

IAF Advisors
Energy Market Outlook
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Price Action: After pushing over the \$3 mark for the first time since January, the market slipped 4.8 cents (1.7%) to \$2.776 on a 31.8 cent range.

Price Outlook: The market has now moved higher for 4 consecutive weeks. Since 2000, there have been 31 times when exactly 4 consecutive weeks witnessed a new weekly high. Of those, just 14 instances experienced another new high. To establish a new weekly high would require a price of \$3.061. Considering the weak Friday close, this may prove difficult. The CFTC data was not released due to the July 4th Holiday.

Weekly Storage: US working gas storage rose 39 BCF for the week ending June 29. Current inventory levels of 3,102 BCF now rise 575 BCF (22.8%) above last year while surpassing the 5 year average by 572 BCF (22.6%).

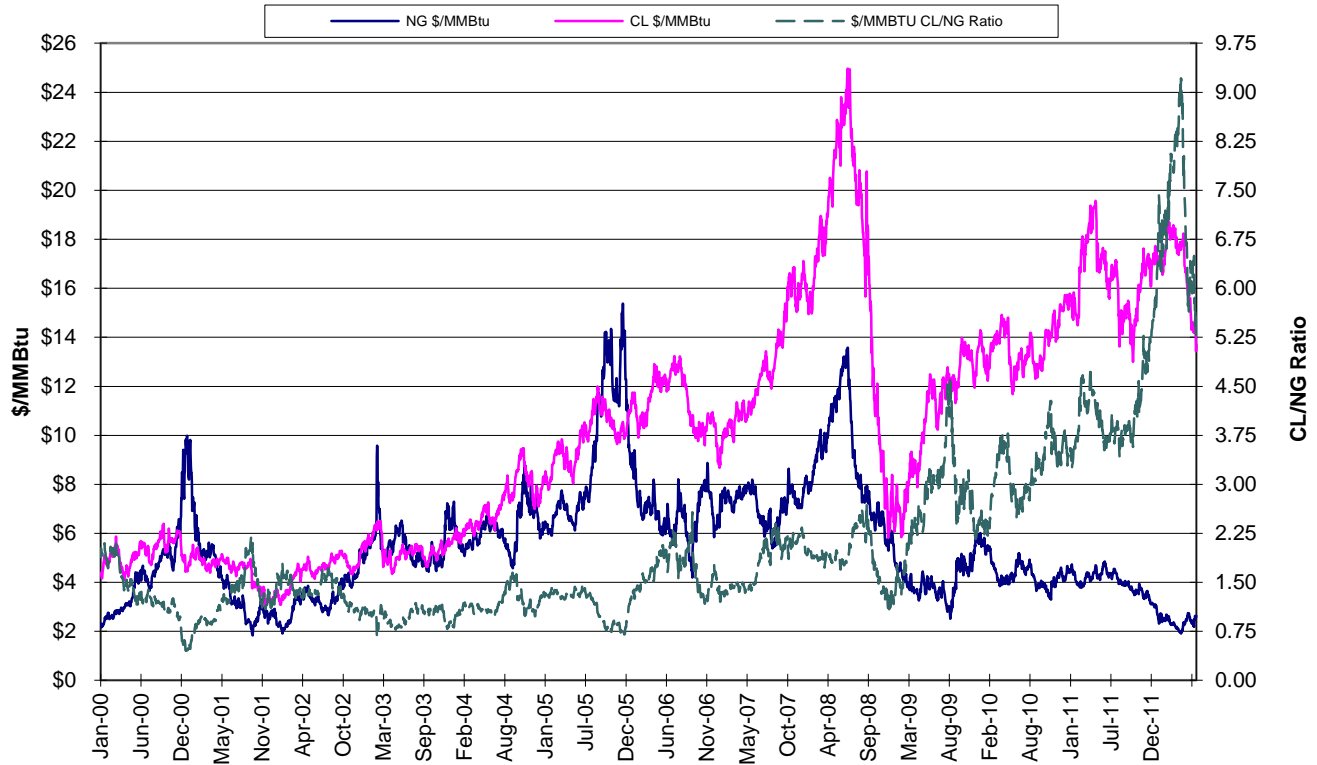
Storage Outlook: Combined with very warm temperatures and high levels of electricity generation, the still record seasonal storage level is growing at a very slow pace. While still on track to reach a record absolute level, there is less and less likelihood of widespread storage containment issues in October or November.

Supply Trends: Total supply fell 1.1 BCF/D to 67.8 BCF/D. US production fell as a result of TS Debby with other sectors little changed. The US Baker Hughes rig count rose as natural gas activity increased for the first time since mid-May. Combined with a higher Canadian count, the total North American rig count climbed 9 to 2,229, just 11 higher than last year. The higher efficiency US horizontal rig count rose 3 and at 1,174 remains 101 higher YOY.

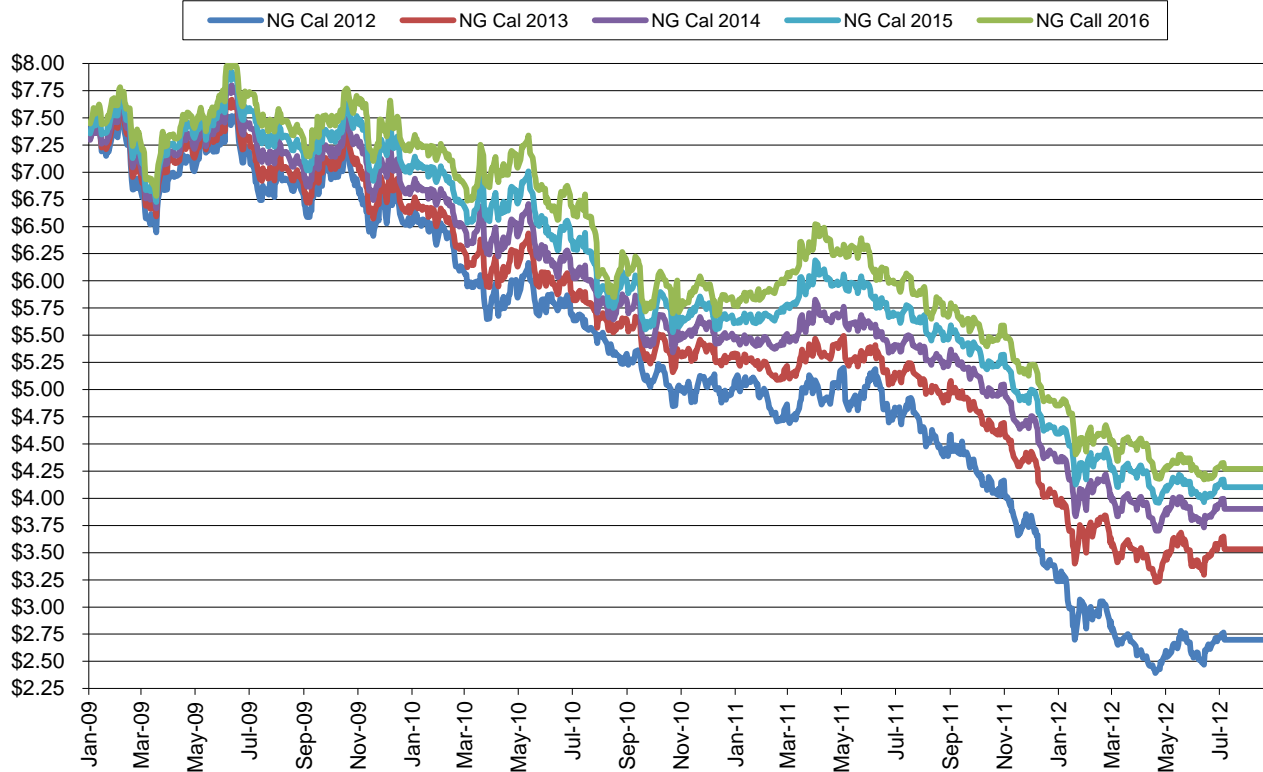
Demand Trends: Total demand rose 1.7 BCF/D to 61.1 BCF/D. Higher power demand yet again overcame lower R&C and industrial demand. Electricity demand rose 1,664 gigawatt-hrs to 87,966 which exceeds last year by 3,358 (4.0%) and the 5 year average by 2,493 (2.9%). Based on power burn levels thus far and current temperature forecasts, July is on pace to likely establish a new record level of electric generation natural gas consumption. If prices return above \$3, or if temperatures moderate significantly from the current forecast, this situation may not materialize. The market response to the lower than expected storage report was somewhat surprising. However, due to the physical relationship to relative coal prices, the failure to remain above \$3 is more understandable. The primary bullish market factor remains the high level of natural gas consumption by the electric generation sector. At \$3, there are likely numerous coal units that would again become competitive and possibly reduce natural gas demand.

Other Factors: Equity markets slipped as disappointing US jobs data reiterated the reality of a very sluggish US economy.

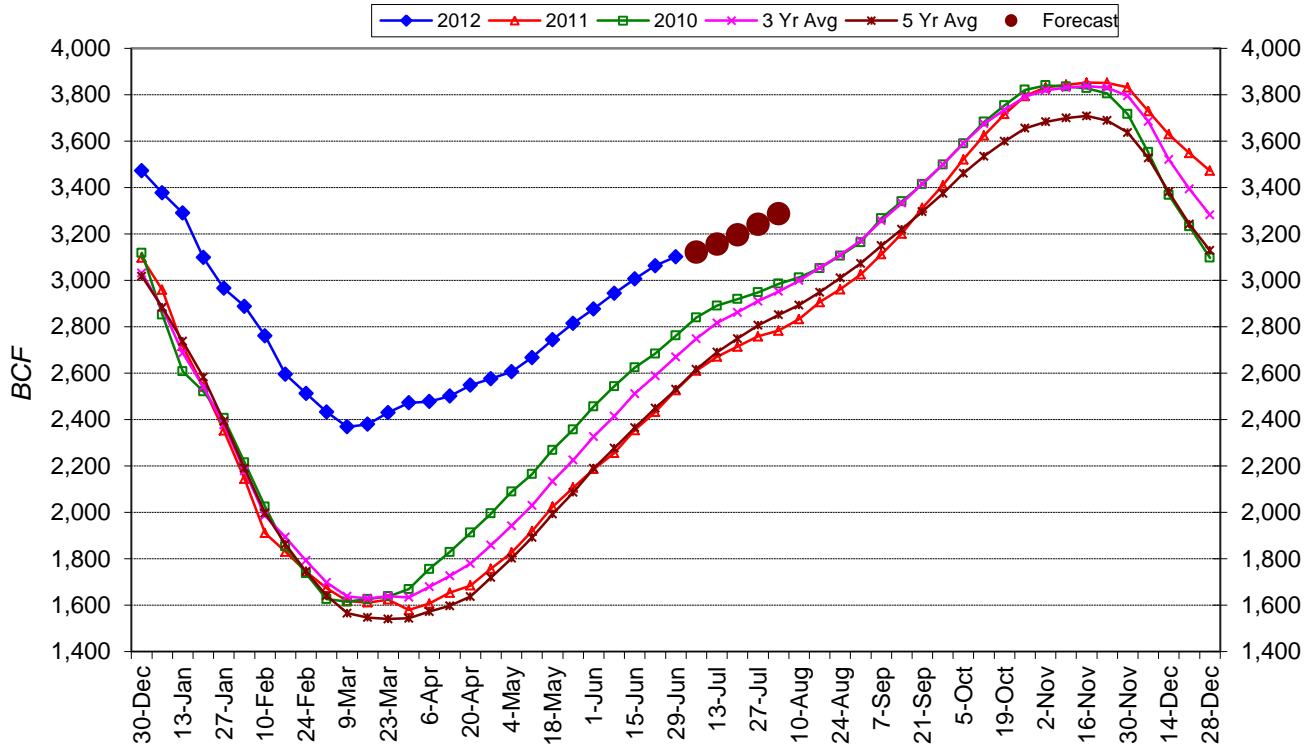
\$/MMBtu Ratio of NYMEX CL and NG



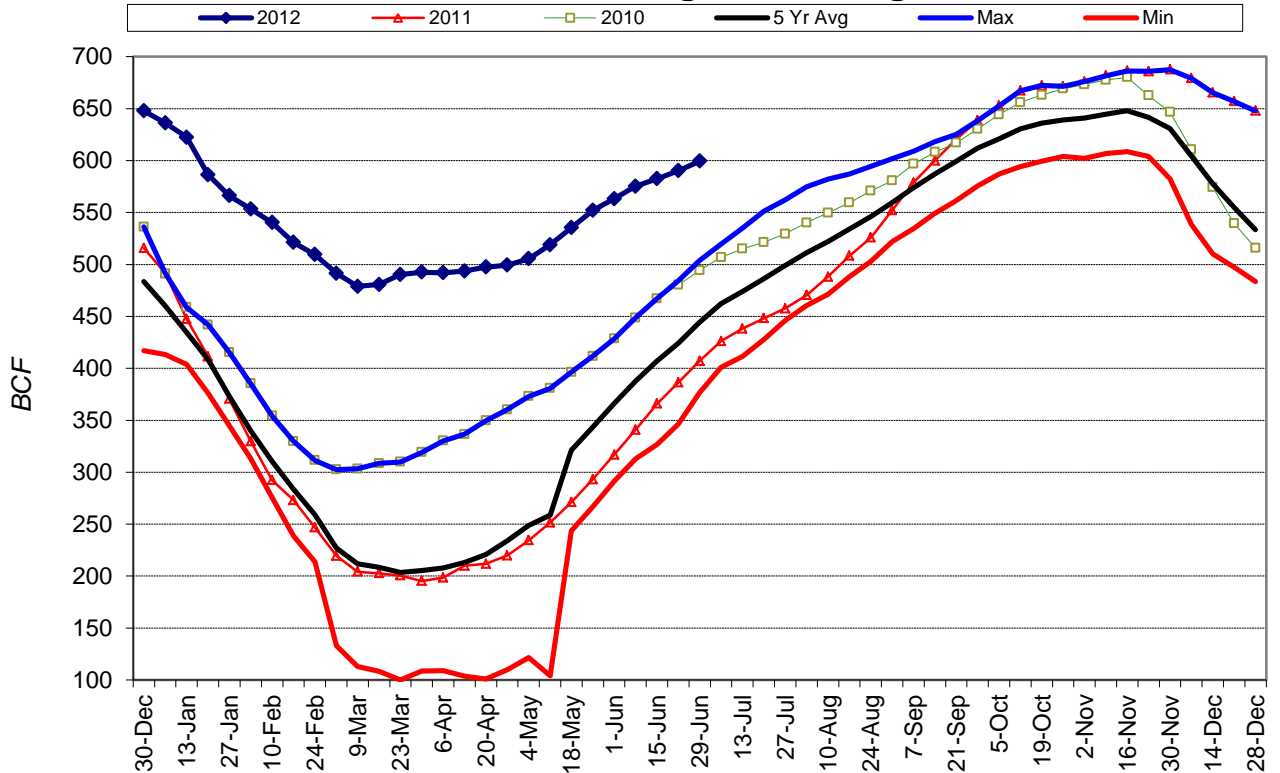
NYMEX Calendar Strips



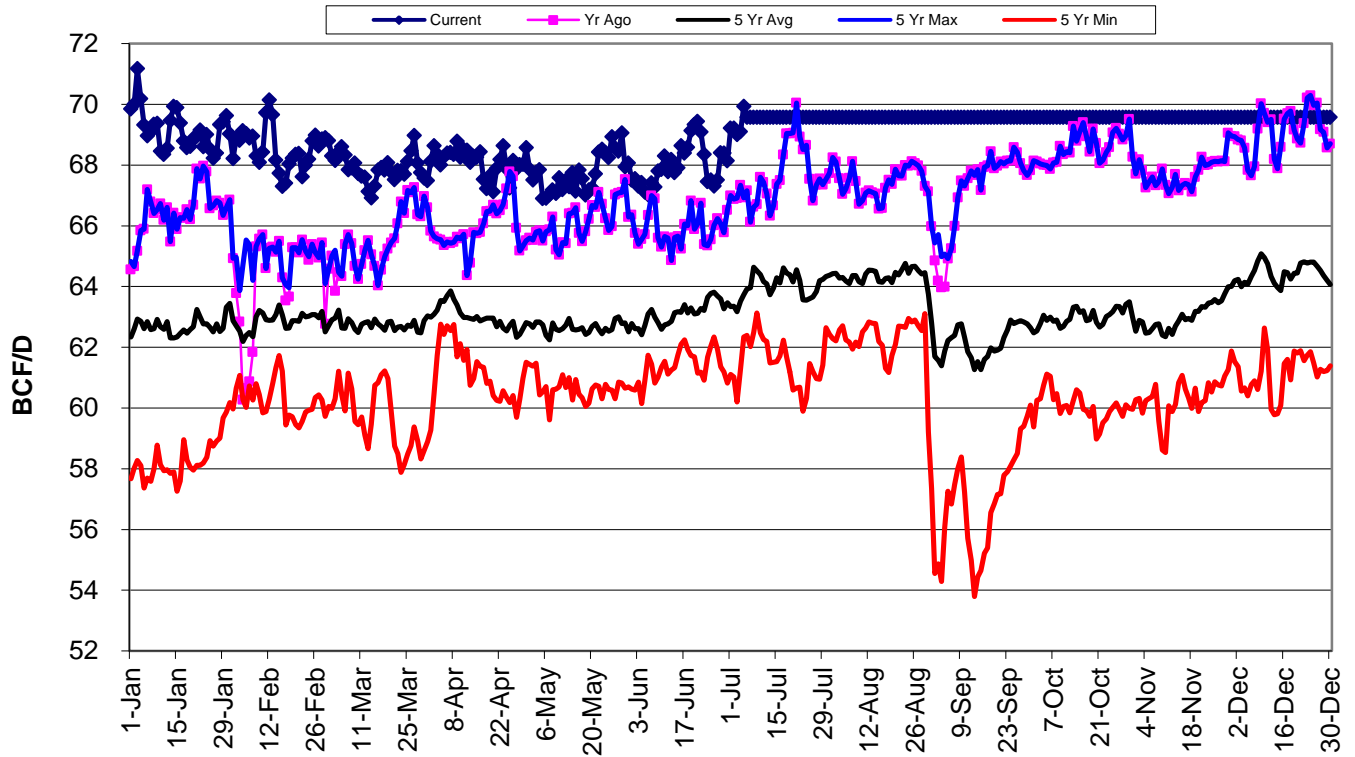
US Working Gas Storage - Source - EIA



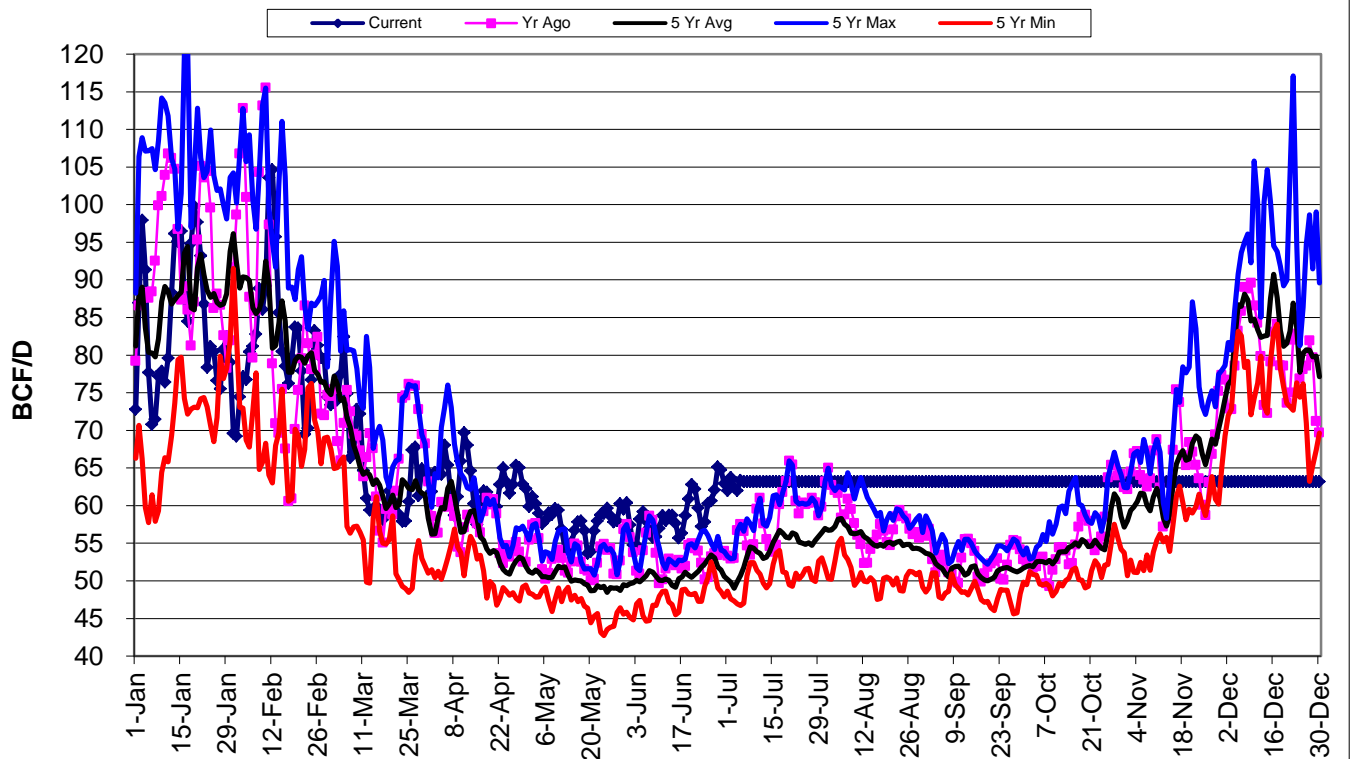
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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