, to \$4.50. Since reaching a 4-year high of \$5.55 on October 12, the Henry Hub price has lost \$ 1.05 per MMBtu.

**Futures Prices:** Near-month prices mustered a somewhat surprising recovery of \$0.135 per MMBtu on Monday—attributed to profit-taking by many market analysts—to settle once again above \$5.00 per MMBtu. Then the November futures contract went into a two-day decline, with a quarter drop on Tuesday followed by a 16-cent decline on Wednesday to settle at \$4.659 per MMBtu. Trading on the November contract stabilized somewhat on Thursday, with the price settling a scant one-half cent higher after trading in a less than 10-cent range (after price ranges of \$0.20 to \$0.265 Monday through Wednesday). The downward trend resumed on Friday for the November contract's last day of trading, during which it dropped an additional \$0.123 to close at \$4.541 per MMBtu. This was the lowest settlement price for a near-month contract since the August contract closed out on July 27 at \$3.820 per MMBtu. The November contract's closing price is still almost \$1.45 per MMBtu higher than the November 1999 contract (\$3.092). The next near-month contract, for December delivery, settled on Friday at \$4.652, down \$1.076 from its October 12 high of \$5.728 per MMBtu.

**Summary:** Persistent mild weather increased downward pressure on spot prices. Forecasted continuation of above-normal temperatures for the near-term may contribute to further price weakness. Unexpectedly large storage additions contributed to lower futures prices.