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Raymond James Holds Tight to Rising Gas Prices Through 2006

Following on the prescient forecast two months ago that natural gas prices could hit \$10/Mcf by the end of the summer, Raymond James & Associates this week remained bullish on prices rising in the next few months, improving on favorable year-over-year weather comparisons and a shrinking surplus of stored gas.

In late June and early July, Raymond James analysts were the first -- and at the time the only -- energy analysts suggesting that gas prices, in 6:1 parity with oil, could hit \$10/Mcf by the end of this summer (see *Daily GPI*, [July 7](#); [June 28](#)).

Thursday's natural gas futures at midday had climbed to about \$9.15. And September natural gas settled at \$9.071, up 42.2 cents on Wednesday, marking the highest settle for a prompt month in two and a half years (see *Daily GPI*, [Aug. 11](#)).

The analyst's gas forecast, which was revised in mid-June, remains \$6.86/Mcf for full-year 2005 and \$8 for full-year 2006 (Henry Hub). The forecast continues to be above the First Call consensus, which for 2006 is \$1.30/Mcf lower. For oil, Raymond James pegged full-year prices at \$51/bbl and \$52/bbl in 2006, but Thursday, oil was trading in the mid-\$60s.

"However, our estimates are broadly in line with New York Mercantile Exchange futures strips," said analysts, led by J. Marshall Adkins. "There is an especially high level of conservatism in our oil forecast. A major supply disruption for a few months, or even weeks, could easily send oil north of \$70."

Adkins and company noted that abnormally mild weather over the past year has created a negative bias toward U.S. gas prices. Even though the forecast assumes increasing gas prices through the second half of 2005, "we feel it is still very conservative relative to where we think prices could go if the weather

normalizes.

"Normally, we would expect an average oil/gas price ratio of 5:5:1, or at least 6:1, but given the larger-than-expected current gas storage volumes due to the very mild 2004/2005 weather, this ratio may not materialize until late 2005." Surges in gas prices "are entirely possible" over the next year, depending on the weather, according to the report. "Indeed, if gas were to trade in parity with heating oil, it could easily spike to \$9 or higher."

Adkins wrote, "the bottom line remains simple: the combination of falling domestic gas supply, a strong U.S. economy and favorable fuel-line switching ratios are going to eventually result in natural gas prices trading at or near Btu parity with petroleum liquids."

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