

IAF Advisors
Energy Market Outlook
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Price Action: The market rose again and added 5.5 cents (1.4%) to \$3.927 on a 16.7 cent range.

Price Outlook: The market has now risen 5 weeks in a row. However, this is not extreme for natural gas with a 6 consecutive week string recorded last fall. The \$4 level was breached twice this week, but the market was turned back each time. While momentum and storage comparisons remain bullish, there is a slight bias for the market to establish a new low next week. This week will be shortened by the Good Friday Holiday. Combined with end of month, end of quarter and the normal Thursday storage report, the price activity this week may be “interesting” to say the least. The rise in speculative net length is now at an incredible 10th consecutive week. Since the middle of February, what was already a rather significant net long position has almost doubled and soared past the previous net record long position. While the net long position is in nose-bleed territory, the total open interest across the complex is still well below all-time highs and thus there is certainly still room for more buying. Total CME futures open interest is at records, but other financial instruments are not at record levels. Total open interest rose to 5.27 as of March 19, which is well below the record open interest of 6.36 million. Speculative net length has easily established new record net long levels. This situation may continue, but liquidation may get rather ugly. It is impossible to determine what may trigger liquidation of all this new net length.

Weekly Storage: US working gas storage fell 62 BCF for the week ending March 15. Current inventory levels of 1,876 BCF now fall 504 BCF (21.2%) below last year while surpassing the 5 year average by 162 BCF (9.4%). While the EIA reported a change of 62 BCF in working gas, this was due to a 4 BCF Producing Region reclassification of base to working gas.

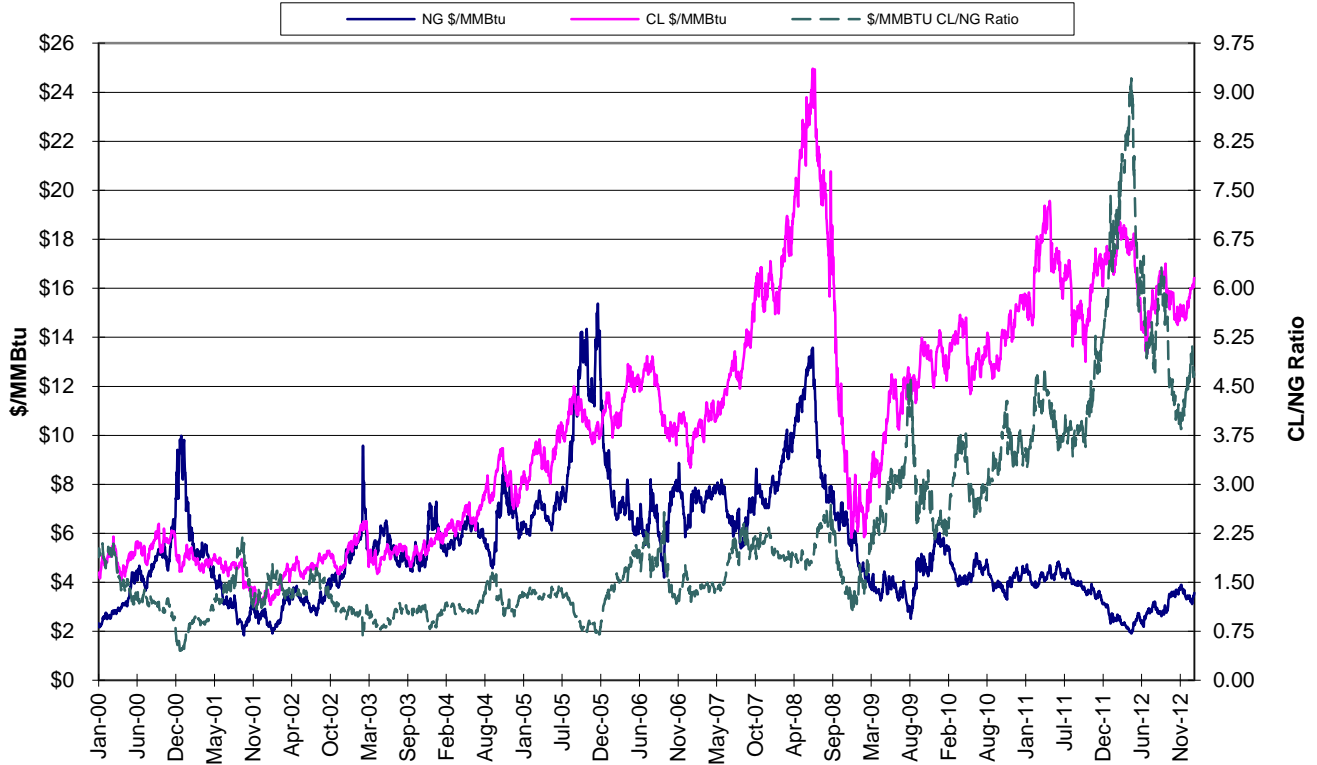
Storage Outlook: The weekly change in total gas was 66 BCF. End of March levels will still be near the 2nd highest on record, coming in very near 2006, which previously held the high record before last year’s almost unbelievable levels.

Supply Trends: Total supply was down 0.1 BCF/D at 67.6 BCF/D. A small increase in US production was offset by imports and exports. The US Baker Hughes rig count fell 30 to 1,746 with both oil and natural gas activity slipping. Canadian activity fell substantially and thus the total North American rig count decreased by 196 to 2,083, which now trails last year by 237. The higher efficiency US horizontal rig count fell 31 and at 1,100 falls 74 behind last year.

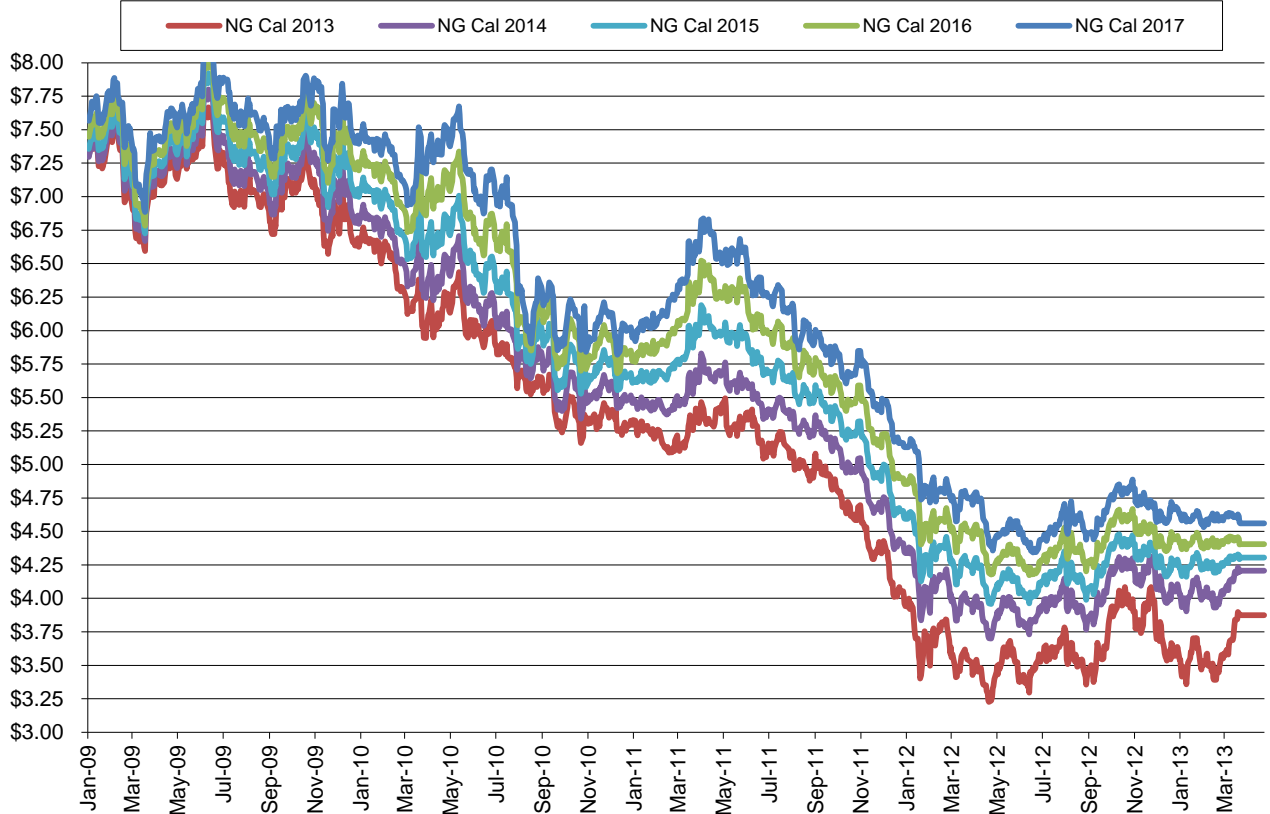
Demand Trends: Total demand fell 10.7 BCF/D to 73.9 BCF/D. All sectors recorded a decrease. R&C was down the most. Electricity demand fell 4,129 gigawatt-hrs to 71,340, which exceeds last year by 2,937 (4.3%) and the 5 year average by 779 (1.1%). Temperature adjusted demand seems to be falling, especially in the power sector. Total demand will begin to fall rapidly in coming weeks as temperatures climb with April demand projected to be well over 10 BCF/D less than March.

Other Factors: The S&P 500 slipped, but remains in a decided uptrend.

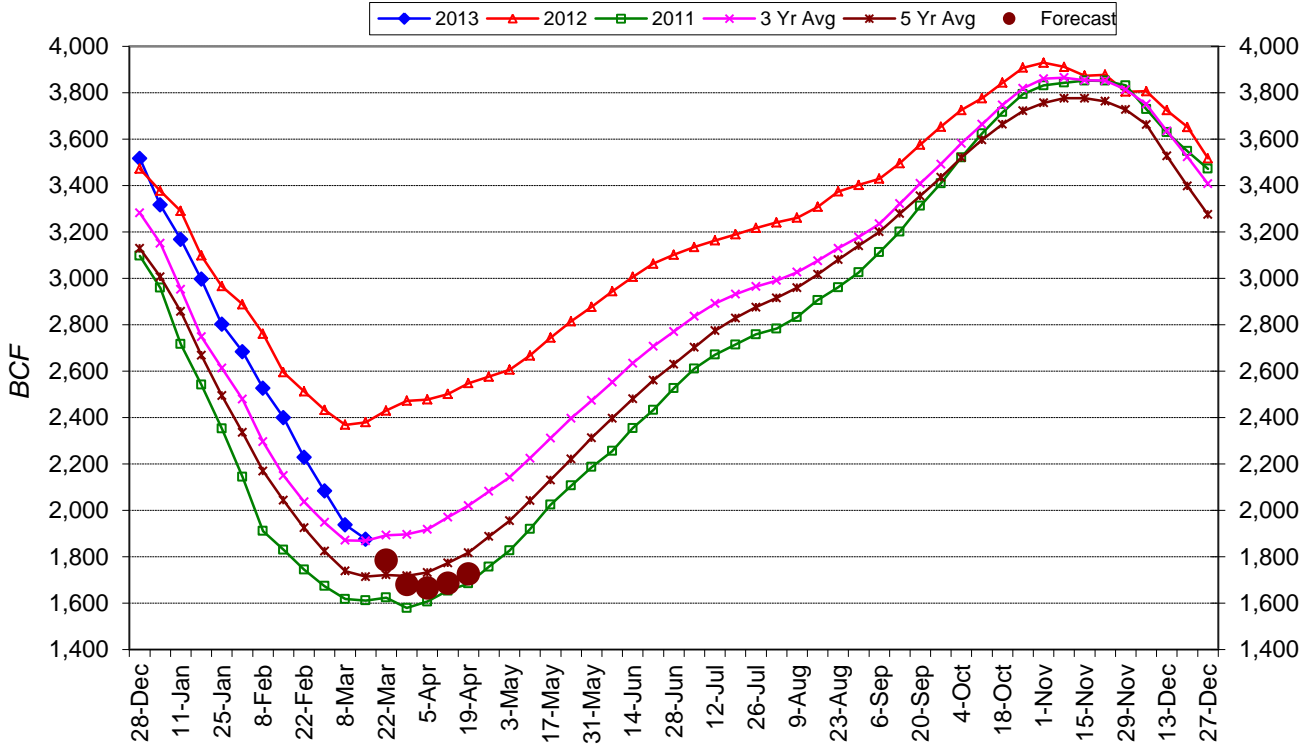
\$/MMBtu Ratio of NYMEX CL and NG



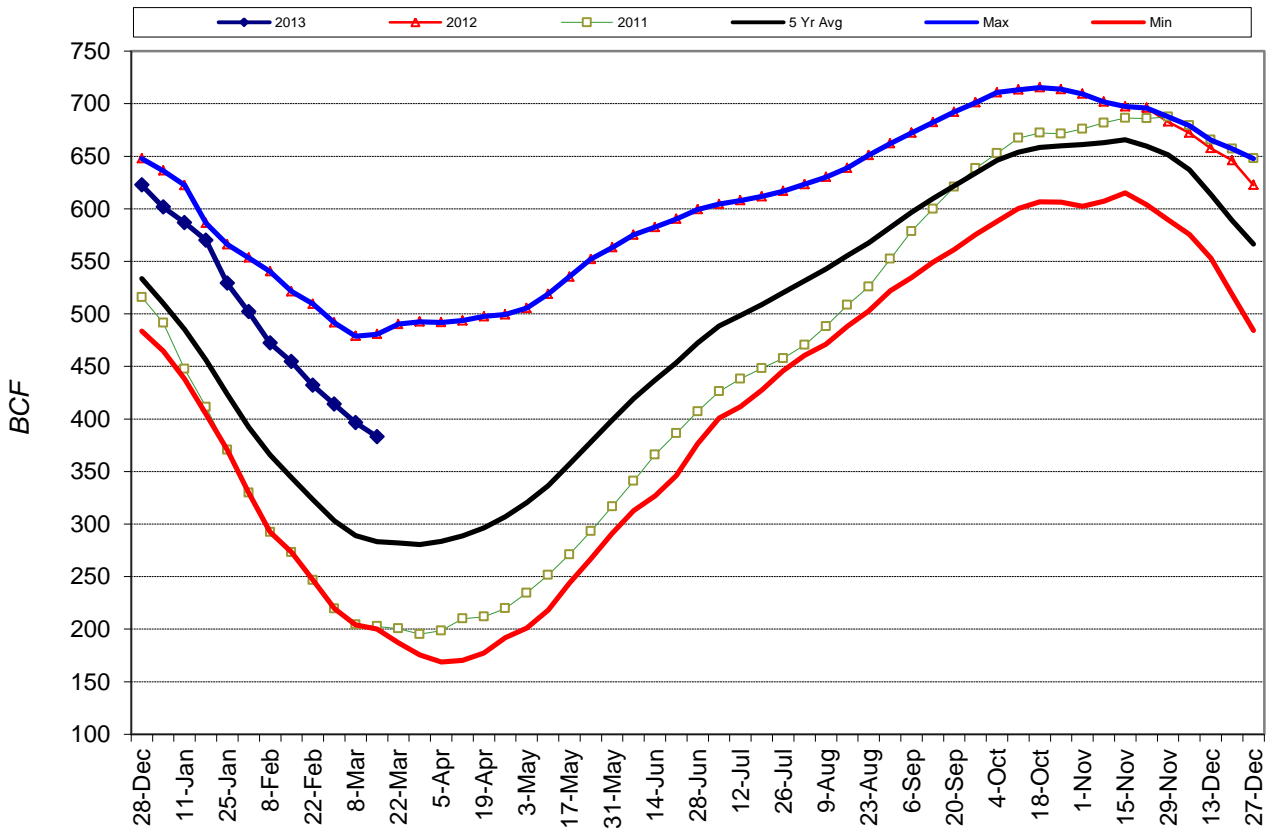
NYMEX Calendar Strips



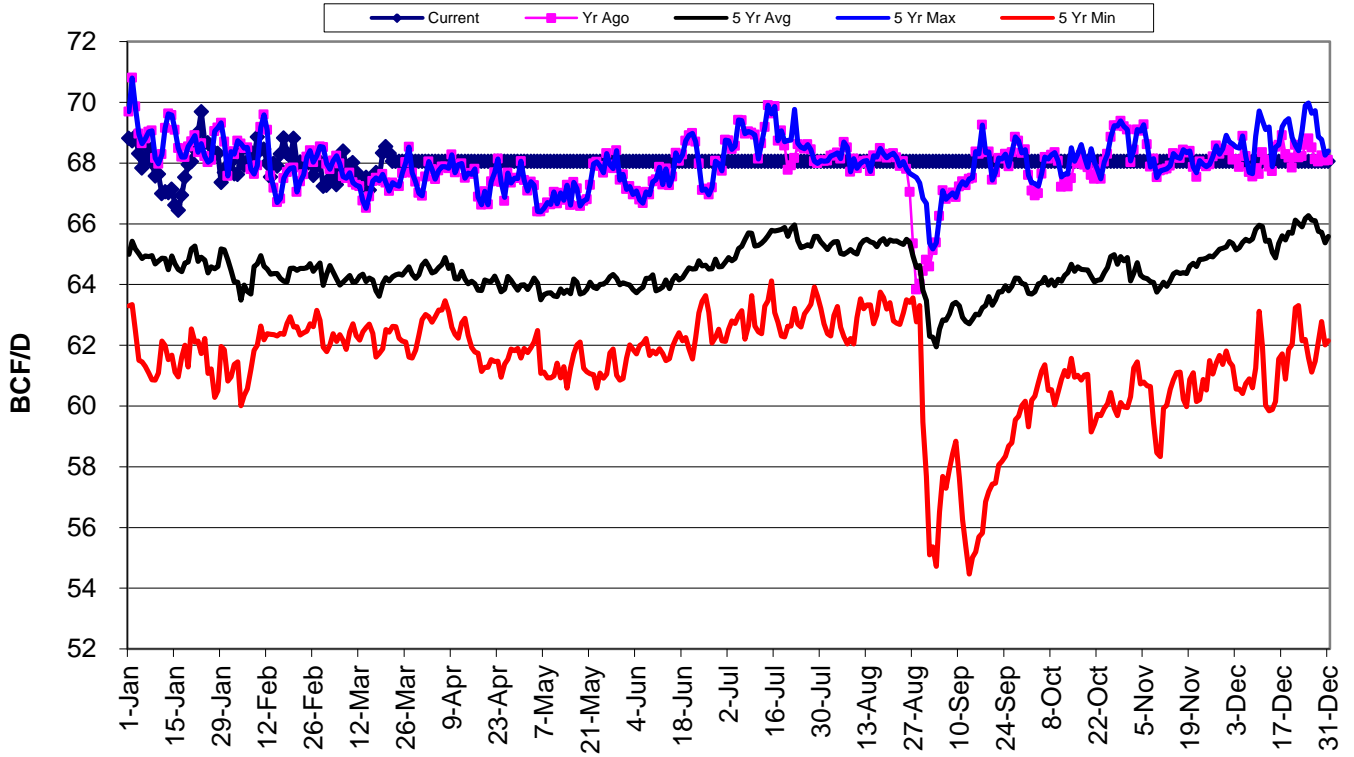
US Working Gas Storage - Source - EIA



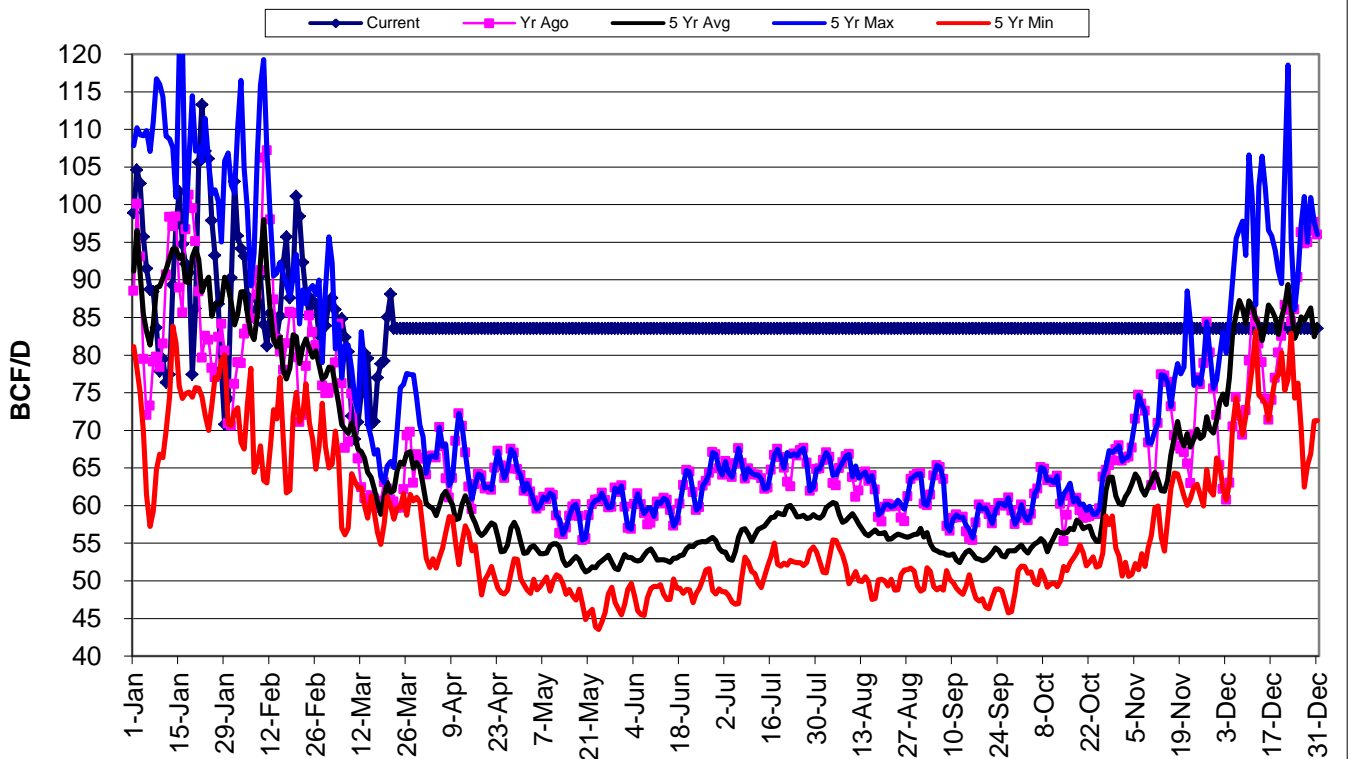
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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