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## The Future of Natural Gas Pricing Could Be a Trans-Atlantic Tug of War

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By [FLOYD NORRIS](#)

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JUST when natural gas prices seemed likely to hit the moon this winter, much of the United States had the warmest January in history. With gas inventories high, prices plunged. Natural gas is now unusually cheap relative to oil.

United States natural gas is also cheap relative to gas in Britain, and traders think that pattern will persist into next winter — notwithstanding the fact that the weather is notoriously hard to predict.

Wild swings in natural gas prices have long been a part of the commodities market. Unlike oil, gas was impossible to ship outside of pipelines. So a surplus of gas in the United States would drive prices down, perhaps at the same time they were soaring in Britain because of a cold spell.

But that is starting to change, as the volume of liquefied natural gas transported by ship grows. Those ships can turn around if one market will pay much more than another for gas.

"Once it gets really cold, you have both sides of the Atlantic bidding for the same gas," said Francisco Blanch, a commodity strategist at Merrill

Lynch in London. "This winter we had a very cold period in November and December, and there was a lot of competition" among Britain, Spain and the United States.

The chart to the right shows just how cheap gas is now, compared with oil. Oil prices are recalculated to reflect the ratio of 5.8 barrels of oil equaling 1 million British thermal units, or B.T.U.'s.

In December, when fears were highest, United States natural gas cost \$4.80 per million B.T.U.'s more than crude oil. Only once since gas futures began trading in 1990 had gas cost so much more than oil. That was during a similar brief period in December 2000.

But by Monday of this week, the relationship had flipped, and crude oil cost \$4.21 per million B.T.U.'s more than gas, the biggest margin since fall 1990.

In normal times, oil has cost a little more than gas — an average of 77 cents during the last decade — because there are power plants that can switch from gas to cheaper refined oil products if prices call for that. Gas is cleaner, and is preferred if it is economical.

At the moment, as can be seen from the other charts with this story, a United States natural gas future for delivery in February costs \$10.48 per million B.T.U.'s, but a British future for the same time costs the equivalent of \$14.99 per million B.T.U.'s. "If U.K. to U.S. price differentials remain this large," said Mr. Blanch of Merrill Lynch, "then very little gas will head to North America next winter." As more liquefied natural gas supplies become available, and as ports are outfitted to receive such supplies, such a disparity will become more and more unlikely. Whether it can endure for next winter will be seen over the next few months. Any trader who thought it was going to narrow could use futures or options to place that bet now.

But as the last three months have proved, natural gas prices can be extraordinarily volatile, creating big gains or losses within days.

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