

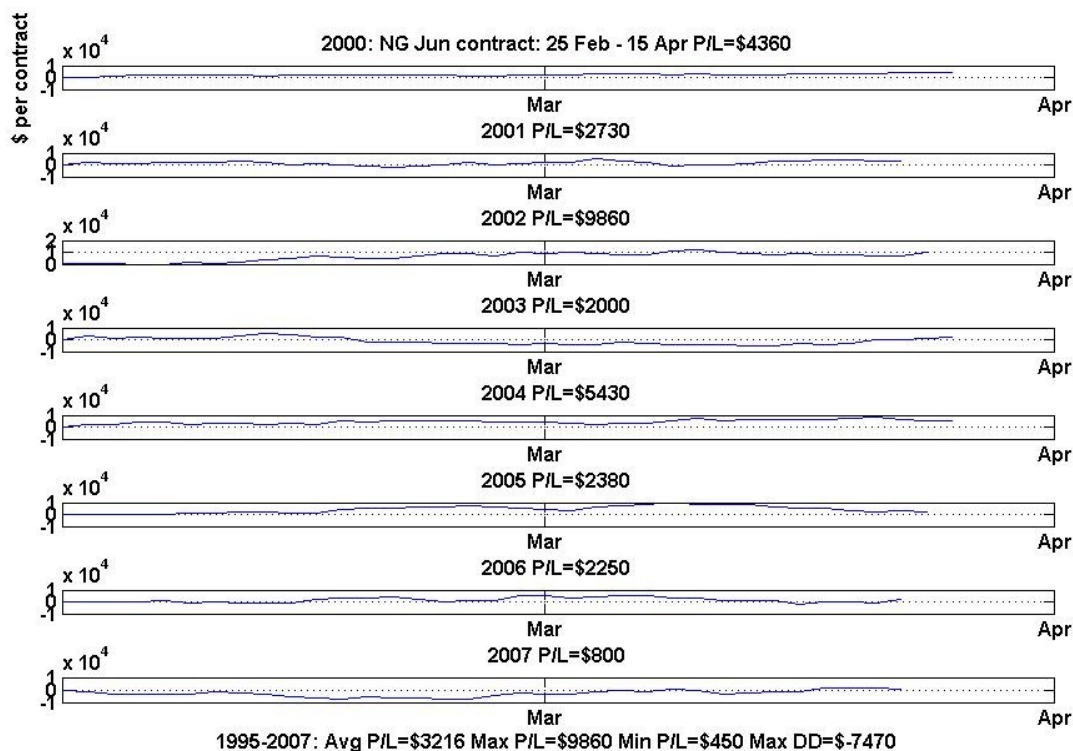
A seasonal trade in natural gas futures

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As the summer season approaches in North America, natural gas demand goes up due to increasing demand from power generators to provide electricity for air conditioning. This suggests a seasonal trade in natural gas where we long a June contract of NYMEX natural gas futures (Symbol: NG) at the close of February 25 (or the following trading day if it is a holiday), and exit this position on April 15 (or the previous trading day if it is a holiday). This trade has been profitable for 13 consecutive years. I learned of this trade in January 2006, and therefore to me, 2006-7 are out-of-sample periods, while to the readers of this article, true out-of-sample testing has to begin in 2008. Here is the annual P&L and maximum drawdown of this trade:

Year	P/L	Maximum Drawdown
1995	\$1,970	\$0
1996	\$3,090	-\$630
1997	\$450	-\$430
1998	\$2,150	-\$1,420
1999	\$4,340	-\$370
2000	\$4,360	\$0
2001	\$2,730	-\$1,650
2002	\$9,860	\$0
2003	\$2,000	-\$5,550
2004	\$5,430	\$0
2005	\$2,380	-\$230
2006	\$2,250	-\$1,750
2007	\$800	-\$7,470



The maximum P&L is \$9,860, the minimum P&L is \$450, the maximum drawdown is -\$7,470, while the average of the maximum drawdown is -\$1,500.

Natural gas futures is notoriously volatile, and we have seen big trading losses for hedge funds (e.g. [Amaranth](#), loss=\$6B) and major banks (e.g. [Bank of Montreal](#), loss= \$450MM). Therefore, one should be cautious if one wants to try out this trade – perhaps at reduced capital using the mini QG futures at ¼ the size of the full NG contract. One possible way to utilize this QG futures is to buy 1 contract at the entry date, and purchase another contract if the drawdown reaches the average value ($-\$1,500/4$), and so on.

Reference

["Fill 'Er-Up! Benefit from Seasonal Price Patterns in Energy Futures"](#) by Jerry Toepke at SFO Magazine.

Disclaimer

This research is for informational purposes only, and is not a recommendation to buy or sell any securities mentioned. As always, past performance is no guarantee of future results!

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