

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
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Price Action: The market could not maintain the recent upward momentum, with prices falling 7.1 cents (2.3%) to \$3.010 on a 20.6 cent range.

Price Outlook: Prices surged to a multi-month high of \$3.196 as extremely hot temperatures have lifted A/C cooling demand. However, now entering August, the sun angles are diminishing and average temperatures will be falling. It will be cooler in coming weeks, lowering demand. CFTC data indicated a rather large increase in the net long position. The ability to remain above the psychological \$3 level is supportive and may lead to additional buying. Total open interest remains well below the peak and despite the recent surge in net length, new longs in the market could easily enter the market. The price outlook is mixed with a bias to lower prices eventually.

Weekly Storage: US working gas storage rose 26 BCF for the week ending July 20. Current inventory levels of 3,189 BCF now rise 475 BCF (17.5%) above last year while surpassing the 5 year average by 440 BCF (16.0%).

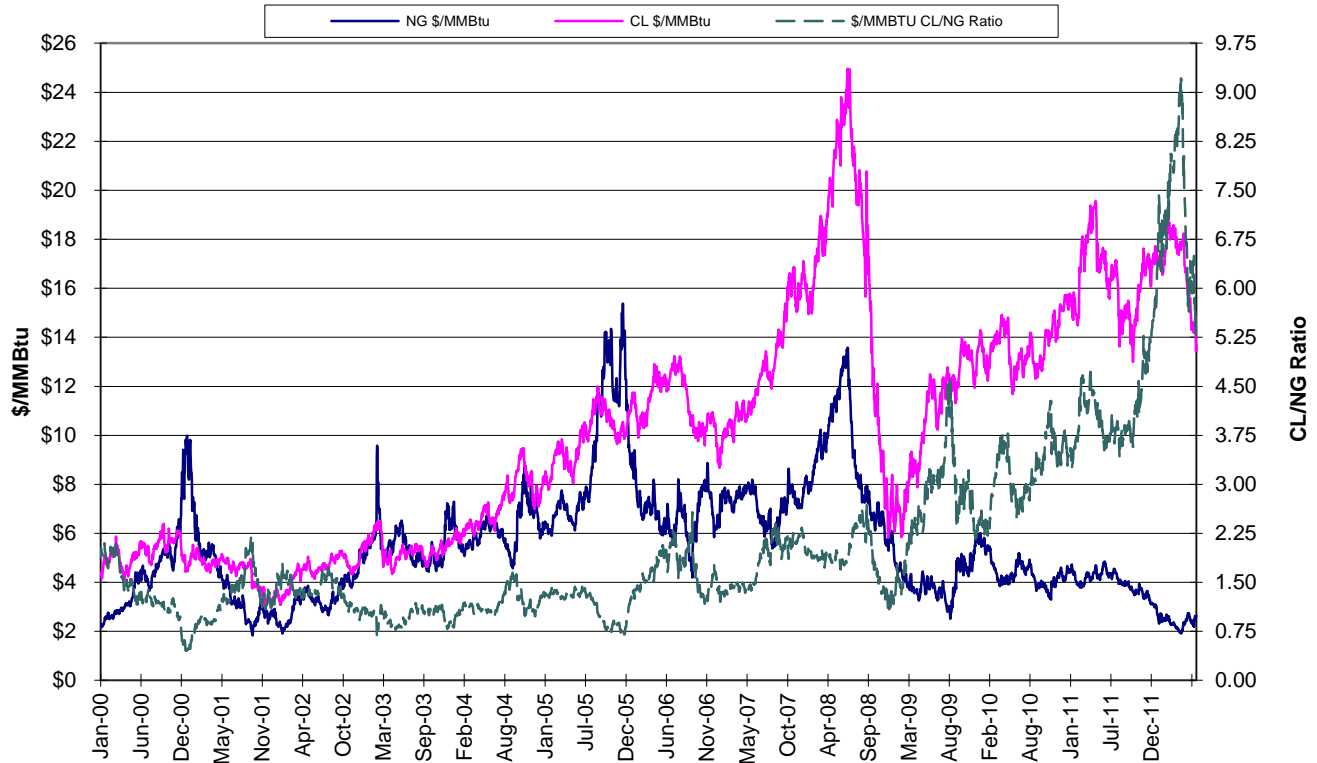
Storage Outlook: Roughly half of the traditional storage season has now passed. Injections in 2012, which began in the middle of March, well ahead of normal, have totaled 830 BCF, compared to the 5 year average of 1,183 BCF over this same period. Even considering the temperature profiles, this remains a very bullish temperature adjusted injection profile. However, this remains driven primarily by the power sector and if coal begins to regain market share, this bullish profile could disappear quickly.

Supply Trends: Total supply rose 0.3 BCF/D to 69.5 BCF/D. US production was unchanged with increased Canadian imports and lower Mexican exports responsible for the increase. The US Baker Hughes rig count resumed the 2012 trend with oil activity rising and natural gas falling. A higher Canadian count was not enough to compensate for the US drop and the total North American rig count fell 1 to 2,262, now 41 lower than last year. The higher efficiency US horizontal rig count fell 13 and at 1,151 remains 71 higher YOY.

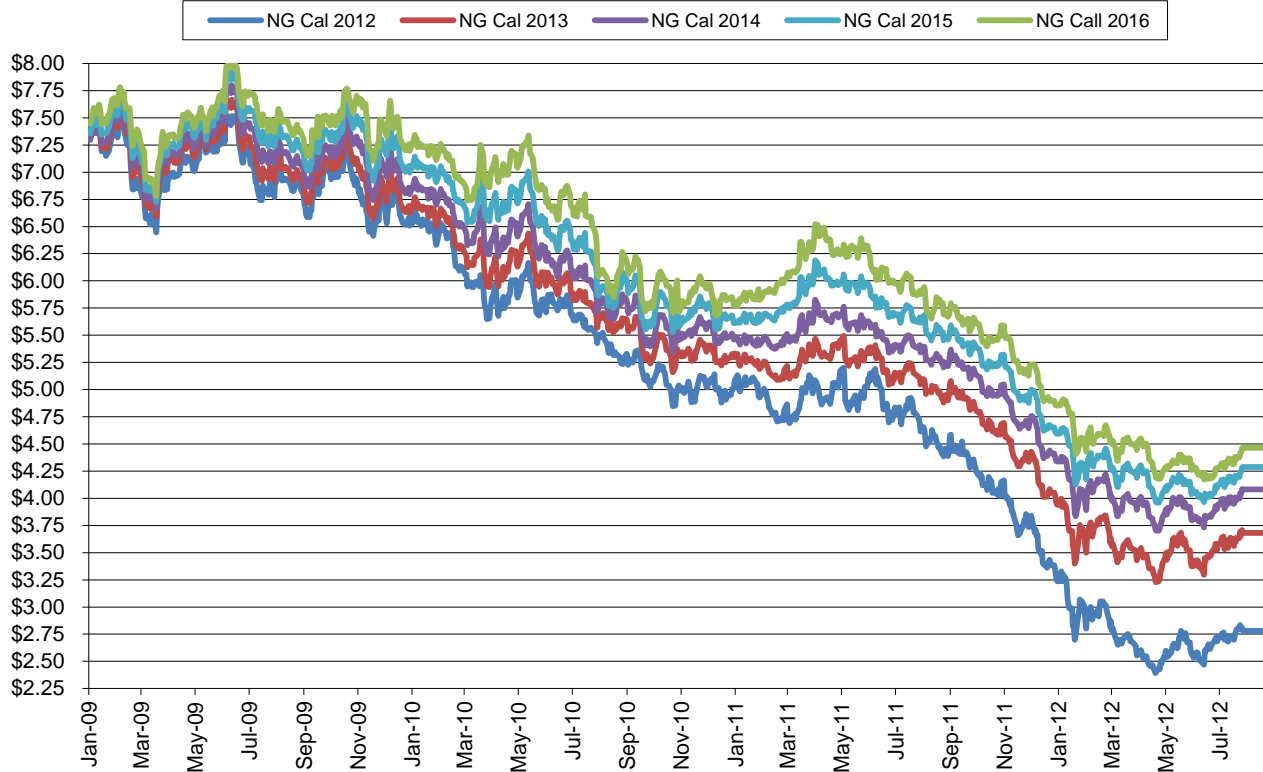
Demand Trends: Total demand rose 0.8 BCF/D to 62.9 BCF/D. Higher power and R&C demand offset lower industrial demand. Electricity demand rose 3,276 gigawatt-hrs to 92,529 which trails last year by 5,909 (6.0%) while eclipsing the 5 year average by 897 (1.0%). The market remains on pace to likely establish a new record level of electricity related natural gas consumption. Peak seasonal temperatures have now past and begin to fall rapidly in mid/late-August. Temperatures will be cooler in coming weeks, lowering demand.

Other Factors: Equity markets surged as European leaders vowed to defend the Euro and provide stability. Funding of these objectives remains uncertain.

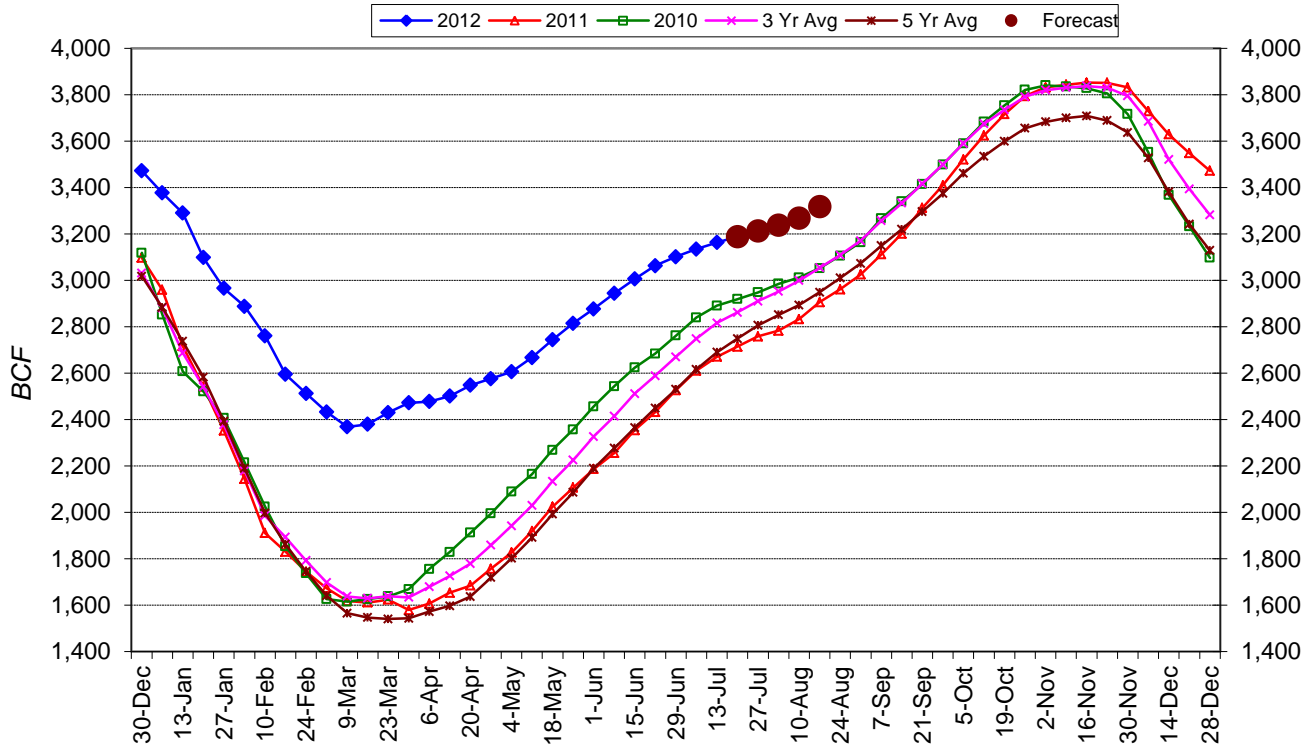
\$/MMBtu Ratio of NYMEX CL and NG



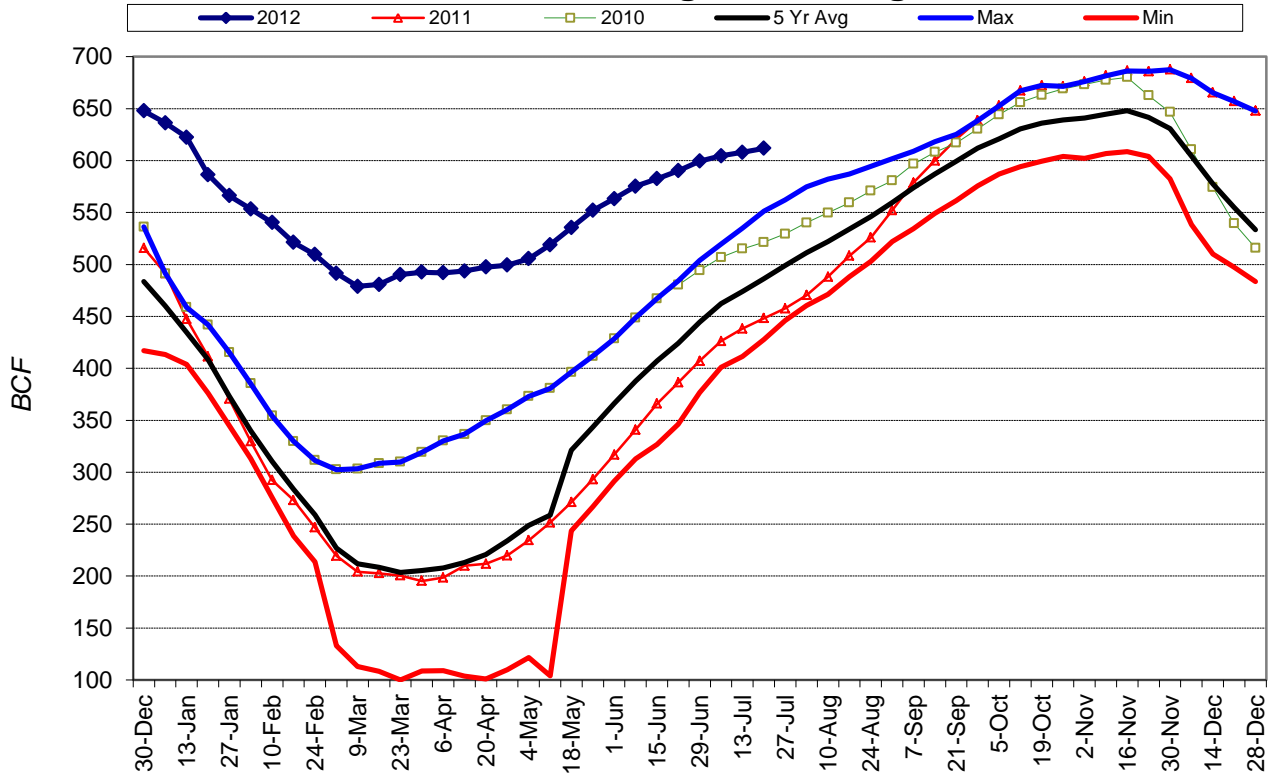
NYMEX Calendar Strips



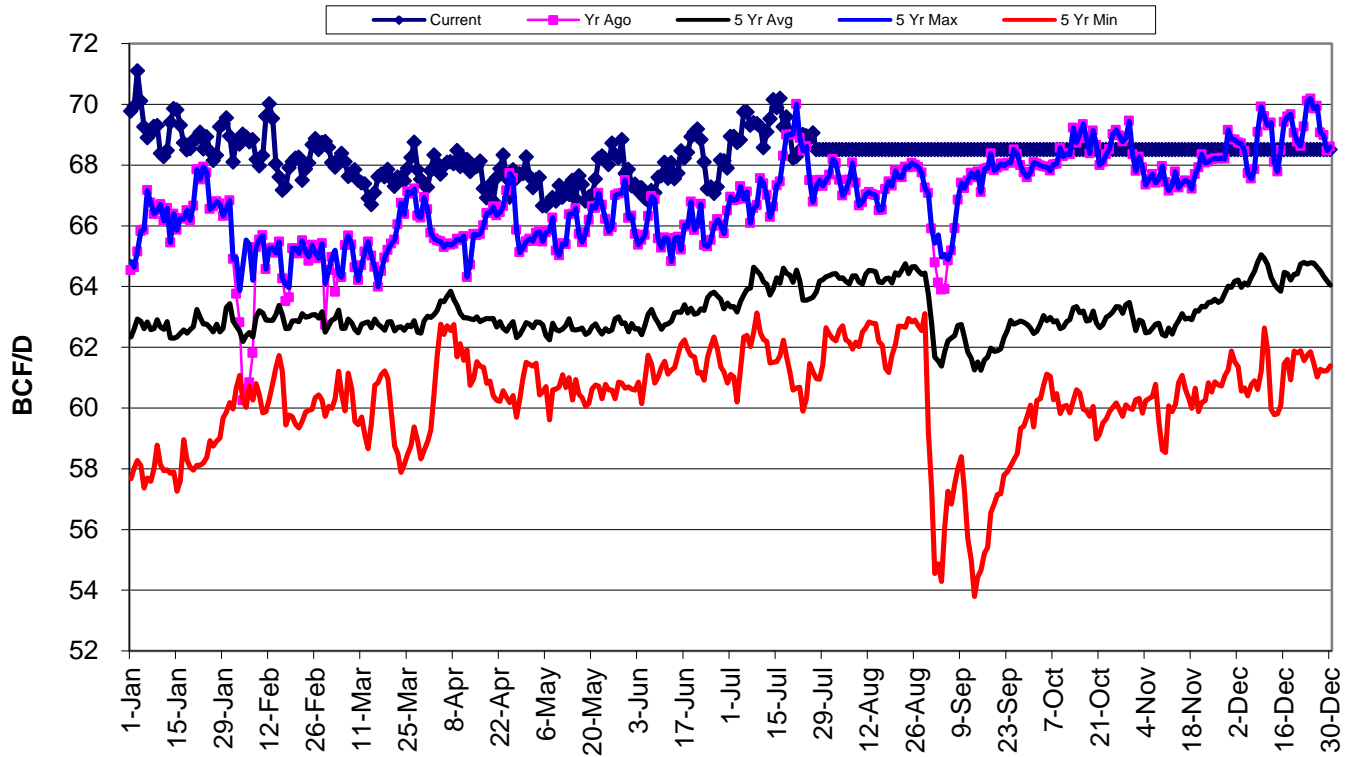
US Working Gas Storage - Source - EIA



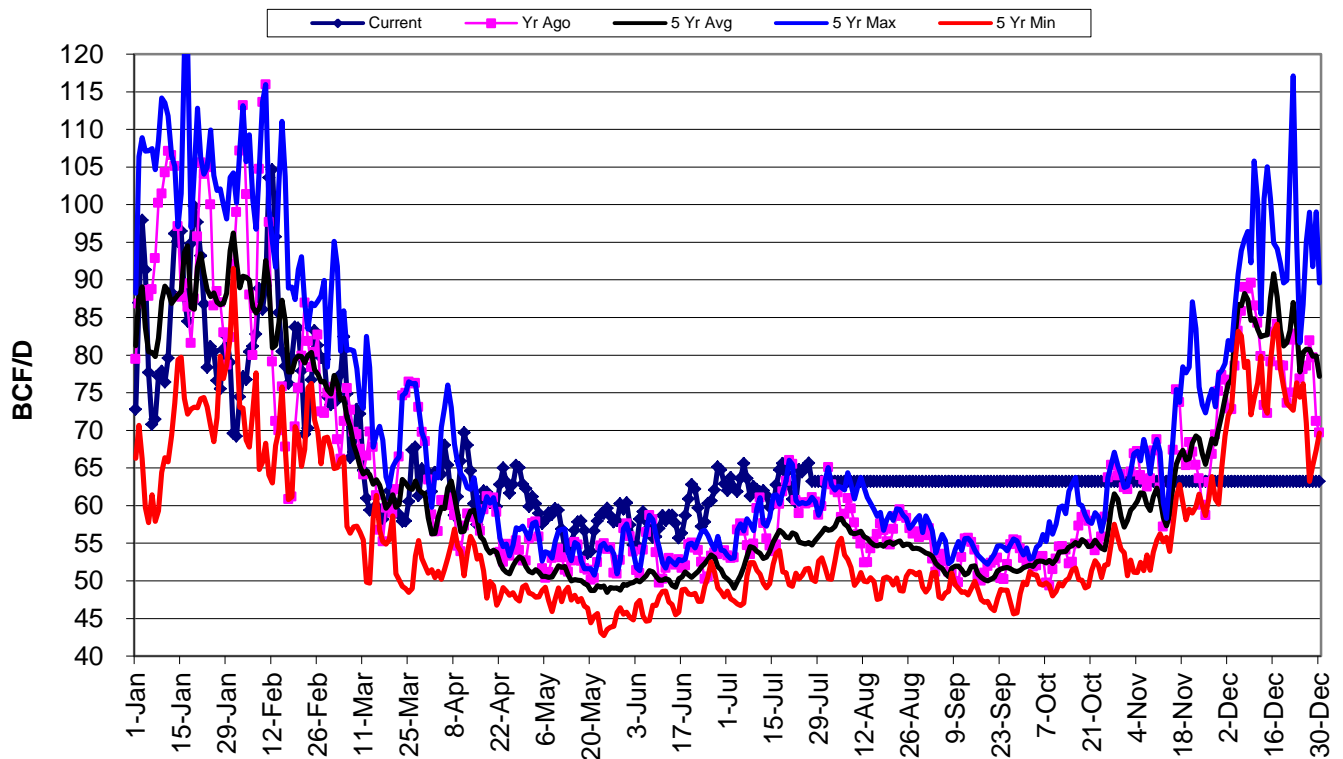
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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