

IAF Advisors  
Energy Market Outlook  
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**Price Action:** The market surged higher as yet another below average storage injection and extreme heat pushed the market above the \$3 mark. Prices rose 20.7 cents (7.2%) to \$3.081 on a 37.6 cent range.

**Price Outlook:** With current forecasts, this July will rank as one of the hottest on record based on our proprietary temperature index. Despite cooler temperatures in Texas, the central portion of the country has led to the extreme readings. The higher cooling demand has continued to keep the market on pace to likely establish a new record level of electricity related natural gas consumption. Thus far, the move above \$3 has not resulted in a measurable reduction in the temperature adjusted electric natural gas consumption. If natural gas does not lose market share, the market will continue higher. CFTC data indicated a small increase in the net long position. However, the ability to move above the psychological \$3 level may lead to additional buying. Total open interest remains well below the peak and there is easily capability to add new longs in the market.

**Weekly Storage:** US working gas storage rose 28 BCF for the week ending July 13. Current inventory levels of 3,163 BCF now rise 492 BCF (18.4%) above last year while surpassing the 5 year average by 473 BCF (17.6%). The storage surplus continues to fall at an impressive pace.

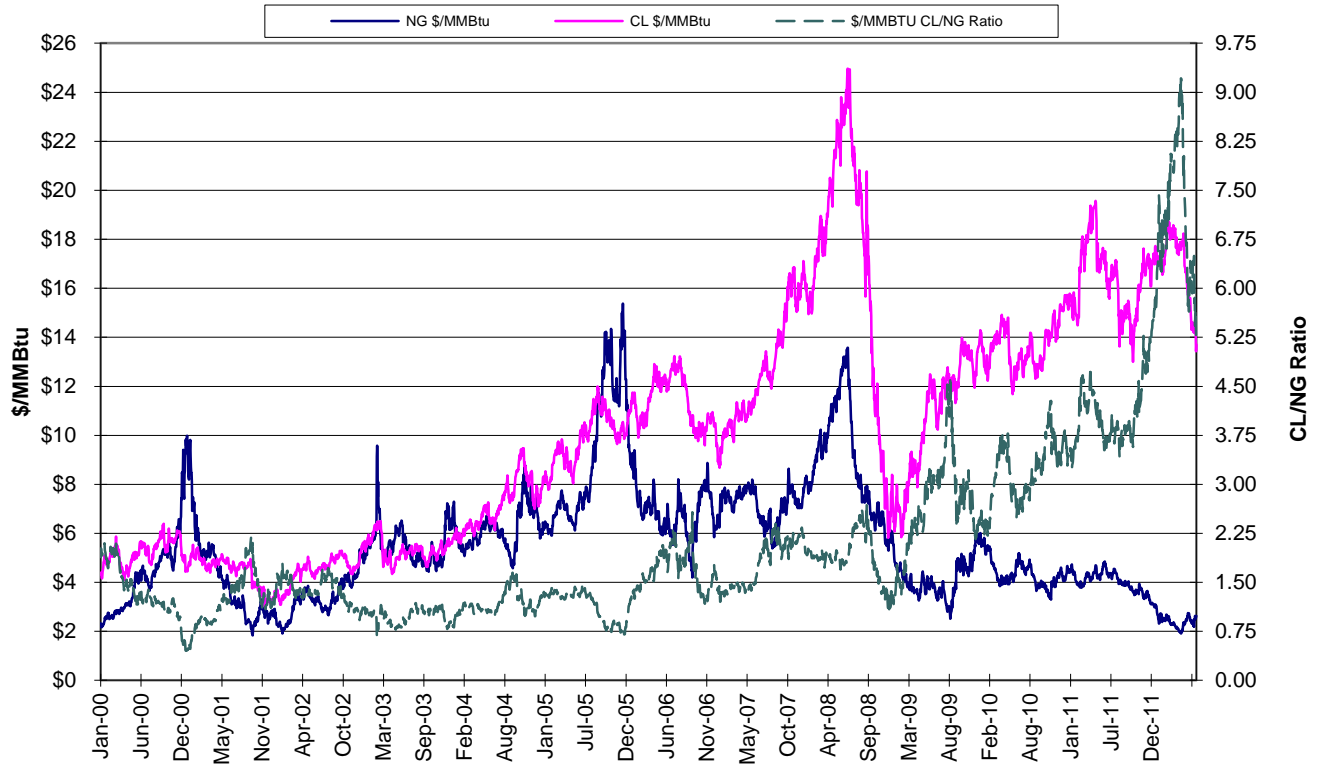
**Storage Outlook:** After peaking at 893 BCF on March 30, the YOY surplus has dwindled. The reduction compared to the 5 year average is even more impressive, falling from 911 BCF on March 30. While still on pace to reach a new record storage level, there is little fear of storage containment due to both high temperatures as well as unprecedented coal displacement continuing. The current price may soon result in lower temperature adjusted natural gas consumption by the electric generators.

**Supply Trends:** Total supply rose 0.2 BCF/D to 69.2 BCF/D. US production rose with all other supply components effectively unchanged. The US Baker Hughes rig count indicated lower activity across all sectors. However, a higher Canadian count did lift the total North American rig count 14 to 2,263, now 29 lower than last year. The higher efficiency US horizontal rig count fell 2 and at 1,164 remains 62 higher YOY.

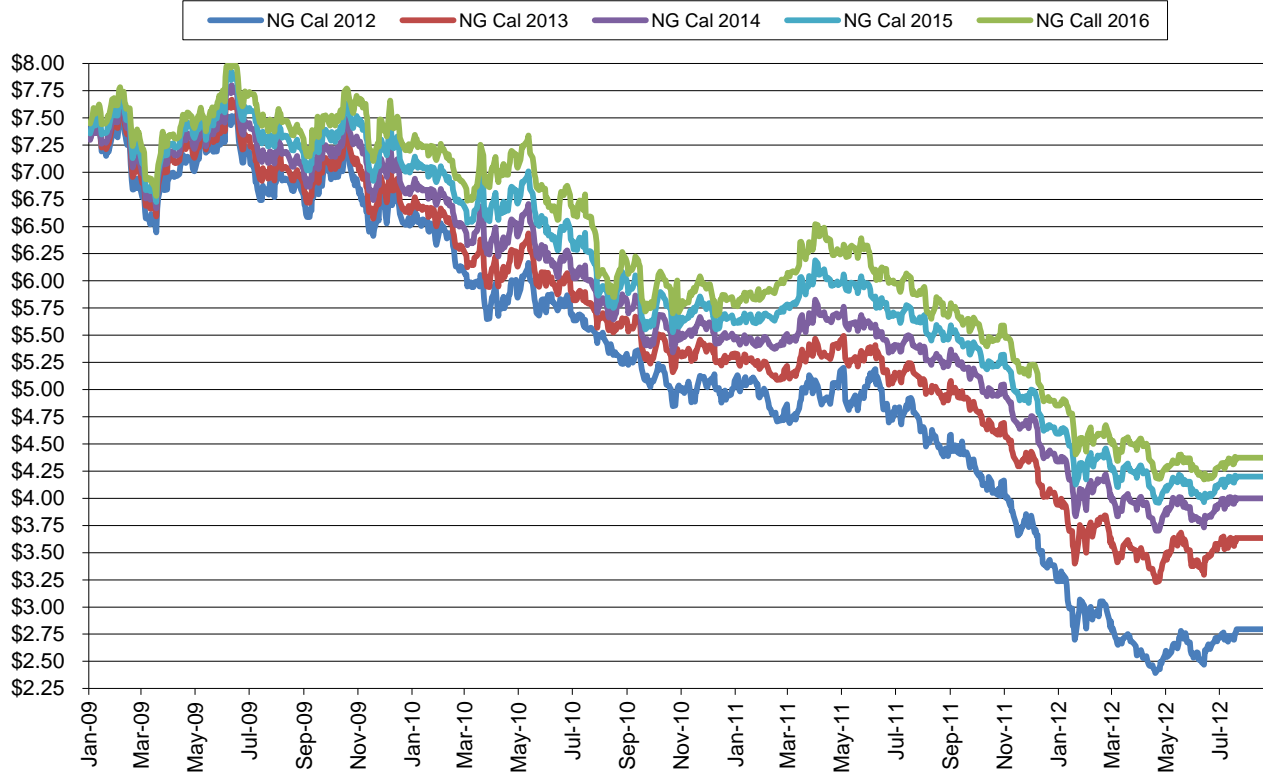
**Demand Trends:** Total demand fell 1.0 BCF/D to 62.1 BCF/D. Lower power demand offset higher industrial demand. Electricity demand fell 3,778 gigawatt-hrs to 89,253 which trails last year by 2,270 (2.5%) while eclipsing the 5 year average by 705 (0.8%). The market remains on pace to likely establish a new record level of electricity related natural gas consumption. Peak seasonal temperatures occur in late July and then begin to fall rapidly in mid-August.

**Other Factors:** Equity markets were marginally higher, although markets ended on a down note and futures market indicate equity weakness to begin the week.

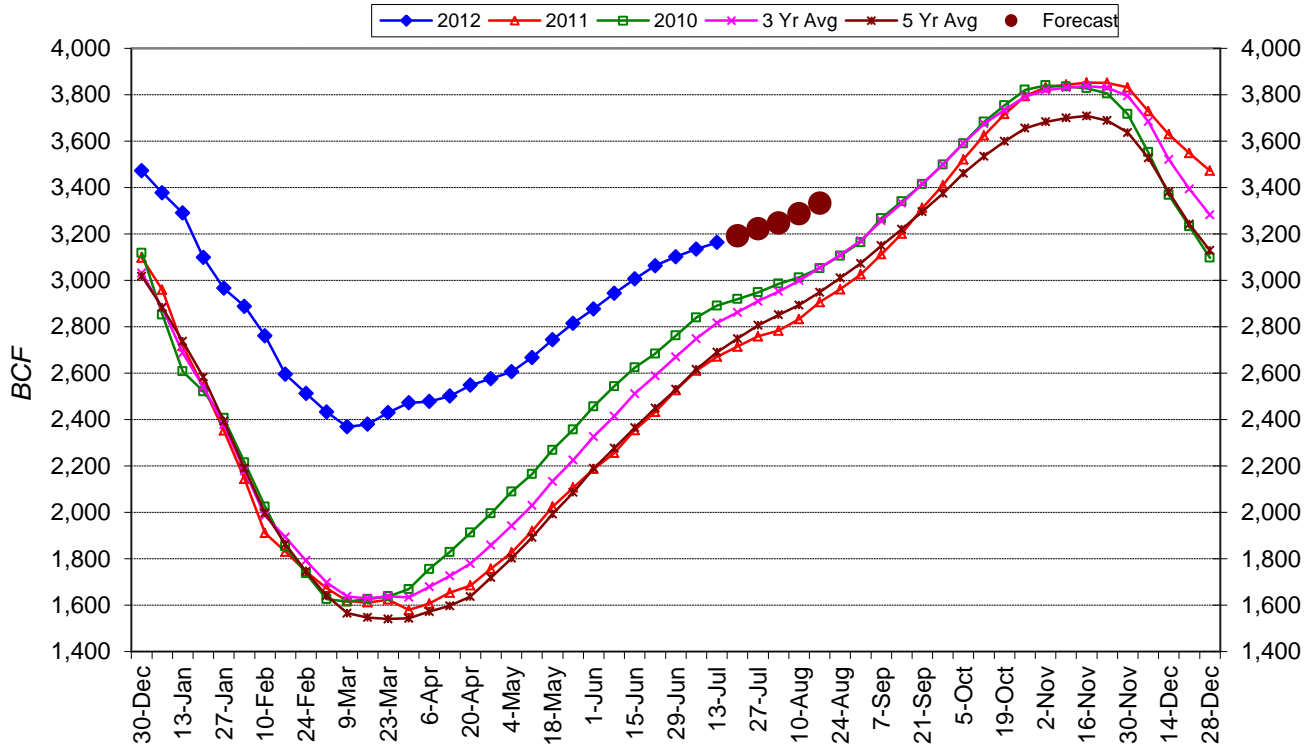
## \$/MMBtu Ratio of NYMEX CL and NG



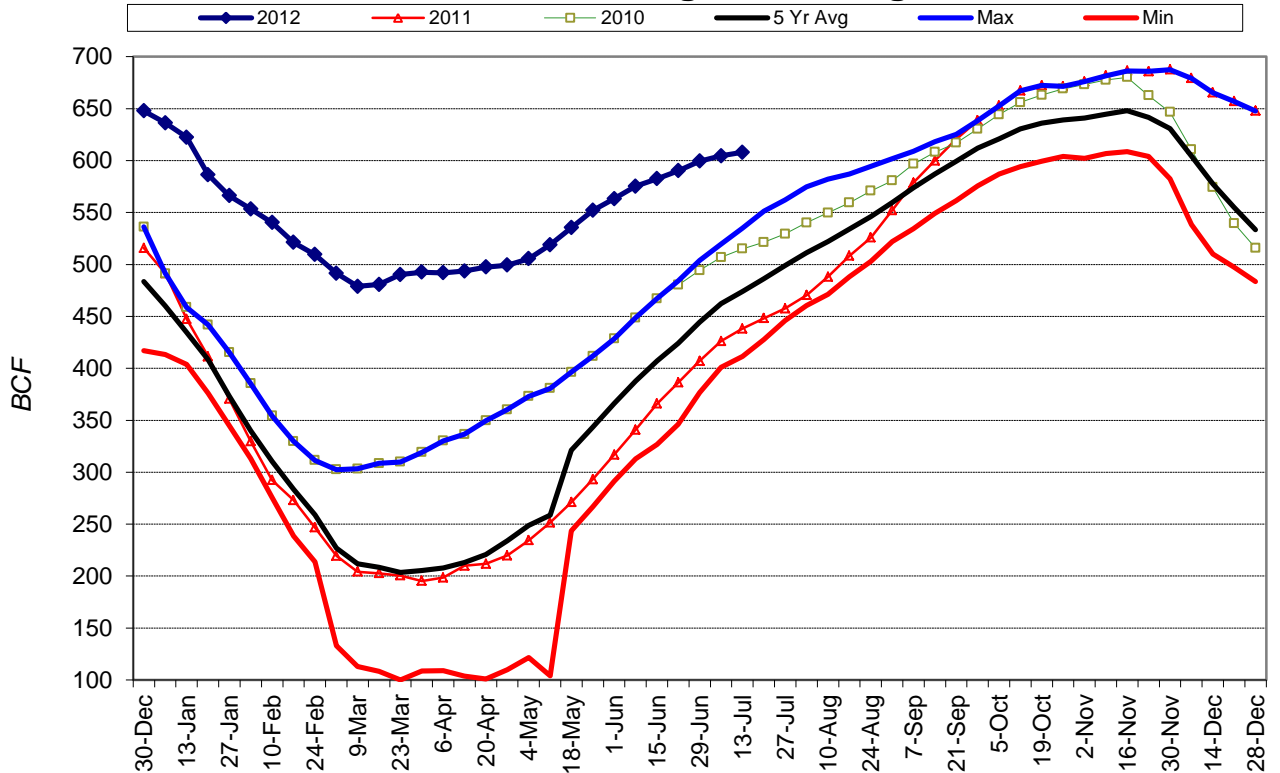
## NYMEX Calendar Strips



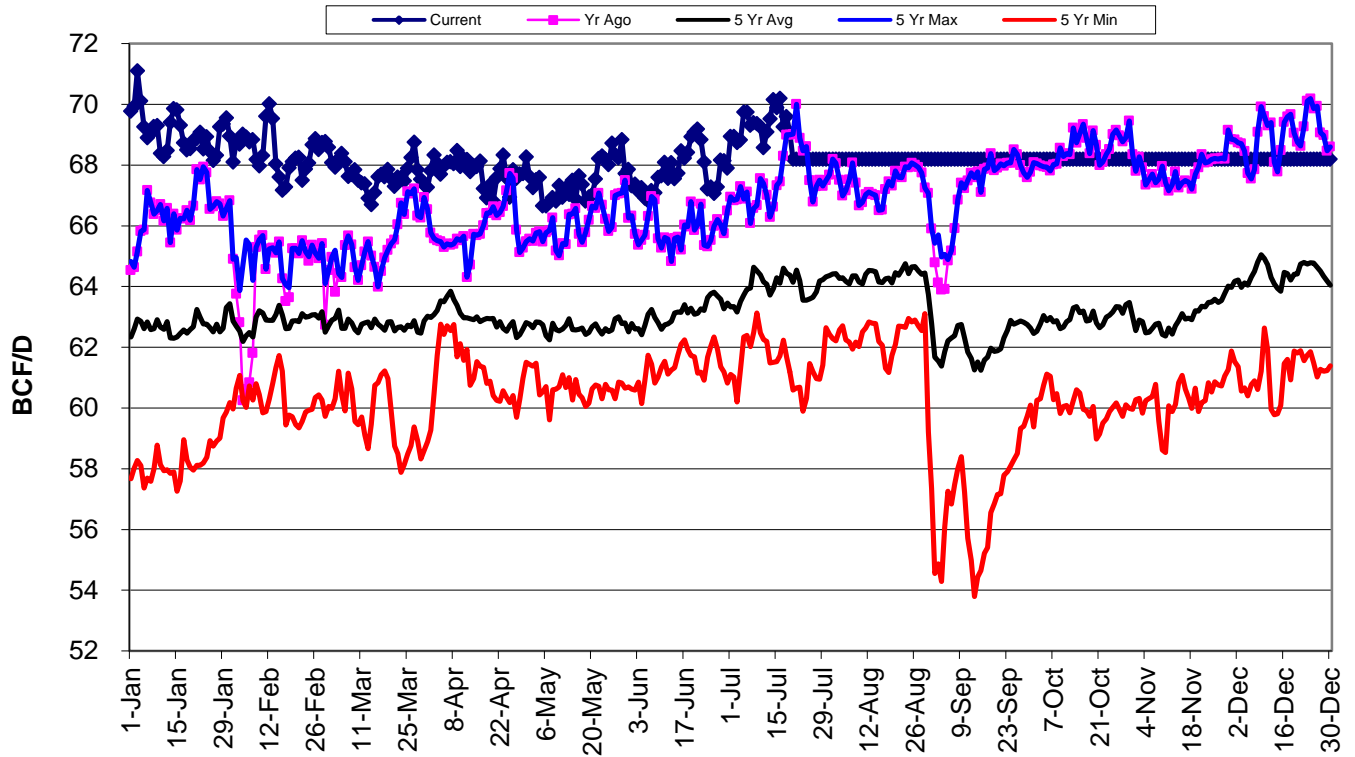
## US Working Gas Storage - Source - EIA



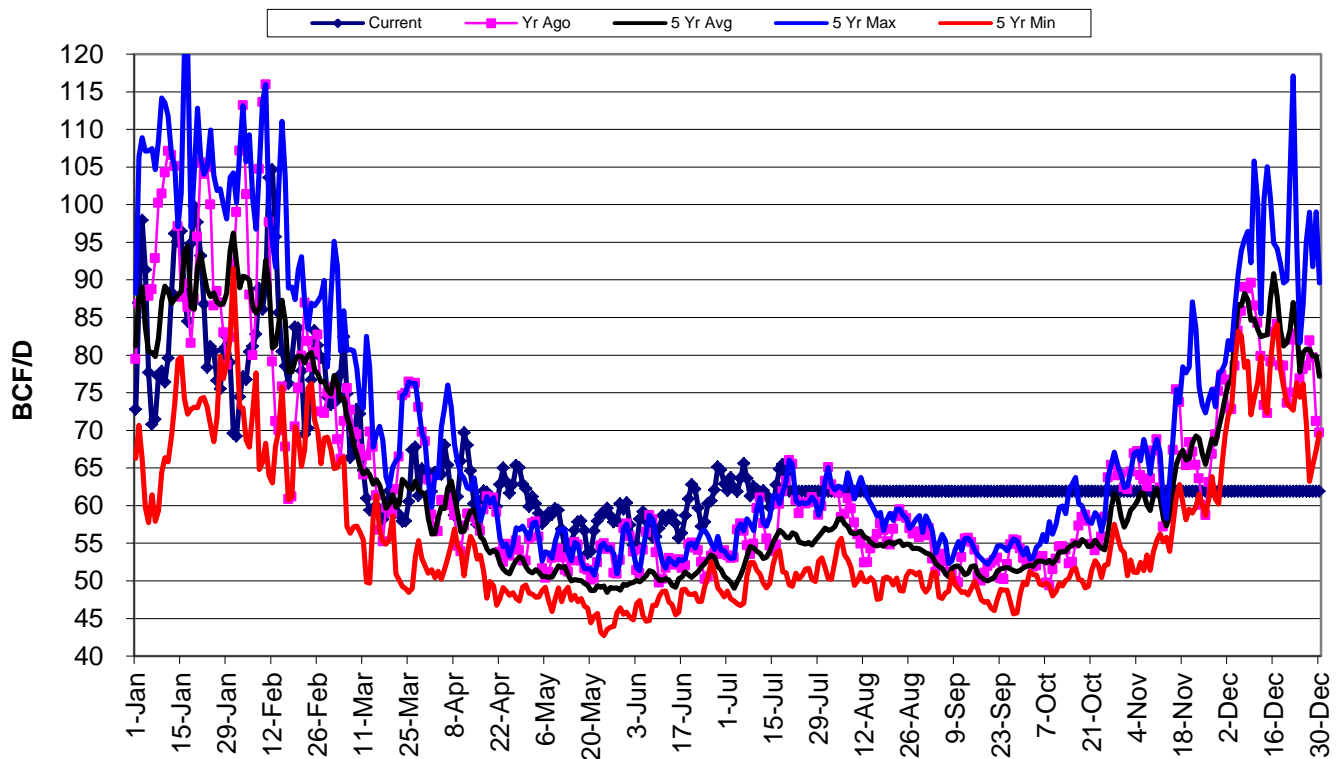
## Canadian Working Gas Storage - Enerdata



## Total US Supply



## Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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