# Neel Somani Breaks Down How Traders “Trade the Weather” in Energy Markets

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**Berkeley, California Apr 30, 2026 (**Issuewire.com**)** - Neel Somani is offering a clear look into one of the more nuanced strategies in commodities trading: how investors and analysts attempt to **“trade the weather.”**

In a recent explanation, Neel Somani addressed a common question from aspiring traders, how to monetize a predictive edge in weather forecasting. While the idea may sound abstract, weather plays a direct and measurable role in energy markets, influencing both supply and demand in real time.

Drawing on his background as a quantitative researcher at Citadel, Somani outlined several practical ways market participants translate weather predictions into trading strategies.

**Why Weather Matters in Energy Markets**

Weather is one of the most powerful drivers of energy demand.

When temperatures reach extremes, either hot or cold, consumer behavior changes immediately. During heatwaves, air conditioning usage increases electricity demand. During cold periods, heating demand rises, often increasing consumption of fuels like natural gas.

These shifts directly impact pricing in power and fuel markets.

“Power is impacted by weather in multiple ways,” Somani explains. “It affects demand through usage, and it also affects supply through fuel costs.”

**Trading Power Prices: The Most Common Approach**

The most widely used method of trading weather is through electricity markets.

When traders expect unusually high temperatures, they may anticipate increased electricity demand due to air conditioning. This can drive up power prices, especially during peak periods.

At the same time, colder weather can increase demand for heating fuels such as natural gas. Since natural gas is a major input for electricity generation, rising gas prices can also increase the cost of producing power.

This creates a dual impact:

- **Demand side:** More extreme weather increases electricity usage
- **Supply side:** Fuel prices rise, increasing generation costs

Because both sides of the equation are affected, power markets become highly sensitive to weather forecasts.

However, Somani notes that this approach is also the most complex.

“You have to get all the moving parts right,” he explains. “You’re not just predicting weather, you’re predicting how weather affects multiple interconnected markets.”

**A More Direct Approach: Weather Derivatives**

For those seeking a more targeted strategy, Neel Somani points to **weather derivatives**, financial instruments designed specifically to track temperature-related outcomes.

Two of the most common metrics used are:

- **Heating Degree Days (HDDs):** Measures how much temperatures fall below a baseline, indicating heating demand
- **Cooling Degree Days (CDDs):** Measures how much temperatures rise above a baseline, indicating cooling demand

These derivatives allow traders to take positions directly on temperature trends rather than indirectly through energy markets.

In practical terms, a trader might bet on the number of hot days in a given month or the severity of a winter season. The payout is tied to how actual temperatures compare to predefined thresholds.

“This is a more direct way to express a view on weather,” Somani notes.

**Trading Through Commodity Disruptions**

Beyond derivatives, Neel Somani highlights another strategy: anticipating how weather might disrupt infrastructure.

For example, extreme cold can impact pipelines and energy delivery systems. During severe winter events, such as those seen in Texas, freezing conditions can constrain natural gas supply, leading to sharp price increases.

In such scenarios, traders may take positions in regional natural gas markets based on expectations of supply disruption.

“If you think a pipeline is going to freeze due to extreme cold, you might go long natural gas in that region,” Somani explains.

This approach combines weather forecasting with an understanding of physical infrastructure and regional market dynamics.

**Complexity and Opportunity**

While the concept of trading weather may sound straightforward, the execution is anything but simple.

Each strategy requires:

- Accurate weather prediction
- Understanding of how weather affects demand
- Insight into fuel markets and infrastructure
- Awareness of regional differences

Even small forecasting errors can lead to large financial impacts.

At the same time, these complexities create opportunities for those with strong models and a deep understanding of market relationships.

**A Quantitative Perspective on Real-World Systems**

Somani’s ability to break down these strategies reflects his broader experience working with complex systems.

A graduate of University of California, Berkeley, he has held roles at Airbnb and Citadel, and founded Eclipse in 2022, which has raised $65 million.

Today, his work spans machine learning research, early-stage company support, and education, where he continues to explain technical concepts in accessible ways.

## Turning Forecasts Into Strategy

Ultimately, Neel Somani emphasizes that weather itself is not the trade, it's the starting point.

The real challenge lies in translating weather predictions into market outcomes.

Whether through power prices, fuel markets, derivatives, or infrastructure plays, traders must connect forecasts to economic impact.

As energy systems become more dynamic and climate variability increases, understanding how to "trade the weather" may become an increasingly valuable skill at the intersection of data, markets, and real-world infrastructure.

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