Natural Gas – What a difference a year makes!

Description

Do you remember what you were doing one year ago today? I have no idea, but I do know what the price of natural gas was up to.

On the back of a warmer than normal North American winter and a massive wave of new supply in the U.S., the price of the commodity was in free fall. The bottom was finally reached on April 19th at a price of $1.91/mmbtu.

Fast forward one-year. Now sporting a price north of $4/mmbtu, natural gas is making those who bought in look brilliant.

Last year supply was dominating demand. The relationship has now flipped. Power producers have switched from coal to nat gas, a more normal winter heating season is *almost* behind us (currently snowing here) and producers have shut-in some of their production. These developments resulted in U.S. natural gas working inventories of 1.69 trillion cubic feet (Tcf) at the end of March, which is about 0.79 Tcf lower than last year and 0.41Tcf below the five-year average.

Winners and losers

While the price of the commodity has more than doubled, there has been a diverse range of returns for natural gas related stocks. At the top of the performance pile are mid-tier producers **Tourmaline Oil** (TSX:TOU) and **Peyto Exploration and Development** (TSX:PEY), checking in with one-year returns of 93% and 88% respectively. At the bottom are big cap names **Encana** (TSX:ECA,NYSE:ECA) and **Talisman Energy** (TSX:TLM) that have generated returns of just 9.2% and 2.5% respectively over the past year.

What's next?

According to famed investor Jeremy Grantham, the price of natural gas stands to increase dramatically from current levels. Grantham is calling for the price of North American natural gas to triple over the next five years to bring it more in-line with global prices.

Others are more skeptical as a surge in cheap supply is little more than a metaphorical flick-of-a-switch away. Many producers are very profitable with nat gas at $4 and actively hedging to lock in current prices. This hedging may put a cap on the nat gas price, in the short-term anyway.

Foolish Takeaway

The easy money has probably been made in this space, for now. However, the supply/demand struggle for this commodity is not over. You're likely to have another crack at many of these names at more attractive valuations when supply once again gains the upper hand.

While Grantham likes the prospects for natural gas over the long-term, there is another energy related commodity that has an equally bright future. Uranium has the potential to be *the* fuel that powers the 21st century and currently the market is completely ignoring it. **Click here now** for instant access to our FREE report titled "**Fuel Your Portfolio With This Energetic Commodity**". We think you'll be surprised just how bright the future is for uranium, just how far these two Canadian names have fallen, AND **how fast** they could rebound. **Click here now** to access this free report, and hop on for the nuclear ride of your life.

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Fool contributor Iain Butler is short $18 April 2013 put options on Encana. The Motley Fool does not own any of the stocks mentioned.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)
2. TSX:TOU (Tourmaline Oil Corp.)

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tmfohcanada