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## **Raymond James Analysts Expect \$8/MMBtu Average Henry Hub Prices Next Year**

Despite already pushing gas and oil price forecasts well past Wall Street consensus estimates, analysts at Raymond James & Associates once again raised their short-term predictions for crude oil and natural gas prices based largely on low OPEC productive capacity, maturing non-OPEC production areas and a much tighter link between oil and natural gas prices.

"OPEC's excess capacity is the lowest in three decades," said Raymond James analysts J. Marshall Adkins and Wayne Andrews. "This is the main driving factor behind our optimism about longer-term oil prices. As rising demand, particularly from China and India, has outpaced non-OPEC supply increases, the resulting increase in OPEC production has left the world with an extremely low level of excess production capacity.

"Like the natural gas markets in the mid-1990s, the oil market finally appears to have worked off its supply bubble to the point where oil prices have moved to a higher sustainable level for the long run. In fact, with OPEC's tightening surplus capacity likely less than 1.5 million b/d (of marginal quality crude), the supply/demand equation has tightened to the point that there is no room for any significant supply disruptions."

As a result, Raymond James analysts raised their oil price forecast for this year to \$51/bbl from \$48 and boosted the prediction for prices next year to \$52/bbl from \$47/bbl. The current Wall Street projections are \$47.92 this year and \$41.52 in 2006, or \$10.48/bbl below the Raymond James prediction.

Raymond James maintained its \$6.86/MMBtu Henry Hub gas price forecast for this year but bumped up by 50 cents to \$8.00 its prediction for 2006, compared to Wall Street consensus estimates at \$6.58 for this year and \$6.41 in 2006. In comparison, the Energy Information Administration is predicting that Henry Hub prices will average \$6.88 this year and \$7.13 in 2006. Consultants at Energy and Environmental Analysis Inc. said last week that they are expecting

Henry Hub prices to average \$6.45 this year, \$7.50 next year and \$8.50 in 2007 (see *Daily GPI*, [June 17](#)).

"Going forward, we believe that natural gas will be linked much more closely with oil prices than we have seen over the past decade," they said.

"Specifically...we believe that in a normalized weather scenario, the midpoint of U.S. natural gas will be linked to oil prices with a 6:1 BTU parity price ratio."

The Raymond James analysts said that a larger amount of weather sensitive gas demand exists today than did a few years ago as "price-sensitive demand has been rationed, primarily from industrial customers." The analysts predict that gas prices will begin to increase in the second half of the year as normal weather begins to bring down the gas storage surplus and the underlying supply/demand fundamentals become more apparent.

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