

Natural Gas Markets – November 2009

Monthly Market Update

Market Activity

Weather storage and correlations other commodities were the most prominent factors in spot natural gas prices in November. Forecasts for warmer-than-average weather across the country sent the December futures contracts plummeting on multiple occasions. Industry sources noted that falling natural gas prices could be attributed to overwhelming bearish fundamentals and mild weather.

Many traders see \$4.30 as technical support, though others speculate the floor being lower than that. According to Tim Evans at Citi Futures, "this is 100% a weather market. If we get cold we are going up, if we don't, we will see prices fall." Evans also added that the entire market is overreacting to milder short-term weather forecasts.

After the crashing of gas prices this year, many gas-powered power generators displaced marginal coal-fired units boosting demand for 2009. However with coal stocks building to record-levels the reverse may be the case for 2010. As gas prices continue their slow recovery beyond the heating season, they would need to remain at or below \$4.50/mmbtu next year to avoid losing some market share back to coal. If gas doesn't replace some coal in 2010, the already-high storage level will rise even further and the market will recognize this and force prices even lower. According to Michael Zenker, gas began to displace coal this year when Henry Hub prices hit \$5.50/mmbtu and hit its peak when gas fell below \$4.00/mmbtu.

Gas plummeted even further to around \$2.00 levels and this supplanted coal even further sending it to record high of 196 million short-tons in July, up more than 50 million short tons from a year earlier according to most recent data Energy Information Administration.



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