

## MARKET WATCH

### Energy prices continue to fluctuate

**Sam Fletcher**  
*Senior Writer*

**HOUSTON, Jan. 22** -- Energy prices continued to seesaw, rising Jan. 19 to recoup most of the previous day's losses as traders covered short positions ahead of the weekend and National Weather Service forecasts for lower-than-normal temperatures Jan. 24-28 in the eastern US.

The result was a nearly 6% increase in composite spot natural gas prices, despite a roughly 2% decline in benchmark spot crude oil prices through last week, said Robert S. Morris, Banc of America Securities LLC, New York. The revised weather forecasts sparked an even-sharper rally in gas prices with the near-month gas contract surging nearly 10% on the New York market on Jan. 19.

"This sharp move was also underscored by massive short covering ahead of the weekend. Nonetheless, the weather forecasts are not calling for a sharp reversal in temperatures across the country for the rest of the winter, which is what is needed to alleviate the record storage overhang," Morris said. "In fact, with about one half of the winter now in the books, temperatures this season have been almost 15% warmer than the 10-year average. Assuming normal temperatures for the remainder of the winter, we project storage would end March at nearly 1.8 tcf, or about 100 bcf above last year's end-of-March all-time high. Otherwise, every 1% variation in temperatures during the rest of this winter impacts our end-of-March storage projection by roughly 25 bcf."

### Energy prices

The February contract for benchmark US light, sweet crude traded at \$50.12-52.05/bbl Jan. 19 on the New York Mercantile Exchange before closing at \$51.99/bbl, up by \$1.51 for the day. The March contract gained \$1.59 to \$53.40/bbl. On the US spot market, West Texas Intermediate at Cushing, Okla., was up by \$1.51 to \$52/bbl.

Crude prices below \$50/bbl are not sustainable in the current market, so any drop below \$50/bbl "and definitely below \$45/bbl" would present "a unique buying opportunity," said Olivier Jakob, managing director of Petromatrix GMBH, Zug, Switzerland.

A \$50/bbl price floor would be "difficult to break as plenty of buyers emerged between \$50-55/bbl," agreed analysts with the Société Générale Group. "Sentiment should turn more neutral now that [investment] funds have taken profits. A rebound to \$55/bbl is likely for this week."

Société Générale analysts said, "Financial markets [are] less and less pessimistic about the US economic slowdown. Demand is back thanks to [low] temperatures, but the damaging effect on [market] sentiment is done. After the US, a cold snap is expected for Europe with temperatures dropping below normal." Moreover, they said, "Saudi Arabia wants more

discipline [among cartel members] before additional [production] cuts are discussed."

Heating oil for February delivery dropped 4.28¢ to \$1.51/gal on NYMEX. The February contract for reformulated blend stock for oxygenate blending (RBOB) gained 4.27¢ to \$1.40/gal. The February natural gas contract jumped up by 56.2¢ to \$6.89/MMbtu on NYMEX. On the US spot market, natural gas at Henry Hub, La., increased by 28¢ to \$6.56/MMbtu.

In London, the March IPE contract for North Sea Brent crude was up \$1.69 to \$53.44/bbl. Gas oil for February gained \$12 to \$475.75/tonne.

The average price for OPEC's baskets of 11 benchmark crudes dipped by 3¢ to \$48.20/bbl on Jan. 19. So far this year, OPEC's basket price has averaged \$50.68/bbl, compared with an average of \$61.08/bbl for all of 2006.

**Contact Sam Fletcher at [samf@ogjonline.com](mailto:samf@ogjonline.com).**

**Find this article at:**

[http://www.ogj.com/articles/article\\_display.cfm?ARTICLE\\_ID=282739&p=7&ion=ONART&subsection=none&c=GenIn&x=y](http://www.ogj.com/articles/article_display.cfm?ARTICLE_ID=282739&p=7&ion=ONART&subsection=none&c=GenIn&x=y)

Check the box to include the list of links referenced in the article.

