

UPDATE: US GAS:Nymex Gas Rises on Cold Weather Outlook

(Updates with more details about the weather forecast in paragraphs 5 and 6 and a quote from a meteorologist in 7th graf)

By Jeanine Prezioso
Of DOW JONES NEWSWIRES

HOUSTON (Dow Jones)--Natural gas futures reversed losses Tuesday as traders bought gas contracts after a government forecast predicted colder weather next week.

Natural gas for December delivery on the New York Mercantile Exchange settled 26.5 cents or 3.5% higher Tuesday at \$7.75 a million British thermal units.

January gas futures settled 20 cents up at \$8.21/MMBtu and February settled at \$8.25/MMBtu, up 19.5 cents.

The rally was fueled primarily by large speculators, including hedge funds, who started buying up gas futures contracts in reaction to U.S. government data that showed colder weather entering the densely-populated Midwest and East Coast next week, analysts said.

The Global Forecast System at the U.S. National Center for Environmental Prediction released a forecast midday Tuesday showing that temperatures next week in the Midwest and East would drop to the 50s from the 60s, while in Southeast the weather would cool 10 to 15 degrees. The forecast indicated temperatures 7 to 10 degrees colder than those predicted 24 hours earlier, said Matt Greenstein, a meteorologist with Weather Insight in Houston. The colder weather will hit Chicago, New York and other areas of the Midwest and East that consume large amounts of gas for heating.

The GFS, as it is called, is one of three major weather model systems that run around the clock and are interpreted by a variety of weather organizations. Greenstein said the model, which releases forecasts four times a day, could change its prediction to warmer temperatures.

"I wouldn't be surprised if the runs come out tomorrow they give back some of that cold," Greenstein said.

One meteorologist said the model's forecast should be taken lightly.

"I am skeptical of the model's output because it's unstable as it goes out in time," said Jim Rouiller, senior energy meteorologist with Planalytics in Philadelphia. He added that the weather outlook for next week is continued moderate weather.

That did not stop funds with long market positions from buying up gas contracts to maintain higher prices and support their positions, said a trader who asked not to be named.

"It's in their best interest not to have to get out of those positions," said

the trader. "If they wait long enough they will get a cold forecast."

The trader compared the racking up of long positions Tuesday to the trading tactic used by Brian Hunter, the former trader at hedge fund Amaranth Advisors, which recently closed after losing \$6 billion in bad gas market bets. Hunter betted gas prices would rise on hurricane worries this past summer and early fall. Instead, no hurricanes materialized and gas prices dropped.

Even with colder weather, the U.S. has an 8.7% surplus of gas in storage compared to the five-year average, with 3.461 trillion cubic feet of gas. It is likely more gas will be injected into storage before November's end, analysts say.

FUTURES	SETTLEMENT	NET CHANGE
Nymex Dec	\$7.755	+26.5
Nymex Jan	\$8.210	+20.0
Nymex Feb	\$8.250	+19.5

CASH HUB	RANGE	PREVIOUS DAY
Henry Hub	\$6.42-\$7.05	\$6.59-\$6.90
Transco 65	\$6.66-\$6.95	\$6.68-\$7.35
Tex East M3	\$6.90-\$7.37	\$7.03-\$7.50
Transco Z6	\$7.10-\$7.35	\$7.06-\$7.60
SoCal	\$5.55-\$6.25	\$5.71-\$6.20
El Paso Perm	\$5.40-\$6.15	\$5.47-\$5.80
El Paso SJ	\$5.29-\$5.64	\$5.30-\$5.80
Waha	\$5.49-\$6.05	\$5.45-\$6.15
Katy	\$5.90-\$6.18	\$5.79-\$6.22

-By Jeanine Prezioso, Dow Jones Newswires; 713-547-9209;
jeanine.prezioso@dowjones.com

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