

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
April 5, 2013

Price Action: Prices continued to rise, adding another 10.1 cents (2.5%) to \$4.125 on a 28.5 cent range.

Price Outlook: The market has now risen 7 weeks in a row. While this is still not overly extreme for natural gas, it is certainly extended. The market missed establishing a new low by just 2 ticks and instead roared higher. Since 2000, there have only been 6 times when the market rose exactly 7 weeks in a row. Of those 6, 3 established a new high. The record of 14 consecutive weeks higher was established in 2008. Immediately after the 2008 high string, the market established the record consecutive low streak of 9. The momentum is positive and calling for the top is precarious. However, the higher it goes now, the lower it will go later. Market sentiment remains quite bullish. However, there continues to be increasing evidence of temperature adjusted demand loss. The rise in speculative net length continued and has reached 12 weeks. Although the rise this week was relatively small, that is adding to a speculative position that has more than tripled. At the same time, CME futures open interest has risen an unprecedented 25 consecutive days, surpassing the previous record of 15 established in 2001 and 2008. Total open interest rose to 5.34 million as of April 2, which is well below the record open interest of 6.36 million and leaves the net long position as a percentage of open interest incredibly elevated. If this length looks to exit at the same time, the price drop may be very sharp and significant.

Weekly Storage: US working gas storage fell 94 BCF for the week ending March 29. Current inventory levels of 1,687 BCF now fall 785 BCF (31.8%) below last year and 31 BCF (1.8%) behind the 5 year average.

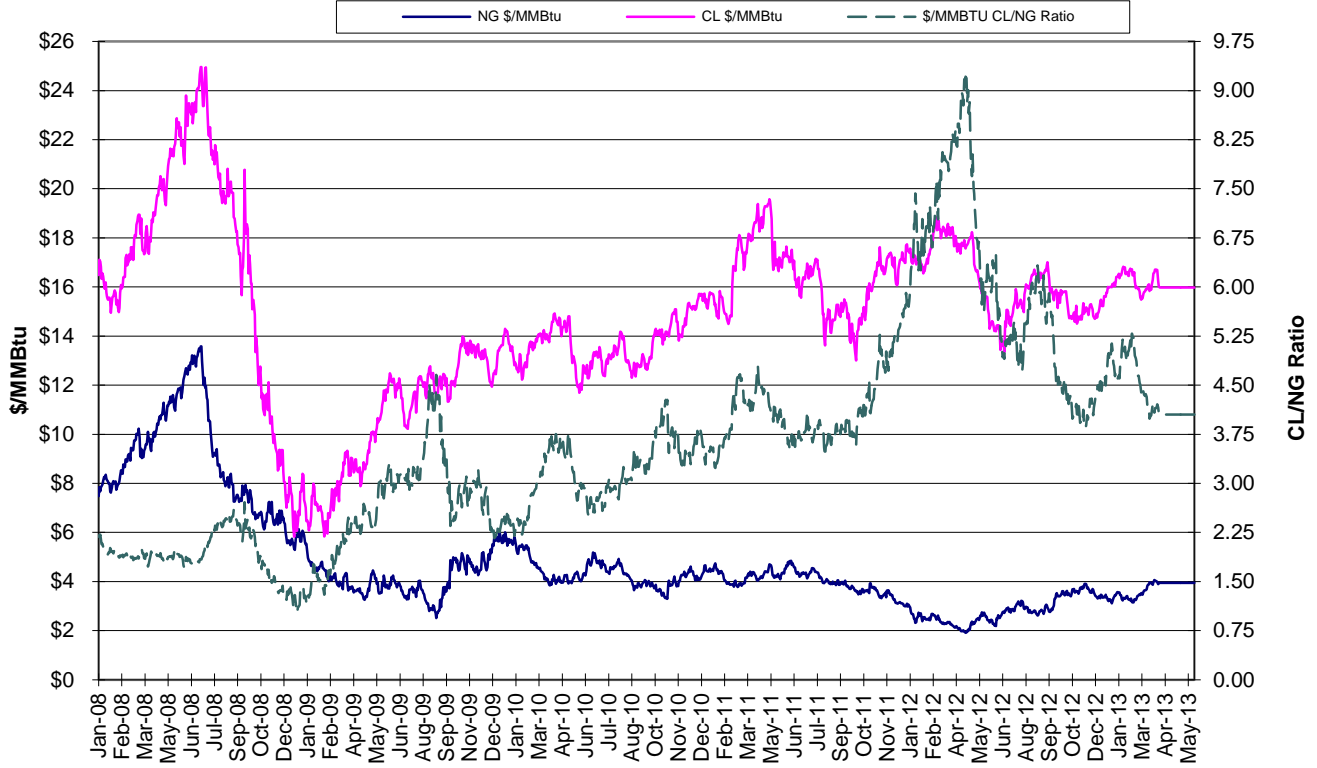
Storage Outlook: The storage comparisons are quite amazing with March 30, 2012 inventories rising above 2011 by 893 BCF and the 5 year average by 928 BCF. That is truly an amazing reversal and provides an underlying bullish factor to the market. We expect the yearly storage deficit to peak in early April. Storage injections have begun and although the next storage report will still witness a withdrawal, injections should begin to rise rapidly in coming weeks.

Supply Trends: Total supply fell 0.3 BCF/D to 67.7 BCF/D. Lower Canadian imports were responsible for the drop with other factors mostly unchanged. The US Baker Hughes rig count fell 10 to 1,738 with oil activity rising and natural gas dropping. Canadian activity fell again, a normal seasonal occurrence. Thus the total North American rig count decreased by 50 to 1,944, which now trails last year by 222. The higher efficiency US horizontal rig count fell 15 and at 1,084 falls 81 behind last year.

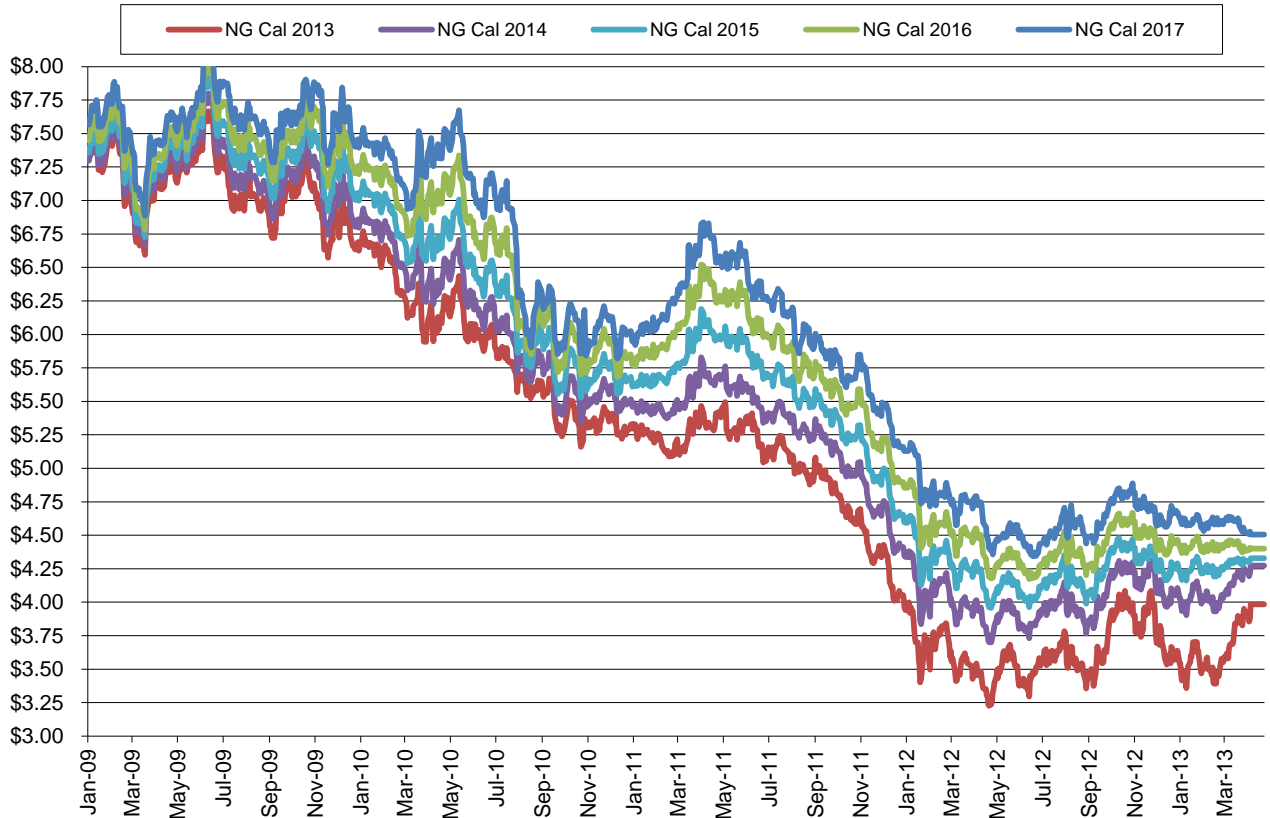
Demand Trends: Total demand fell 3.0 BCF/D to 77.5 BCF/D. Power demand was up while other sectors were lower. Electricity demand fell 1,306 gigawatt-hrs to 71,839, which exceeds last year by 3,189 (4.6%) and the 5 year average by 1,727 (2.5%). There is increasing evidence of temperature adjusted demand loss and April flows are indicating a response to the \$4 level.

Other Factors: The S&P 500 fell as the US jobs report was very disappointing.

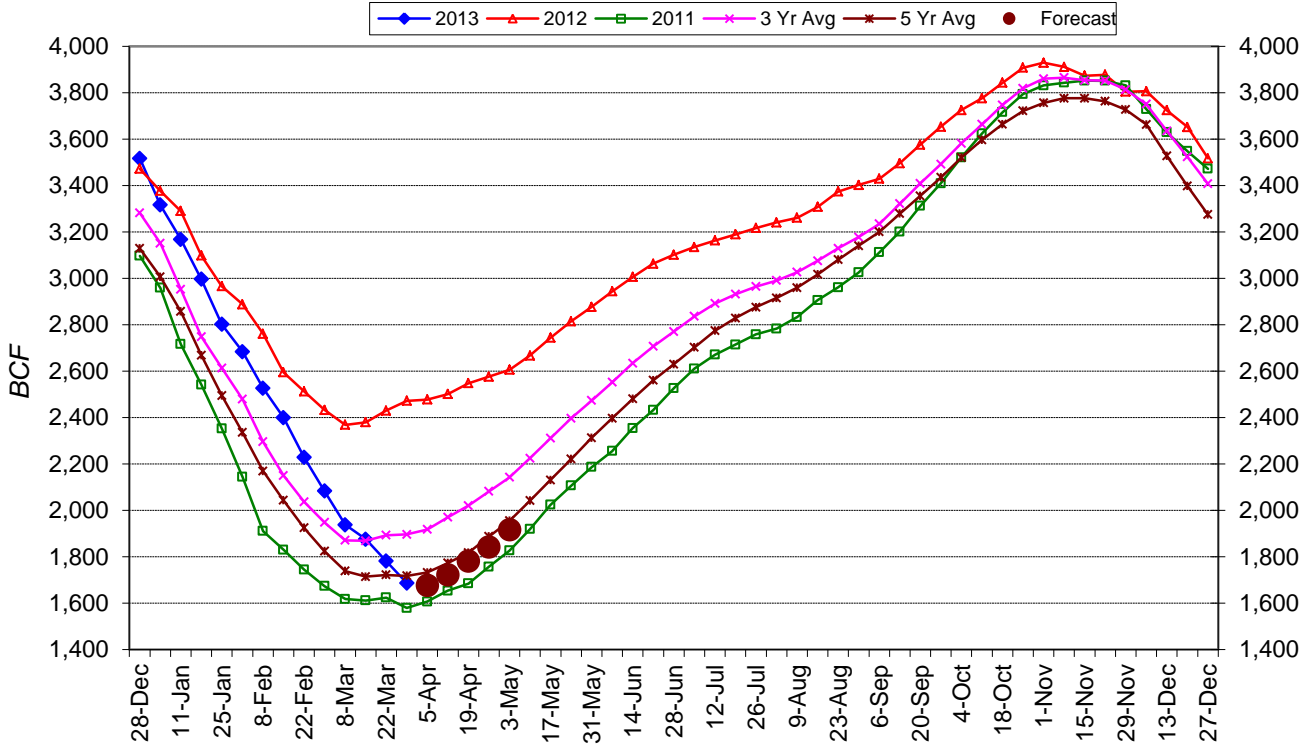
\$/MMBtu Ratio of NYMEX CL and NG



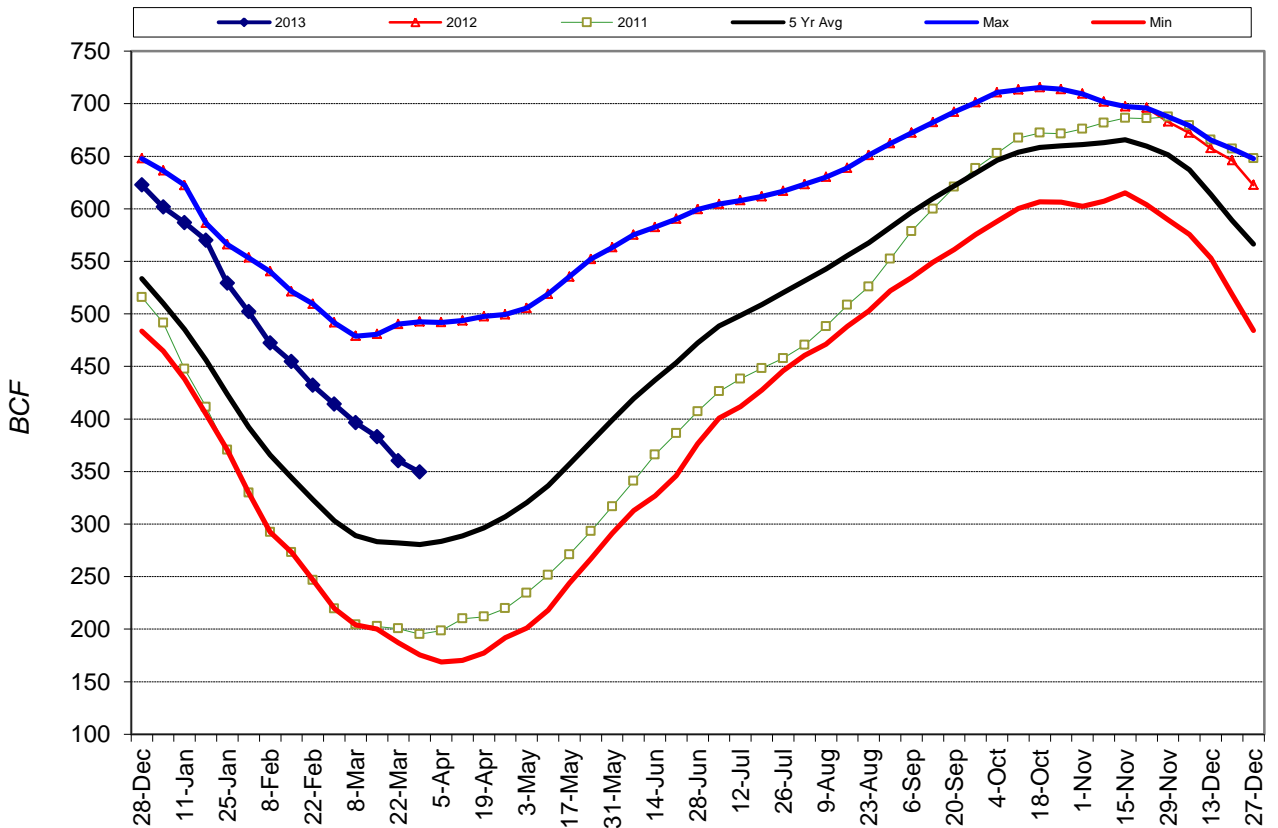
NYMEX Calendar Strips



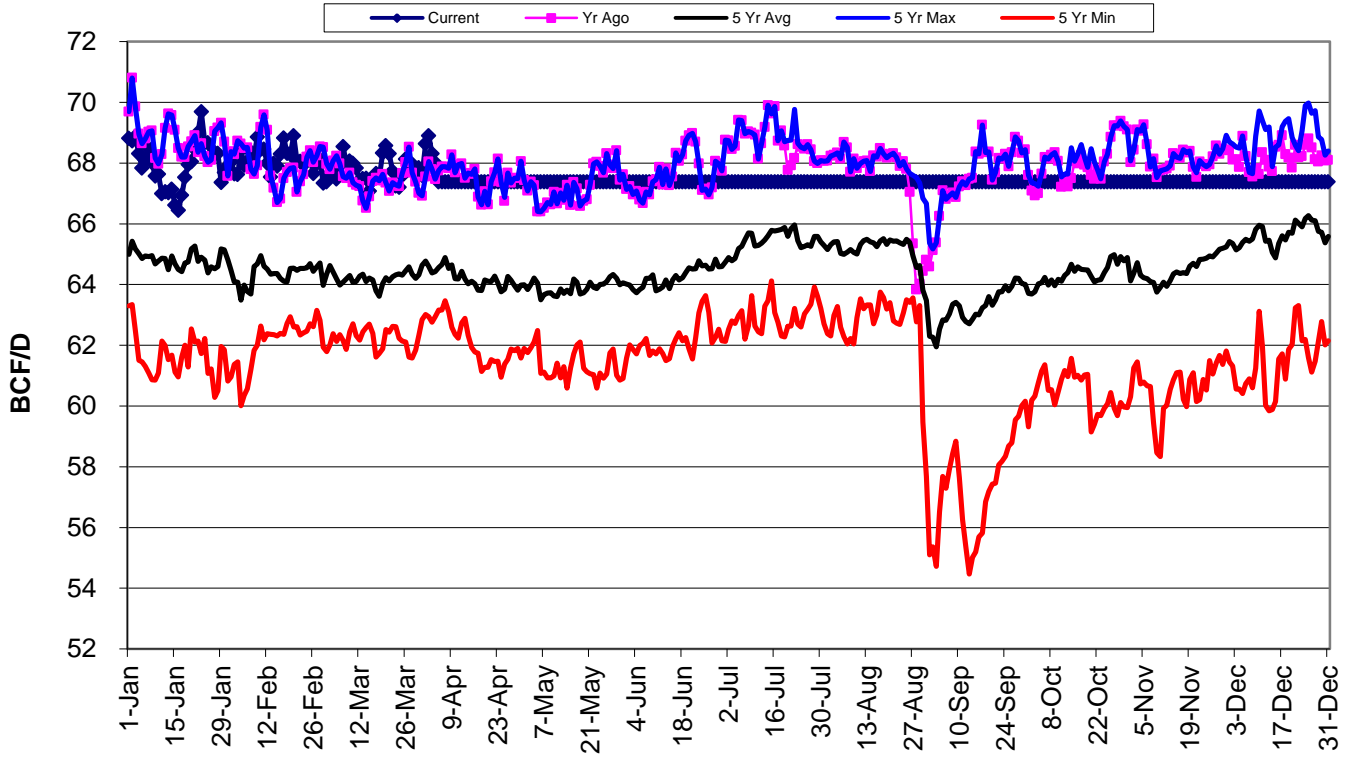
US Working Gas Storage - Source - EIA



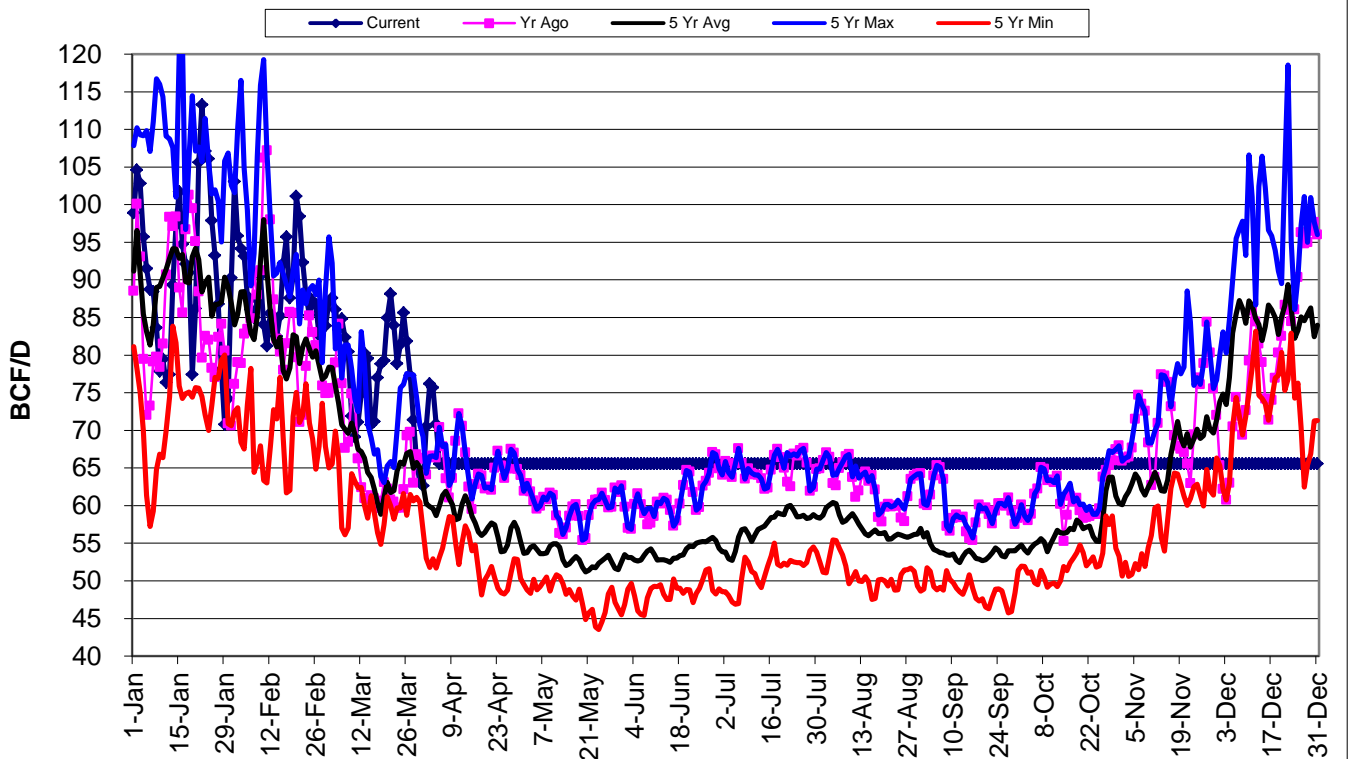
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any commodity, futures contract, or option contract. Although any statements of fact in this report have been obtained from and are based upon sources that IAF Advisors believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. IAF Advisors, its officers and/or employees, may at any time have a long and/or short position in any commodity, futures contract, or option contract mentioned in this report. All opinions and estimates included in this report constitute IAF Advisors judgment as of the date of this report and are subject to change without notice.

© 2013 IAF Advisors.