

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
April 19, 2013

Price Action: Prices rose yet again, adding another 18.6 cents (4.4%) to \$4.408 on a 34.5 cent range.

Price Outlook: The market did establish a new weekly high and thus has now risen 9 weeks in a row. This market is certainly extended with only 3 instances since 2000 of a market that advanced 9 weeks in a row. The record 14 weeks was established in 2008 and that is the only time the market advanced more than 9 weeks in a row. The market will need only 2.2 cents to establish a new high and considering the still cool forecasts and still relatively low injections, another new high is considered likely. While the 2008 record currently seems safe with expected large builds beginning soon, the storage deficit is a very supportive factor that cannot be dismissed. The rise in speculative net length continued and has now reached an unprecedented 14 weeks. Open interest has risen 34 of the last 35 trading days with CME open interest smashing previous records. Total open interest rose to 5.81 million as of April 16, which is still well below the record open interest of 6.36 million and leaves the net long position as a percentage of open interest incredibly elevated. The increasing participation is expected to result in heightened volatility. It remains our opinion that this market will remain well supported until a path to 3,800 BCF by November is in view. Considering recent weather forecasts, our expectation is that does not occur until May. Thus, prices are likely to remain well supported until that time.

Weekly Storage: US working gas storage rose 31 BCF for the week ending April 12. Current inventory levels of 1,704 BCF now fall 797 BCF (31.9%) below last year and 69 BCF (3.9%) behind the 5 year average.

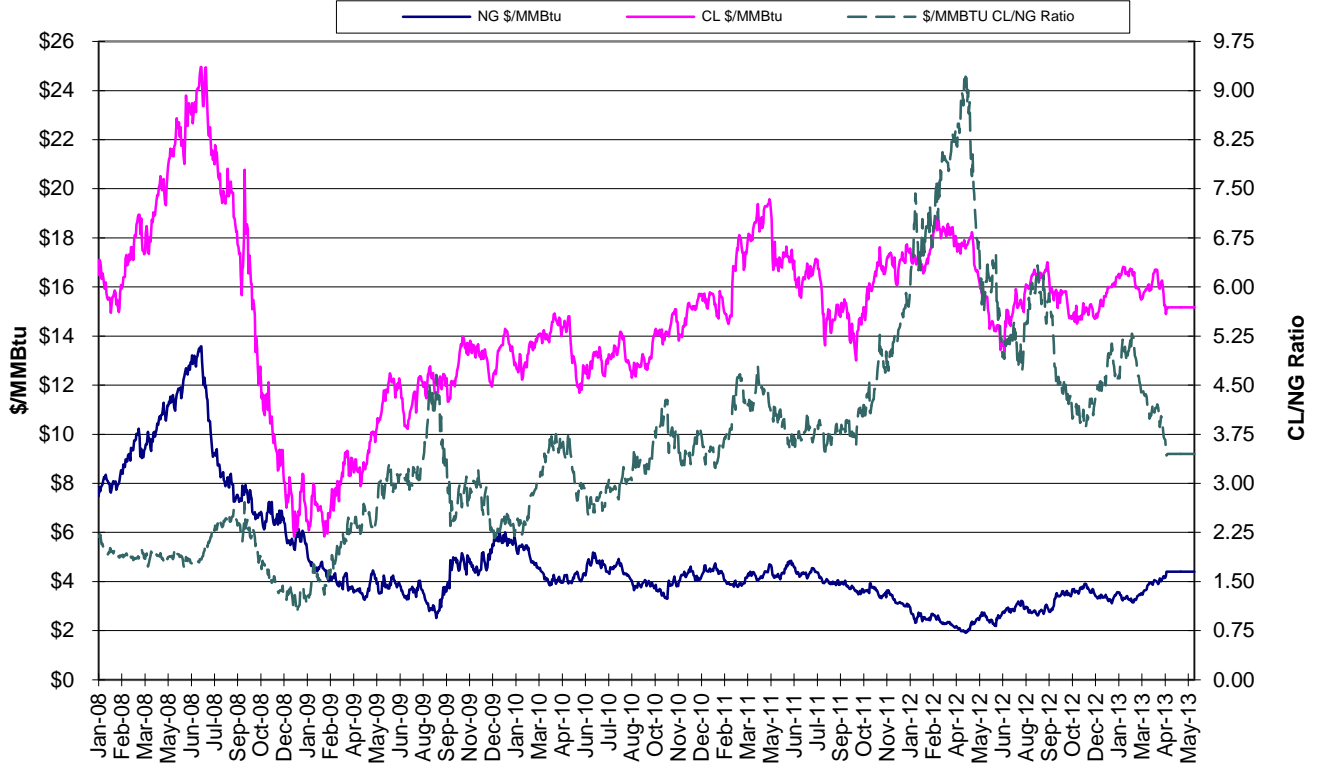
Storage Outlook: The story for 2013, just like 2012 except in a complete 180 degree reversal, is the yearly storage comparison. While the YOY storage deficit has likely peaked, the deficit to the 5 year average is expected to widen at least until May and prices are likely to remain supported. Although storage injections finally began, the pace of injections is not expected to accelerate until May.

Supply Trends: Total supply fell 0.6 BCF/D to 67.6 BCF/D. Lower US production and Canadian imports were responsible with the other factors little changed. The US Baker Hughes rig count fell 13 to 1,758 as oil activity fell and natural gas rose. Canadian activity fell again. Thus the total North American rig count decreased by 43 to 1,884, which now trails last year by 234. The higher efficiency US horizontal rig count fell 5 and at 1,097 falls 58 behind last year.

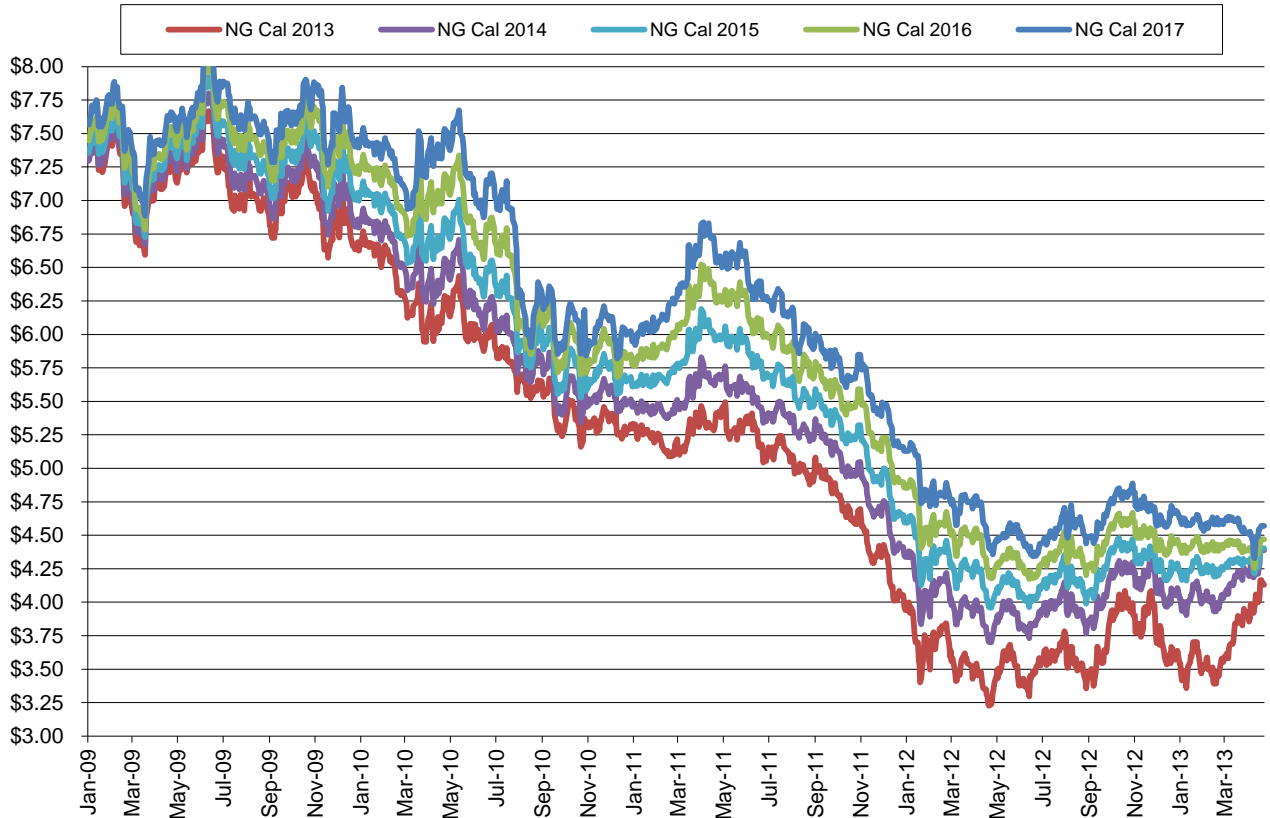
Demand Trends: Total demand fell 7.2 BCF/D to 61.9 BCF/D. The power sector recorded an increase with other sectors lower. Electricity demand fell 436 gigawatt-hrs to 68,833, which exceeds last year by 1,158 (1.7%) and the 5 year average by 183 (0.3%). While there is increasing evidence of temperature adjusted demand loss in the power sector, below normal temperatures are keeping overall demand levels above normal.

Other Factors: The S&P 500 fell as overall economic data remains disappointing.

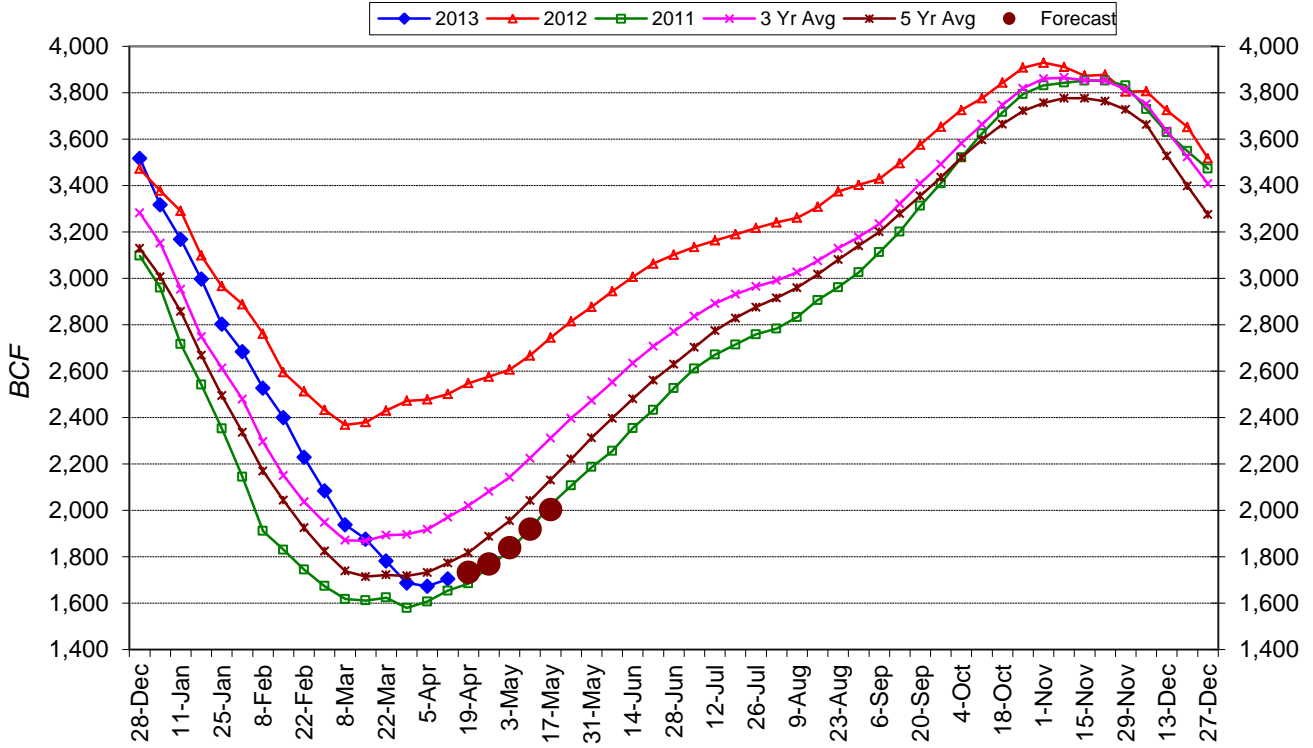
\$/MMBtu Ratio of NYMEX CL and NG



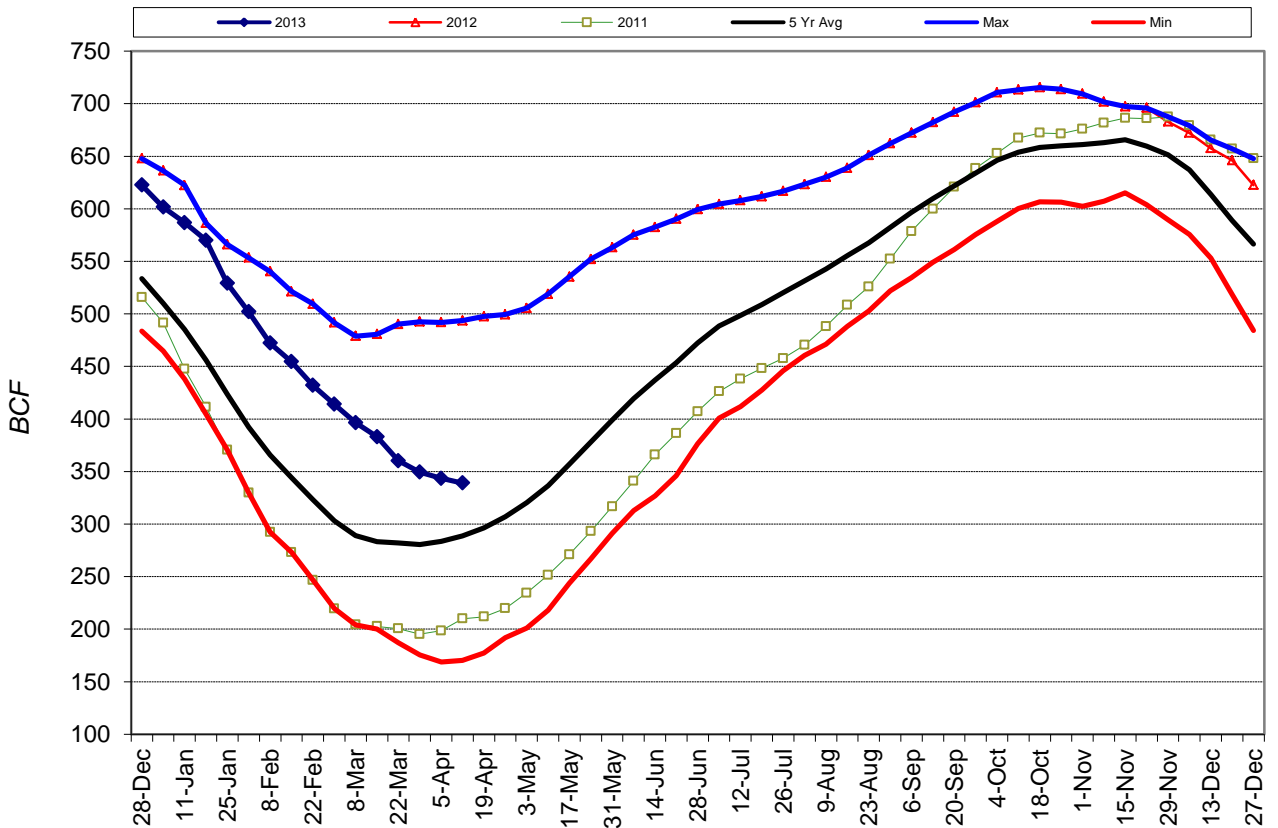
NYMEX Calendar Strips



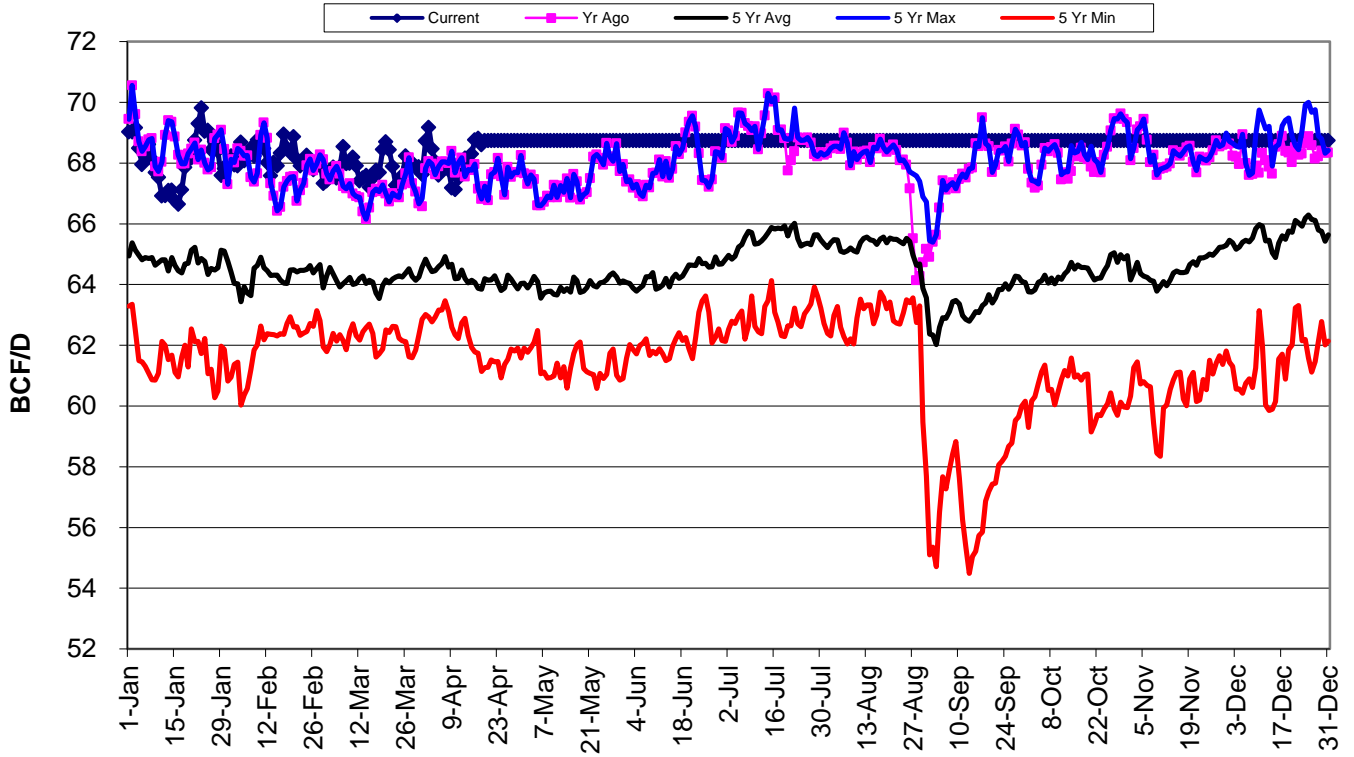
US Working Gas Storage - Source - EIA



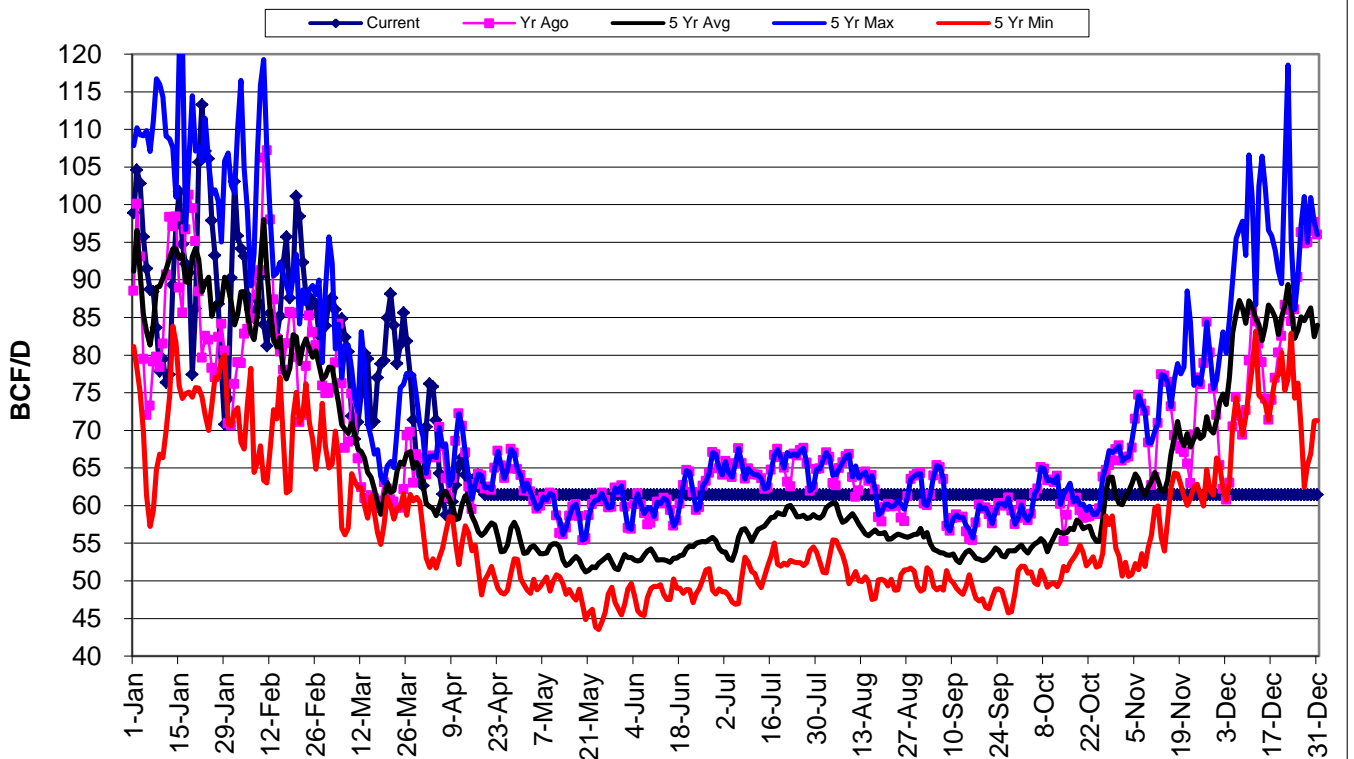
Canadian Working Gas Storage - Enerdata



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.