

IAF Advisors  
Energy Market Outlook  
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**Price Action:** Volatility returned to the market as prices established a new weekly low on Thursday and then soared after a smaller than expected storage injection. The June futures contract rose 16.8 cents (7.3%) to \$2.467 on a 38.9 cent range. The Thursday price advance was one of the largest on record on a percentage basis.

**Price Outlook:** **Despite the price volatility, total open interest rose on the week, indicating market participants were not frightened by the market movements. CFTC data indicated a rather substantial reduction in the net long speculative position, despite the price increase. Both futures and total open interest across the complex rose. Total futures open interest rose to nearly 1.2 million contracts with total open interest firmly above 5.7 million contracts as of June 12, 2012.**

**Weekly Storage:** US working gas storage rose 67 BCF for the week ending June 8. Current inventory levels of 2,944 BCF now rise 688 BCF (30.5%) above last year while surpassing the 5 year average by 667 BCF (29.3%). While these storage surpluses are still daunting, they are both dramatic reductions to the recent peaks. On March 30, storage levels exceeded last year by a stunning 893 BCF (56.6%) and an even larger 928 BCF (60.1%) above the 5 year average. **As a reference, the current inventory level already exceeds the peak level of 1996, 1997 and 2000.**

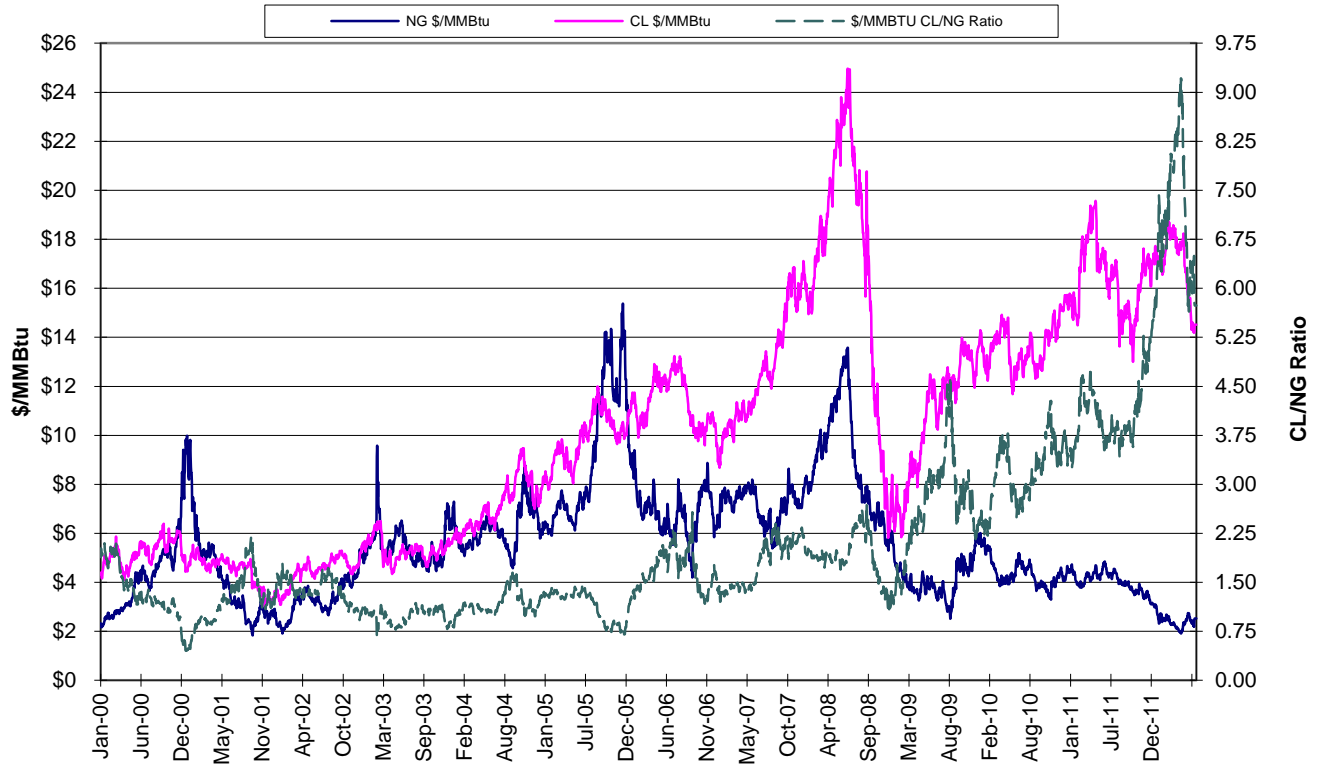
**Storage Outlook:** **The storage report continued to indicate a rather bullish temperature adjusted supply/balance and our current forecast is that the storage surplus will be below 600 BCF by the end of June. However, absolute North American storage levels remain the most obvious bearish fundamental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

**Supply Trends:** Total supply fell 1.1 BCF/D to 67.3 BCF/D. US production was primarily responsible for the fall as net imports were only marginally lower. The US Baker Hughes rig count slipped as both oil and natural gas activity fell. However, the Canadian rig count rose enough to lift the total North American rig count to 2,219, 82 higher than last year. The YOY surplus is the smallest since February 2010. **The higher efficiency US horizontal rig count slipped 15 and at 1,162 remains 112 higher YOY.**

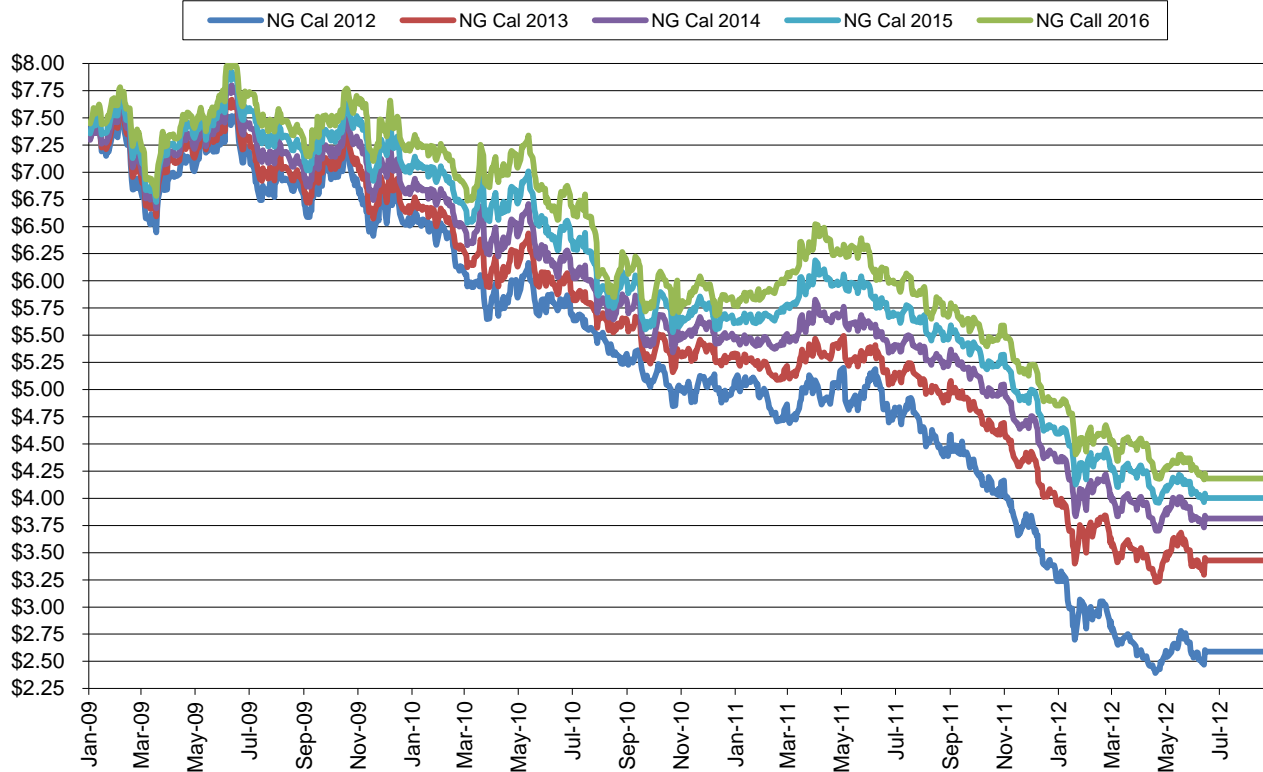
**Demand Trends:** Total demand fell 2.0 BCF/D to 56.8 BCF/D. Lower power demand was the reason as the other sectors were little changed. Electricity demand fell 1,646 gigawatt-hrs to 77,118 which trails last year by 8,799 (10.2%) and the 5 year average by 3,301 (4.1%). **Above normal temperatures will now be considered bullish as cooling requirements rise.**

**Other Factors:** Equity markets continued to find support despite mixed US economic data.

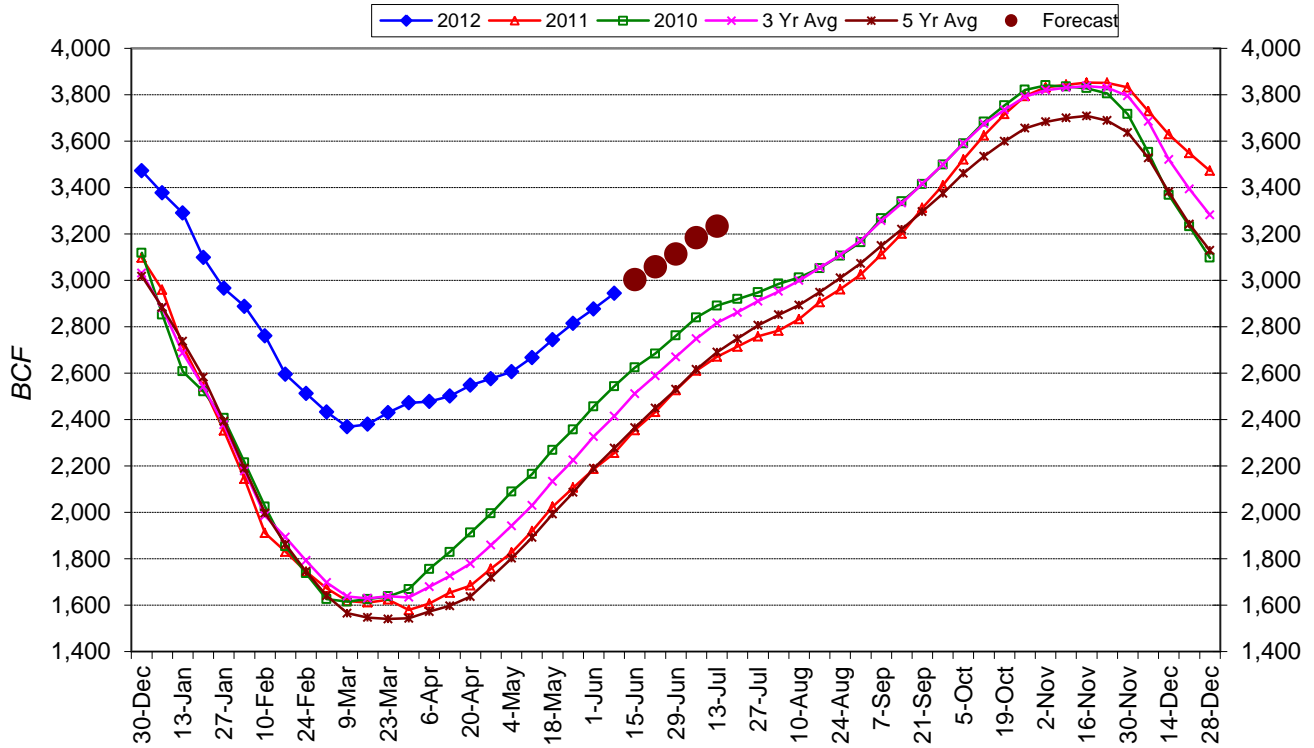
## \$/MMBtu Ratio of NYMEX CL and NG



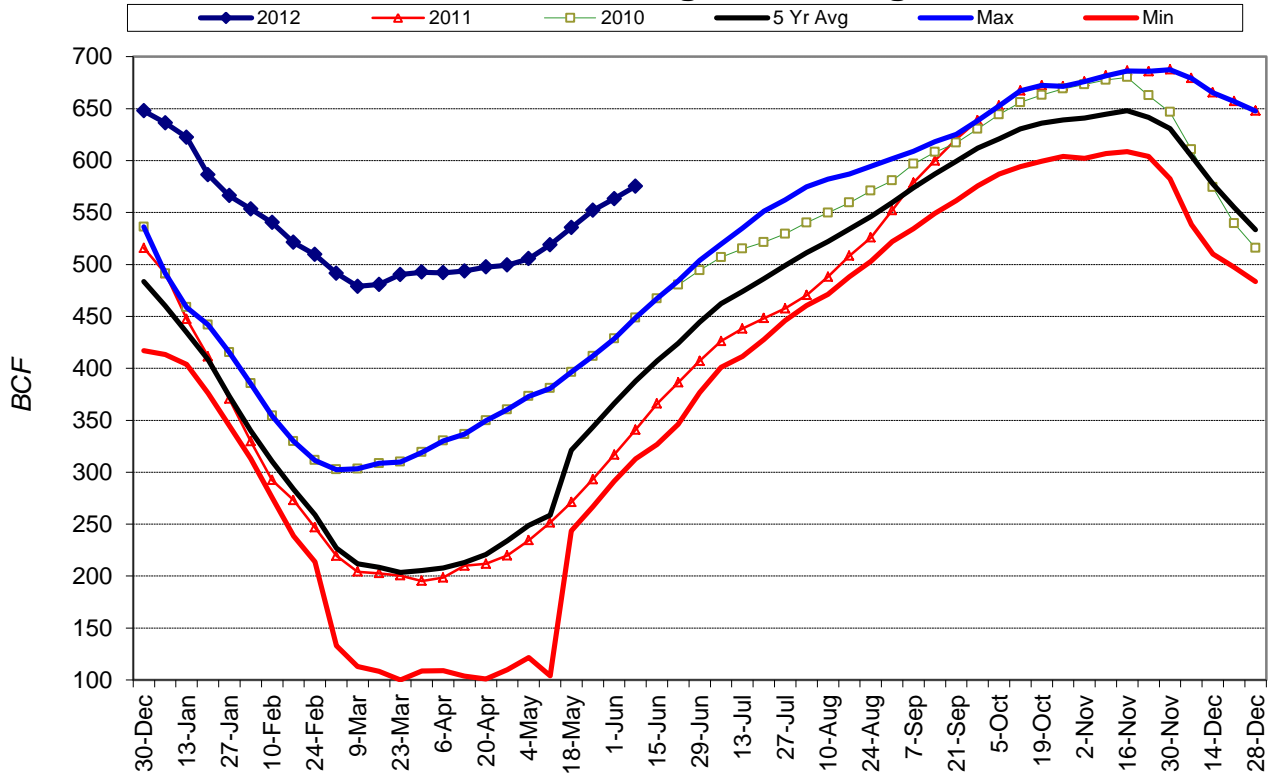
## NYMEX Calendar Strips



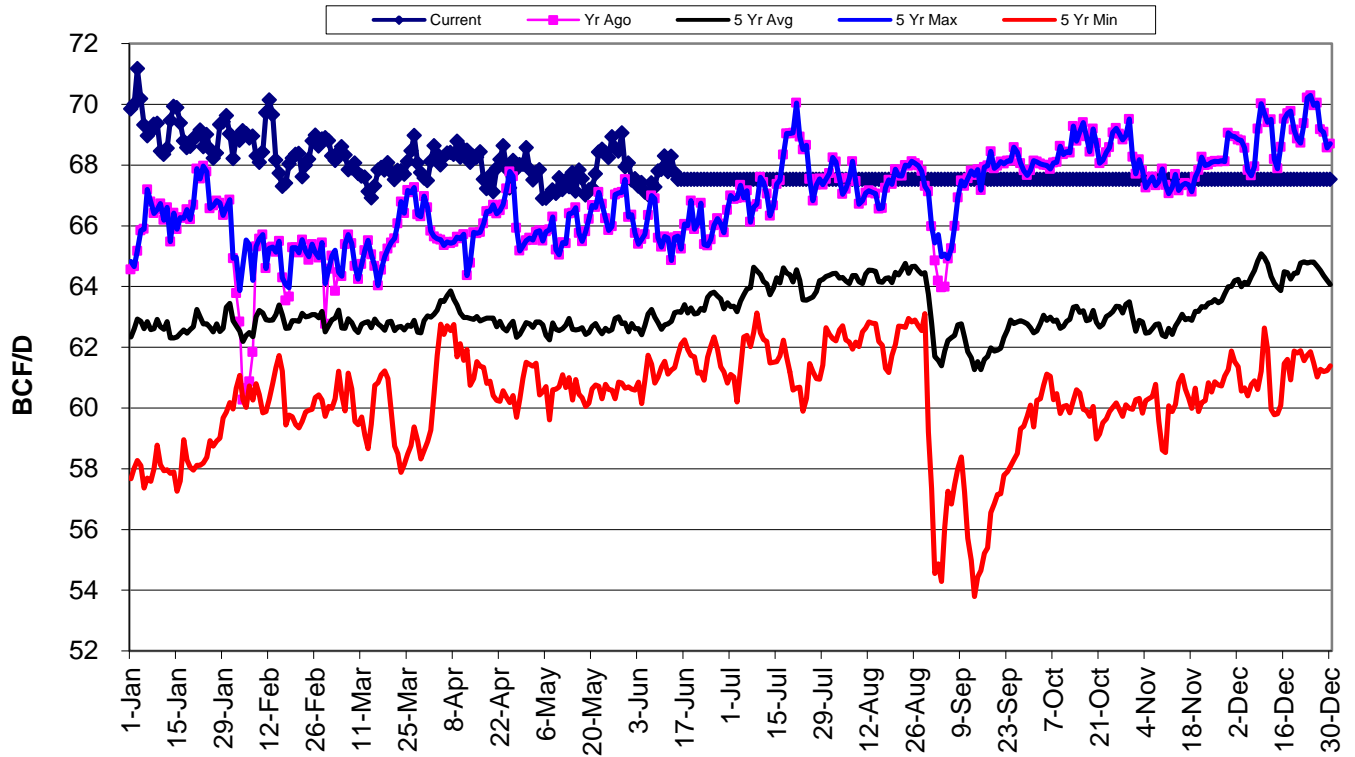
## US Working Gas Storage - Source - EIA



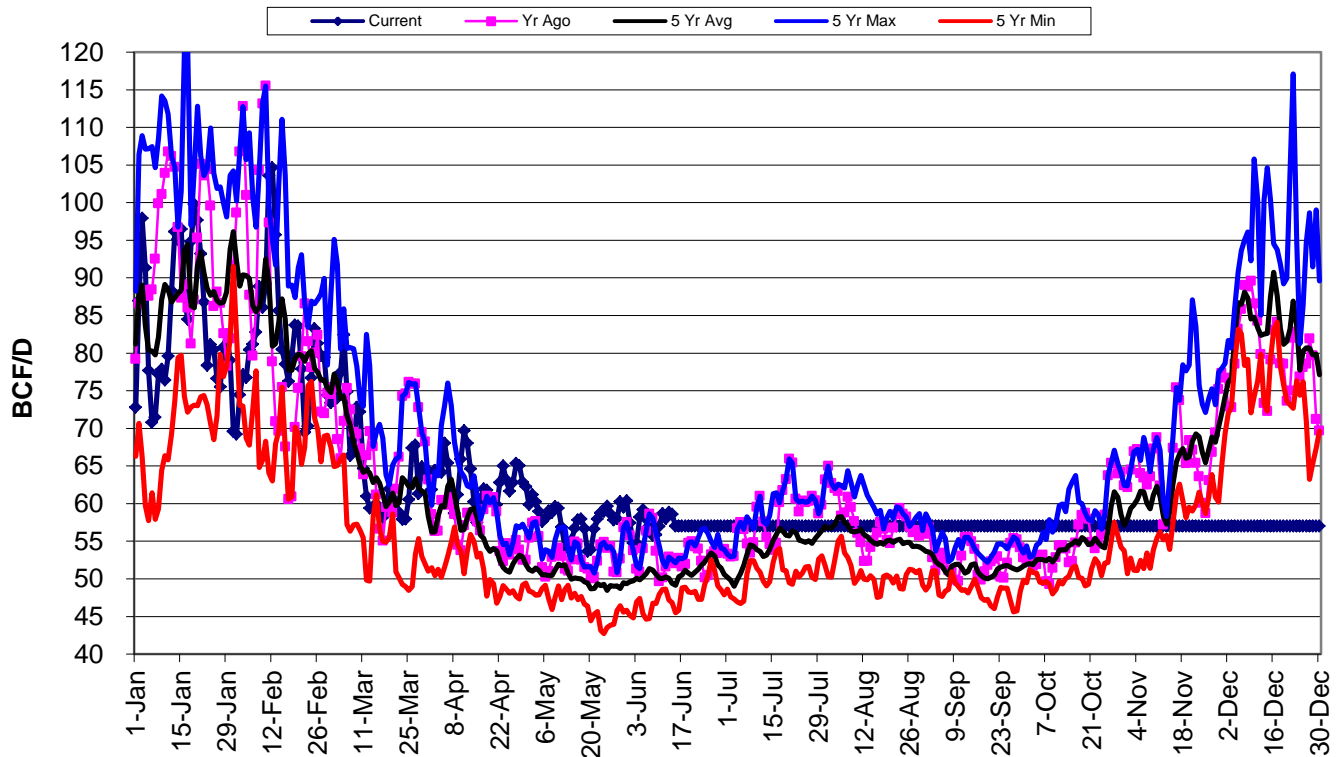
## Canadian Working Gas Storage - Enerdata



## Total US Supply



## Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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