

IAF Advisors
Energy Market Outlook
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Price Action: The June futures contract continued to slide as prices shed 2.7 cents (1.2%) to \$2.299 on a 25.6 cent range.

Price Outlook: **The recent weakness is interesting as demand is increasing with cooling requirements on the rise. CFTC data indicated another slight increase in the net long speculative position, despite the price drop. Both futures and total open interest across the complex also fell. Total open interest remains barely over 5.7 million contracts as of June 5, 2012.**

Weekly Storage: US working gas storage rose 62 BCF for the week ending June 1. Current inventory levels of 2,877 BCF now rise 690 BCF (31.6%) above last year while surpassing the 5 year average by 687 BCF (34.9%). This week represented the smallest injection on record for a Memorial Day week. **As a reference, the current inventory level already exceeds the peak level of 1996 and 2000.**

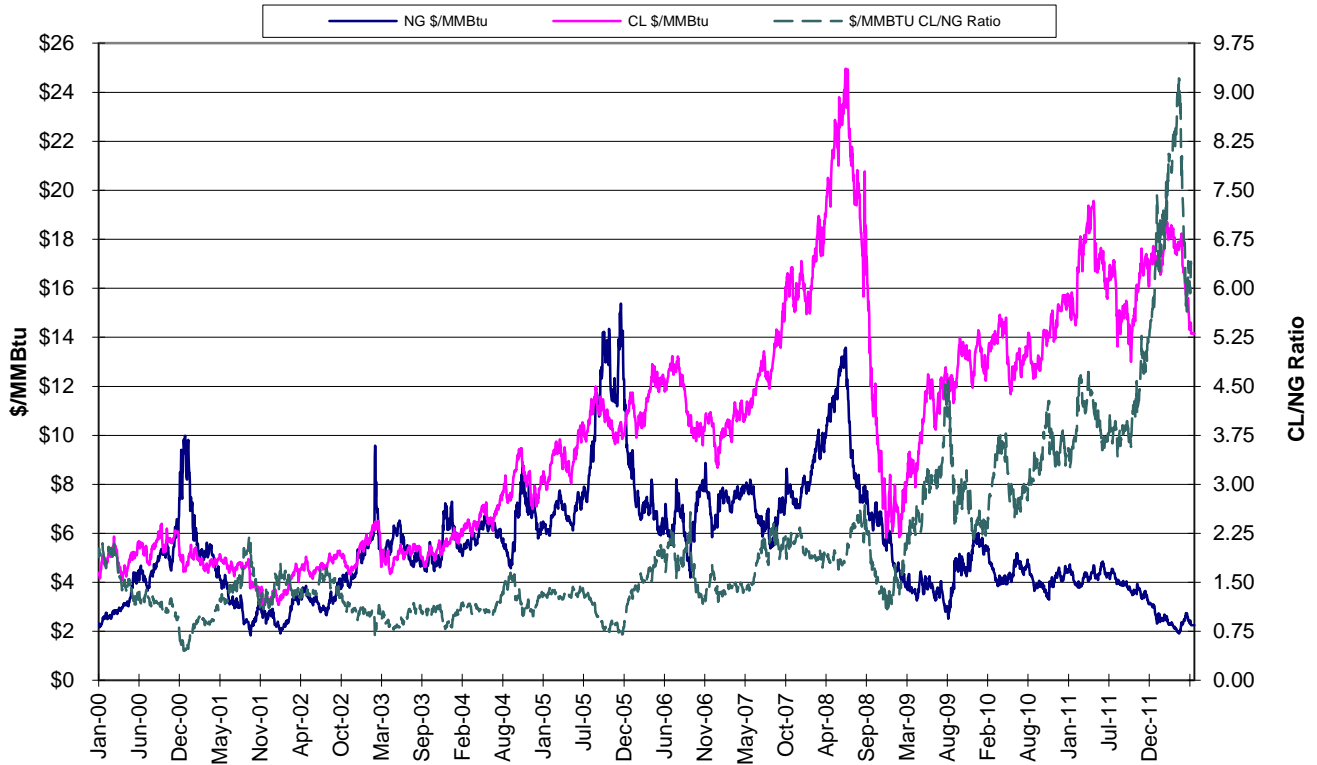
Storage Outlook: **The storage report continued to indicate a rather bullish temperature adjusted supply/balance and our current forecast is that the storage surplus will be below 600 BCF by the end of June. However, absolute North American storage levels remain the most obvious bearish fundamental factor and will soon surpass the 1995 and 1997 peak as well.**

Supply Trends: Total supply rose 0.4 BCF/D to 68.3 BCF/D. US production and Canadian imports were higher while increased Mexican exports offset some of those gains. The US Baker Hughes rig count rose as increased oil activity outpaced the drop in natural gas. The Canadian rig count rose and thus the total North American rig count added 78 rigs to reach 2,214, 127 higher than last year. This represents a 10 week high. **The higher efficiency US horizontal rig count slipped 6 and at 1,177 remains 112 higher YOY.**

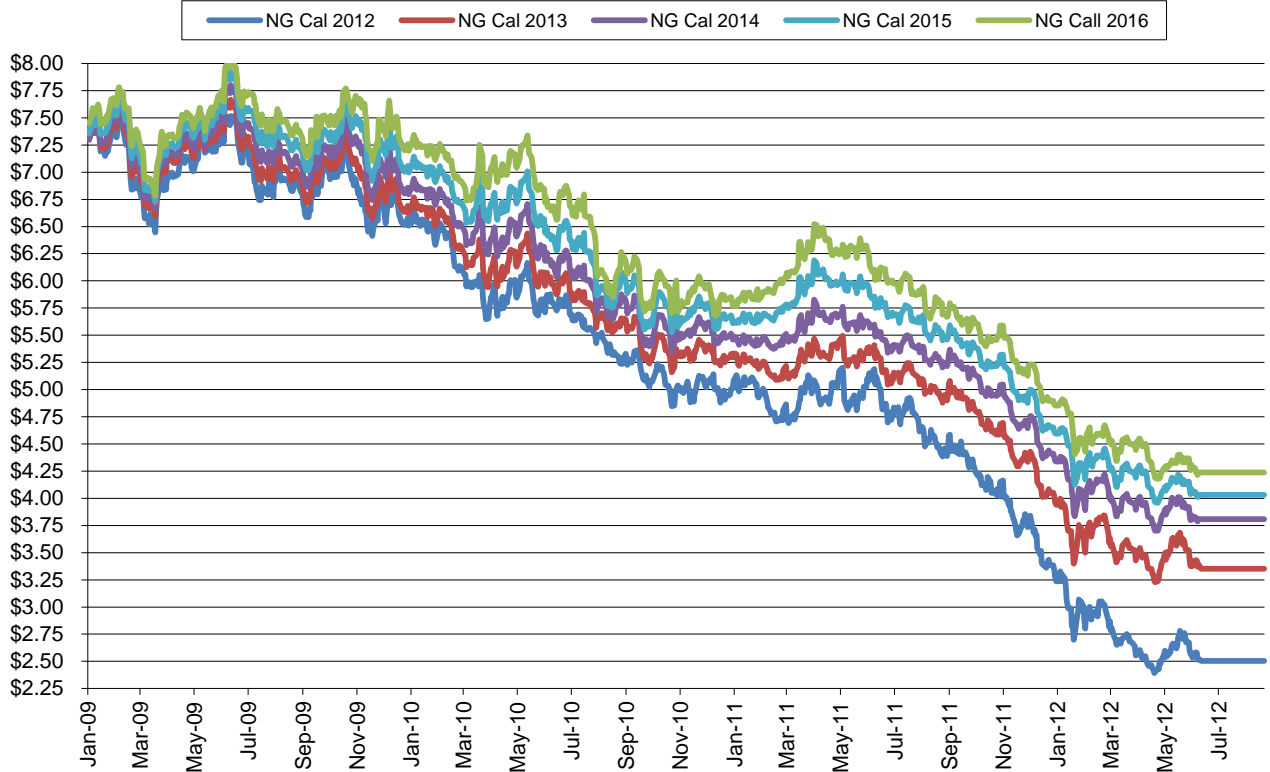
Demand Trends: Total demand rose 1.5 BCF/D to 58.4 BCF/D. Increased power demand again offset lower R&C consumption. Electricity demand rose 766 gigawatt-hrs to 78,764 which trails last year by 1,835 (2.3%), but exceeds the 5 year average by 1,895 (2.5%). **Above normal temperatures will now be considered bullish as cooling requirements rise.**

Other Factors: Equity markets found support with central banks expressing willingness to provide additional and continued monetary support.

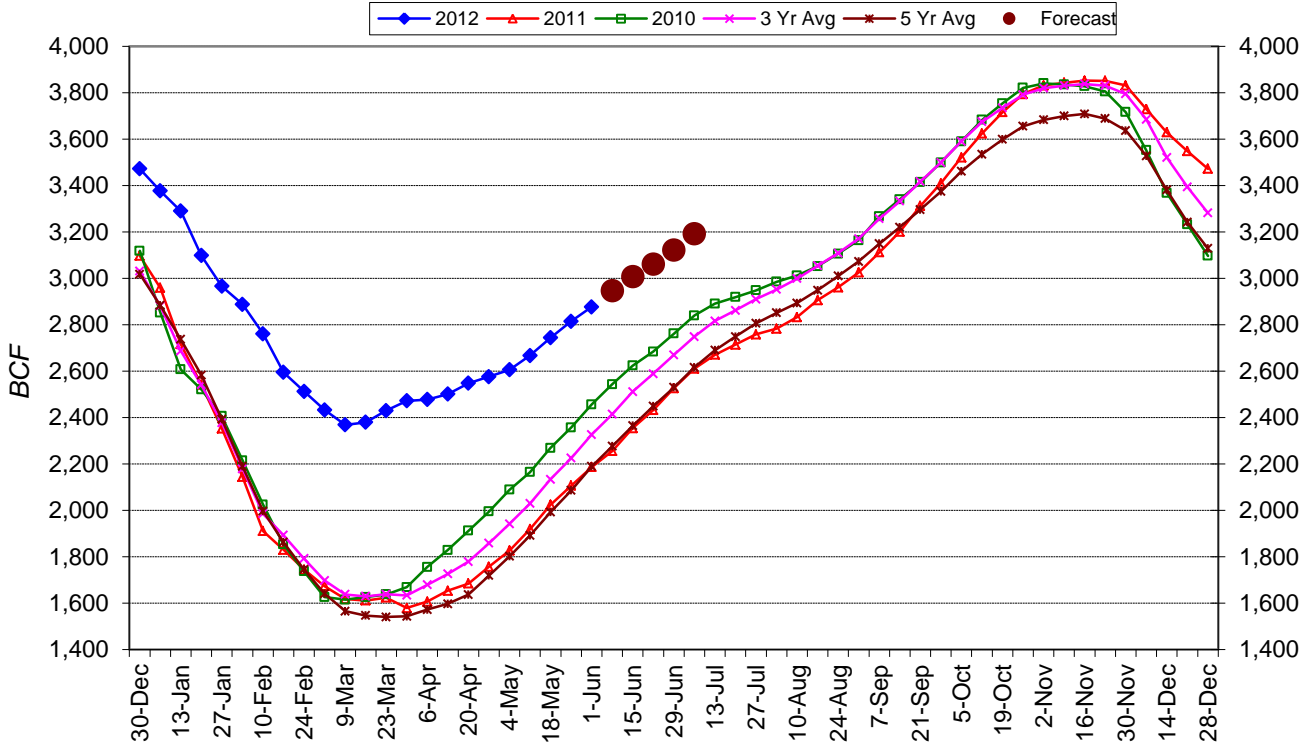
\$/MMBtu Ratio of NYMEX CL and NG



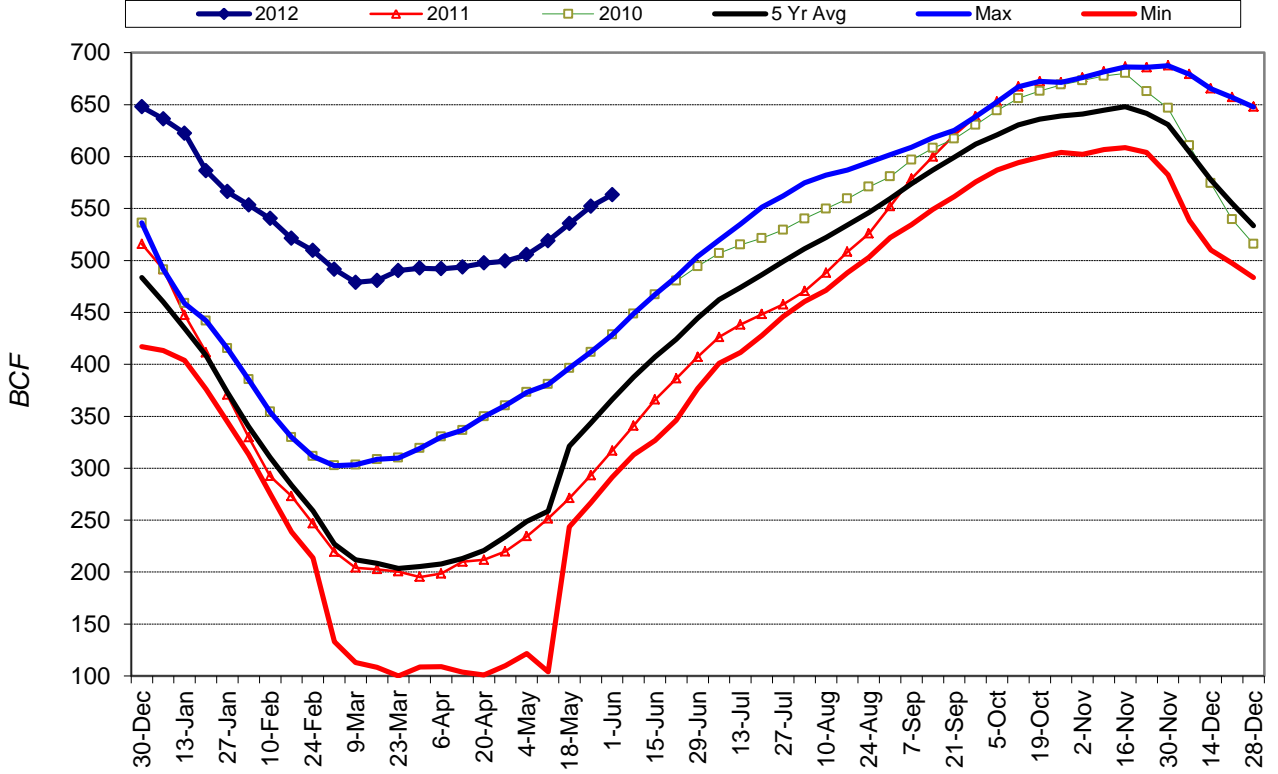
NYMEX Calendar Strips



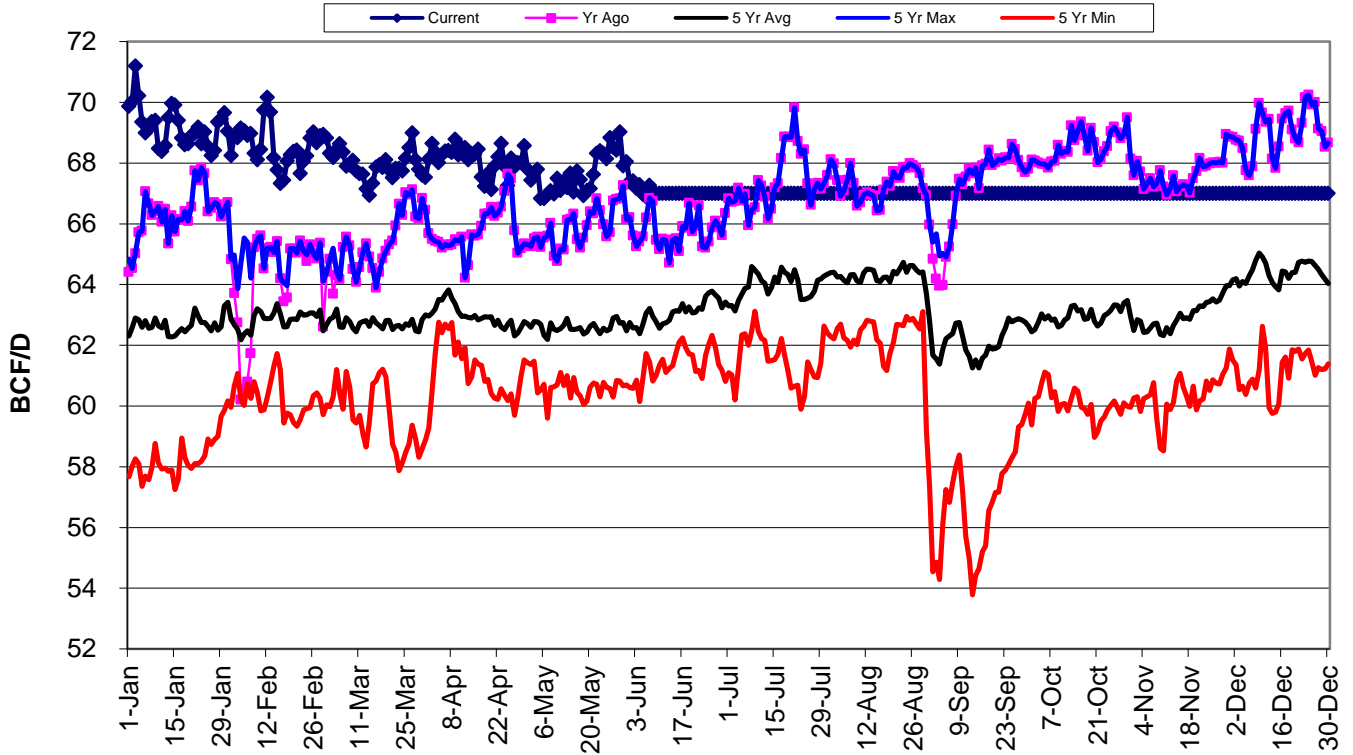
US Working Gas Storage - Source - EIA



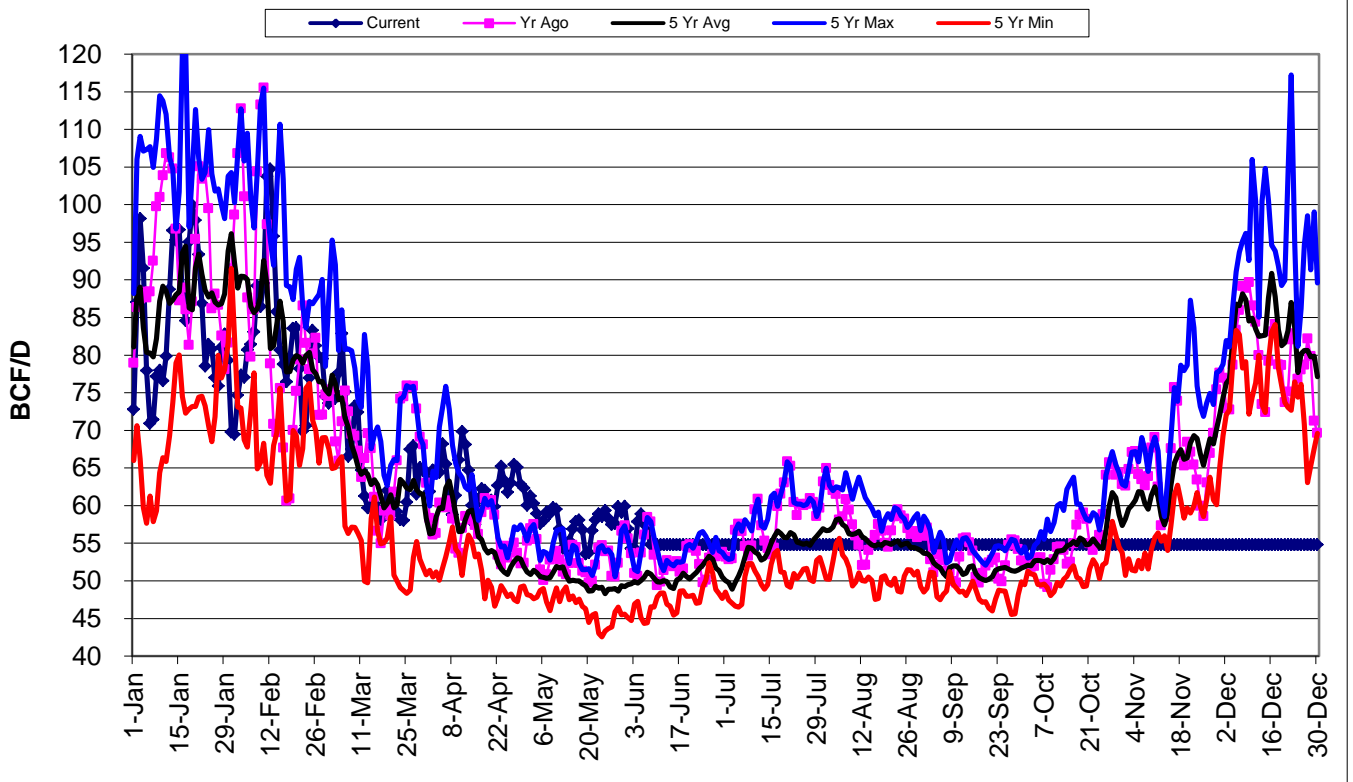
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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