

IAF Advisors
Energy Market Outlook
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Price Action: Prices moved higher as the now prompt August futures contract added 15.6 cents (5.9%) to \$2.668 on a 31.6 cent range. It should be noted the weekly price range was established Wednesday and Thursday. The storage report this week will be delayed until Friday, July 6th due to the July 4th Holiday.

Price Outlook: The market has now moved higher for 3 consecutive weeks. Since 2000, there have been 48 times when exactly 3 consecutive weeks witnessed a new weekly high. Of those, 30 instances experienced another new high. To establish a new weekly high would require a price of \$2.947. CFTC data indicated a significant reversal in recent trends with a substantial volume of net length added across the complex. Total futures open interest fell to just over 1.1 million contracts with total open interest dropping below 5.6 million contracts as of June 26, 2012. Although history, additional fund buying and the very warm temperatures may lead to a new weekly high, recent price action is inconclusive and less compelling.

Weekly Storage: US working gas storage rose 57 BCF for the week ending June 22. Current inventory levels of 3,063 BCF now rise 631 BCF (25.9%) above last year while surpassing the 5 year average by 614 BCF (25.13%). **Current inventory levels already surpass the peaks levels of 1995, 1996, 1997 and 2000.**

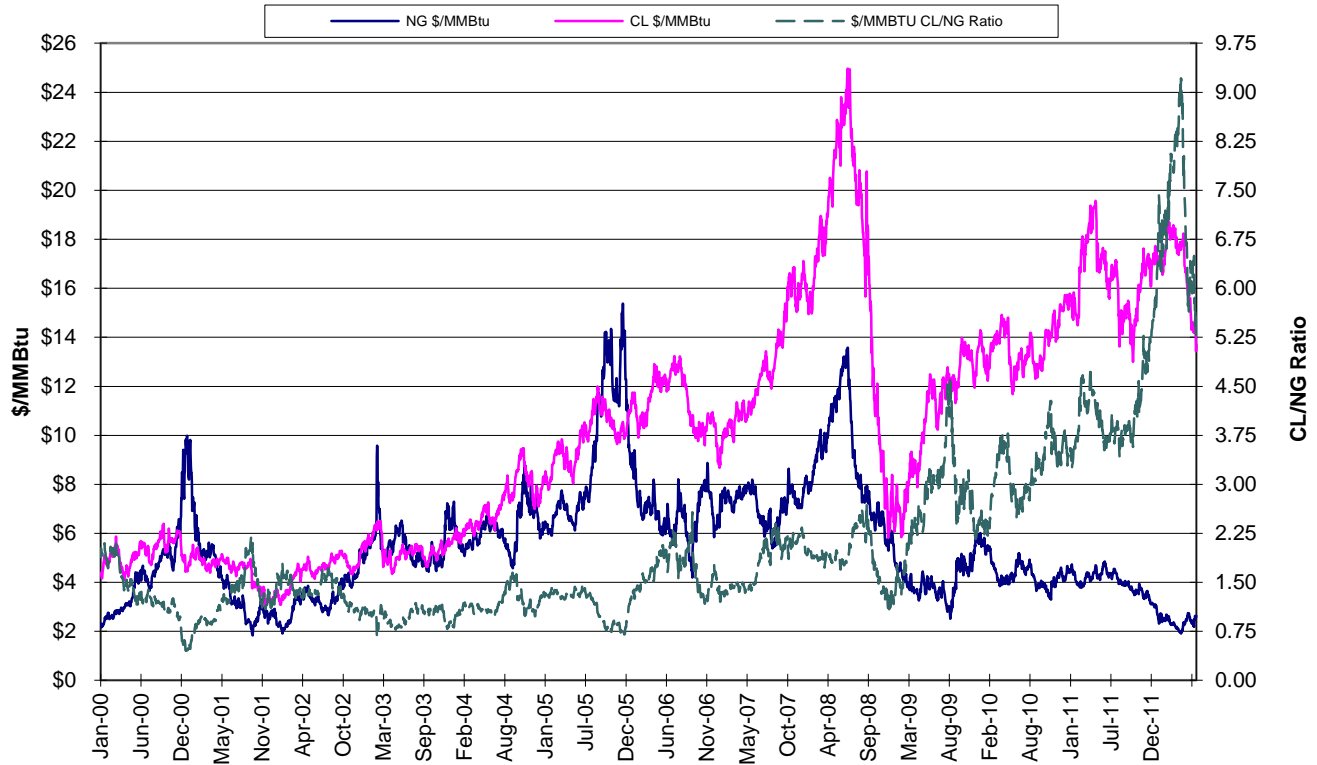
Storage Outlook: Storage levels will soon surpass the peak levels of 1994 and 1999. While the temperature adjusted supply/demand balance remains very bullish, the huge current storage level will lead to record storage levels this year.

Supply Trends: Total supply rose 1.0 BCF/D to 68.9 BCF/D. Higher US production, despite TS disruptions, and Canadian and LNG imports all rose. The US Baker Hughes rig count slipped as no changes in oil activity combined with a continued reduction in the natural gas sector led to a fall. However, Canadian activity increased sufficiently to lift the total North American rig count 16 to 2,220, 94 higher than last year. **The higher efficiency US horizontal rig count rose 6 and at 1,171 remains 98 higher YOY.**

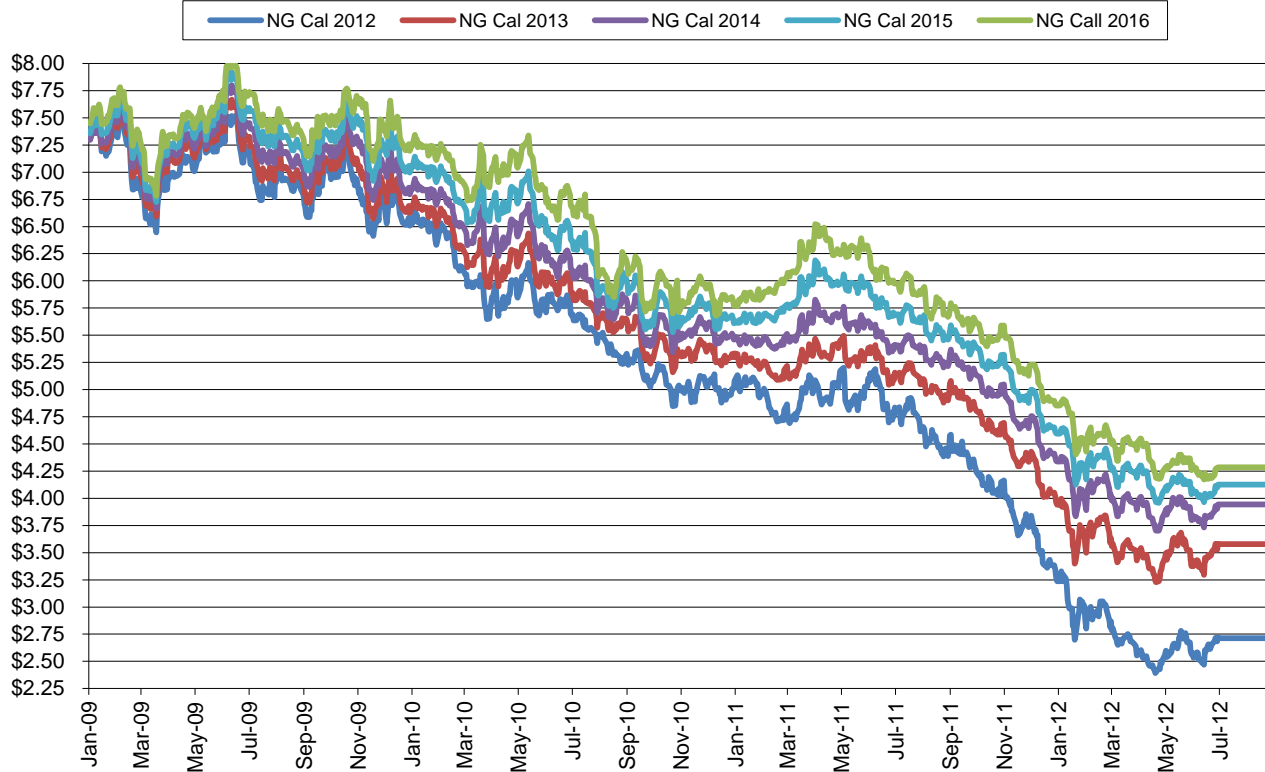
Demand Trends: Total demand rose 1.7 BCF/D to 59.4 BCF/D. Higher power demand again overcame lower R&C and industrial demand. Electricity demand rose 4,397 gigawatt-hrs to 86,302 which exceeds last year by 2,146 (2.6%) and the 5 year average by 1,805 (2.1%). **Temperatures as measured by our proprietary index soared across the country and power burns reached extremely high levels. Based on these early indications, our expectations are that July and August power burns will reach record levels unless temperatures fall well below normal across the major population centers. Historically, the hottest temperatures occur near the end of July and then begin to fall rapidly in the middle of August.**

Other Factors: Equity markets soared to end the week as optimism regarding possible German backing of European debt lifted markets.

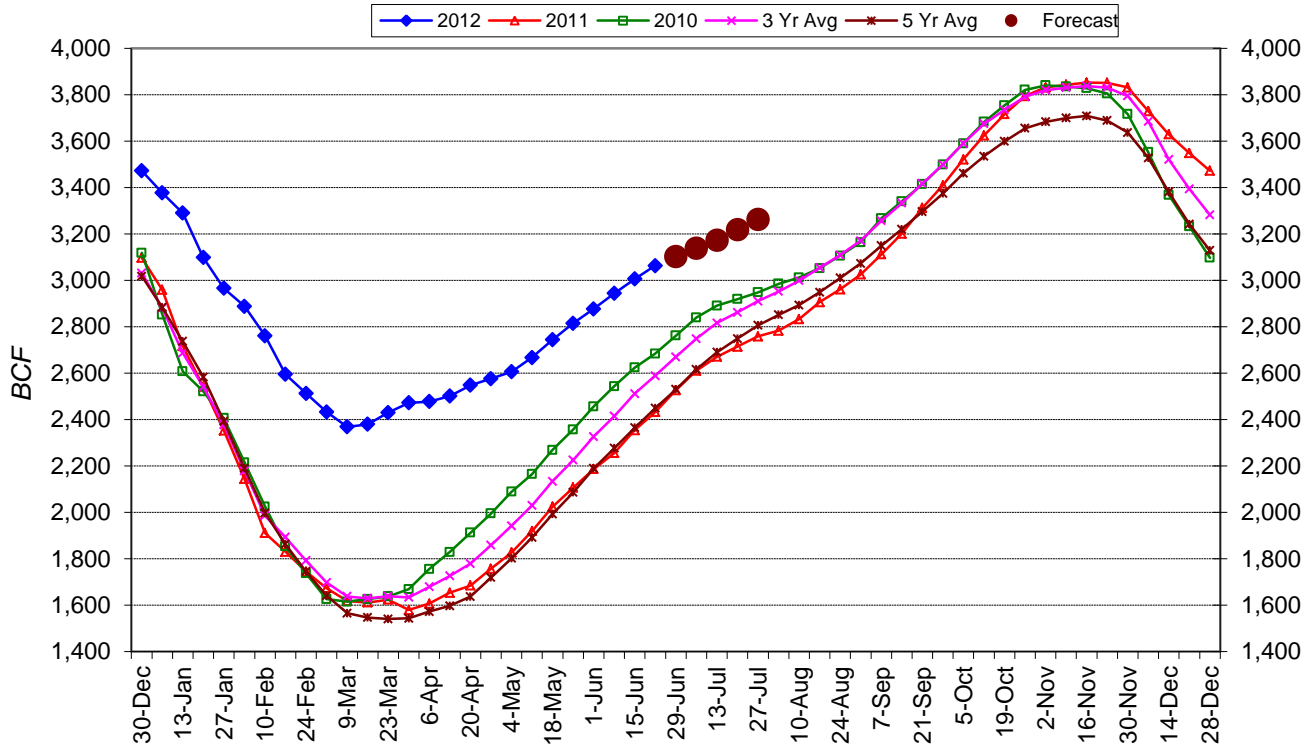
\$/MMBtu Ratio of NYMEX CL and NG



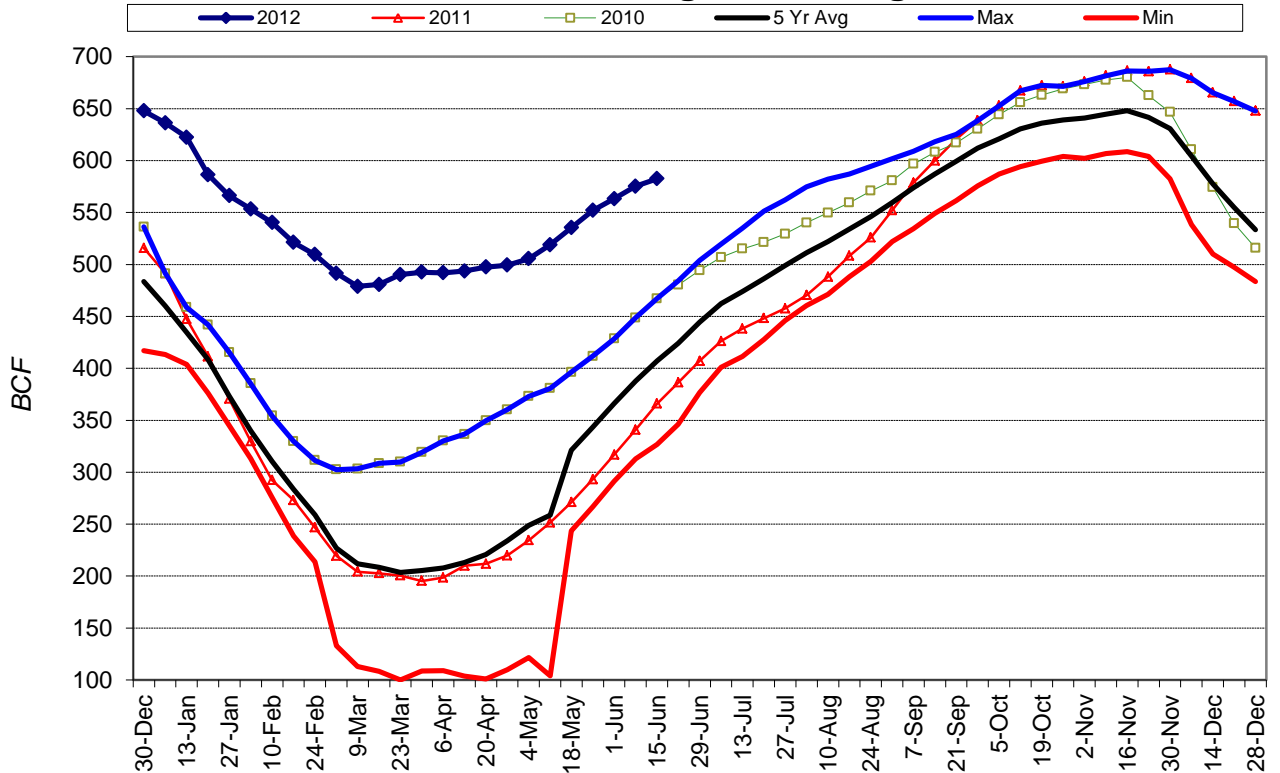
NYMEX Calendar Strips



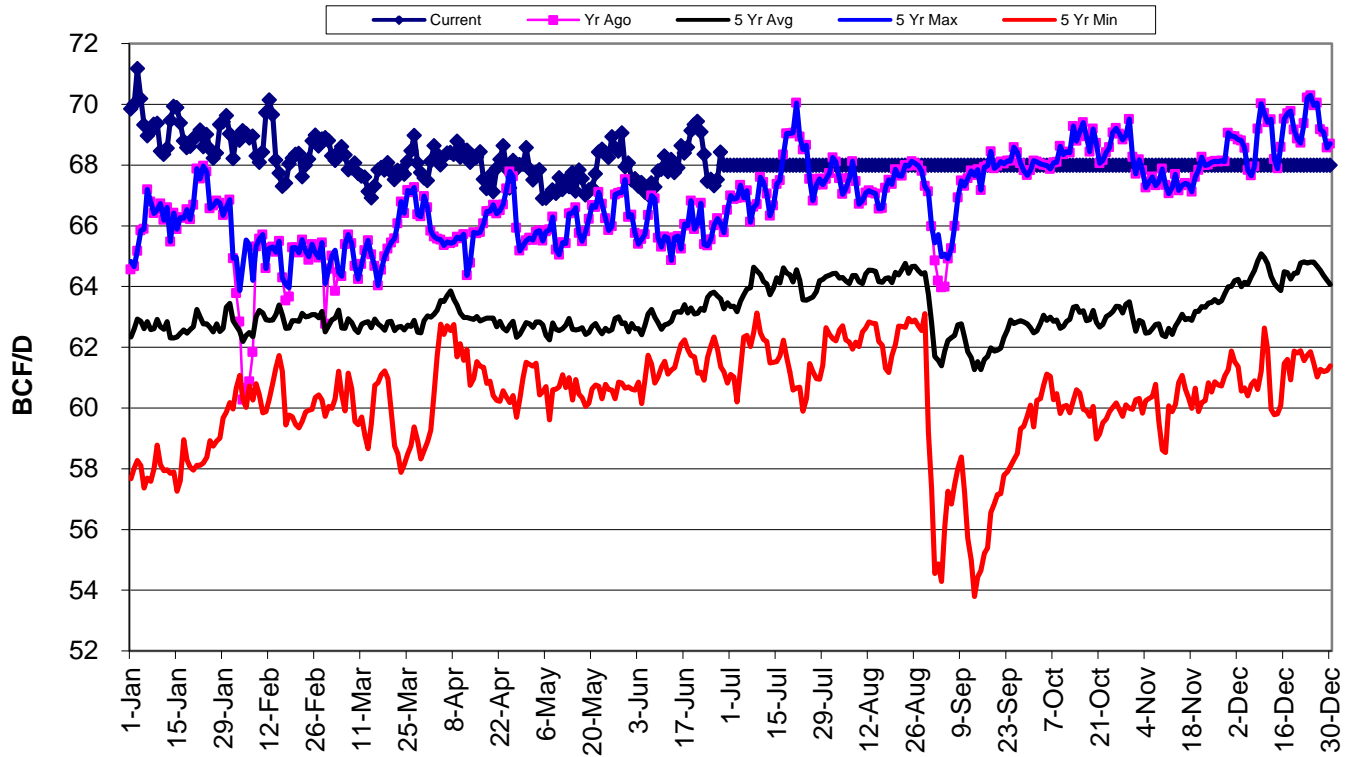
US Working Gas Storage - Source - EIA



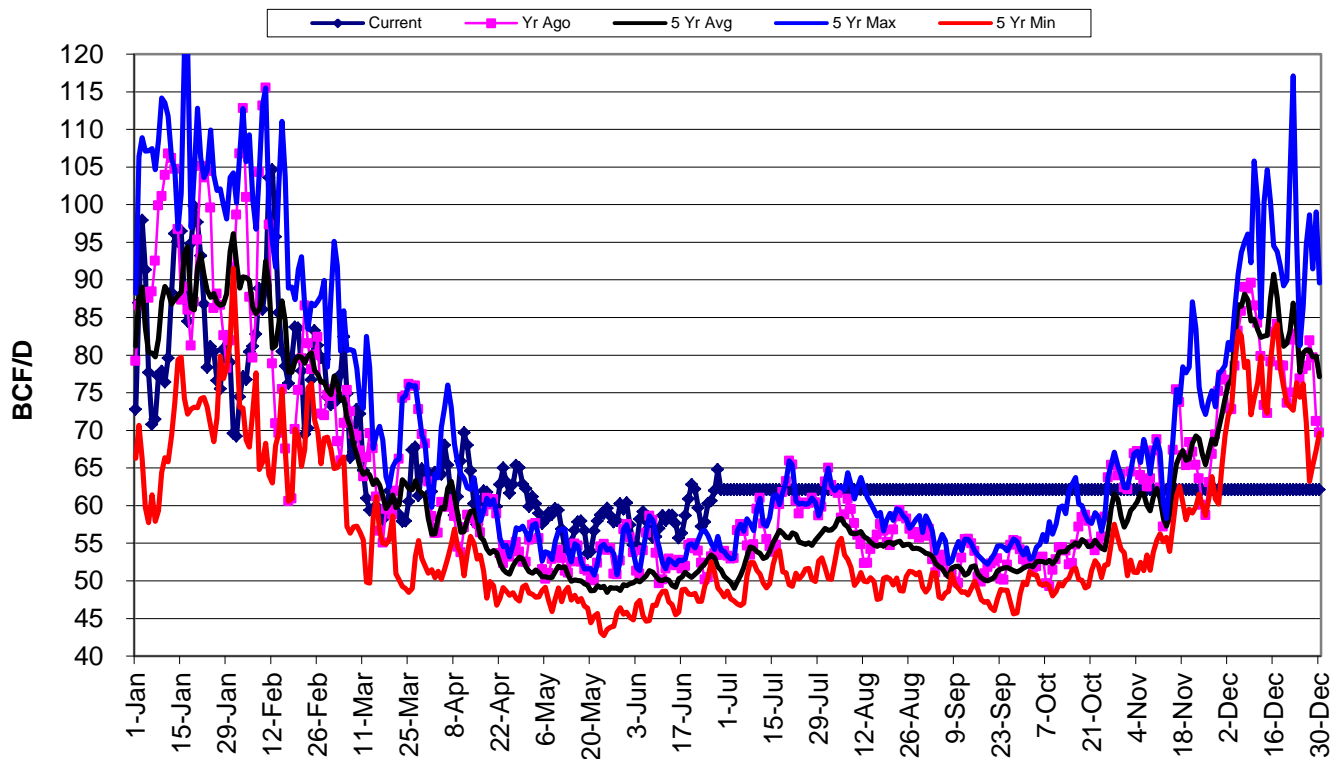
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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