IAF Advisors
Energy Market Outlook
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Price Action: The market failed to breach the $3 level, despite rising 9.8 cents (3.5%) to $2.874 on a 20.2 cent range.

Price Outlook: **The market could not establish a new weekly high. Rather a new low was established before rebounding as prices remain quite range bond in the upper $2 level. It will only take a $2.921 print to establish a new weekly high and this seems the likely scenario considering Friday's close and the weather forecasts. The market response to the higher than expected storage report was in stark contrast to last week. Although the market initially fell, prices rebounded to establish the weekly high and close stronger on the day. Market sentiment seems uncommitted with a distinct lack of conviction. Sustained prices above $3 remain elusive while selling below $2.75 also is limited. The market may well remain in this very tight 25 cent range until more definitive fundamental factors arise. The CFTC data indicated a substantial increase in the net speculative length since late June. However, total interest remains well below the recent peak.**

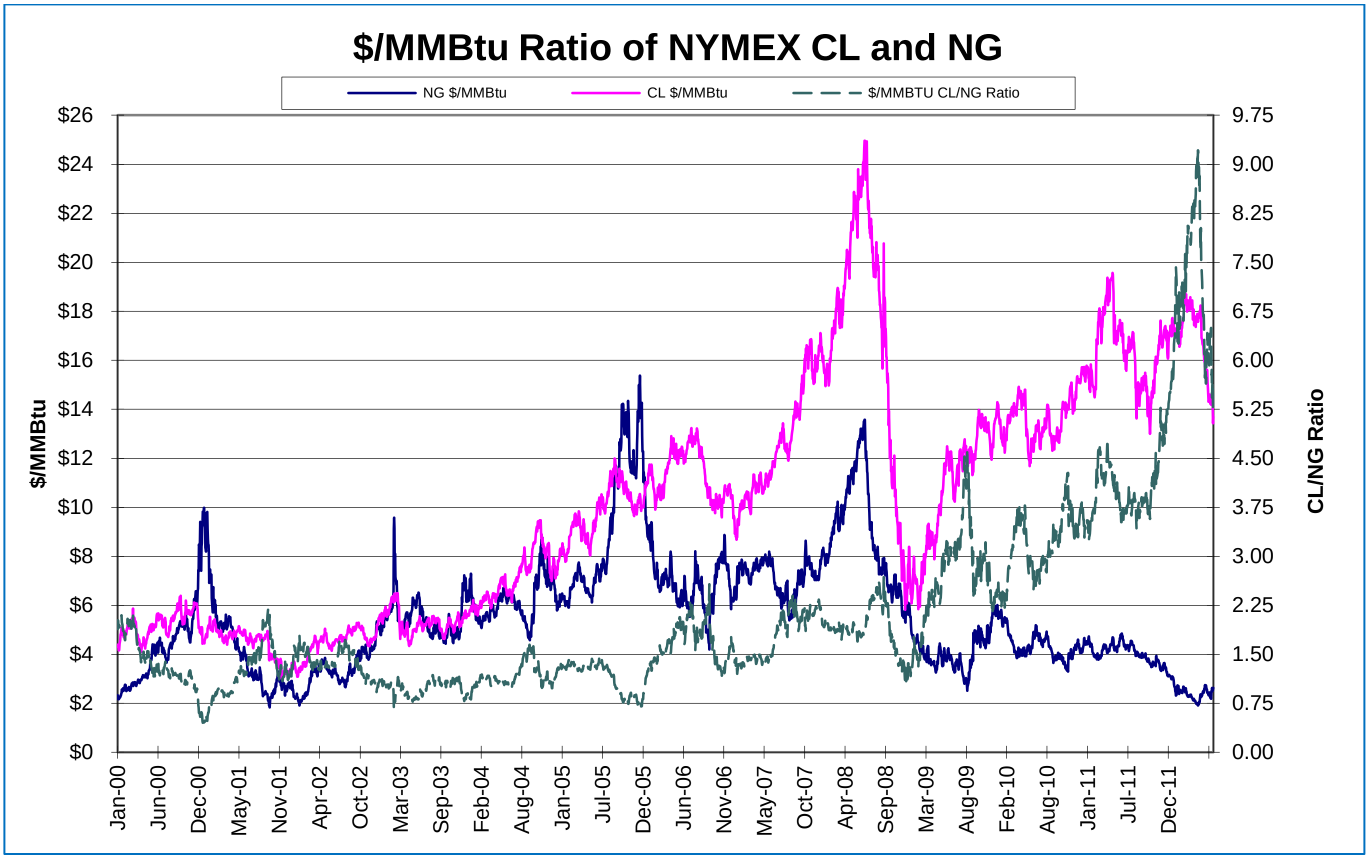
Weekly Storage: US working gas storage rose 33 BCF for the week ending July 6. Current inventory levels of 3,135 BCF now rise 524 BCF (20.1%) above last year while surpassing the 5 year average by 519 BCF (19.8%). The higher than expected storage inventory injection was due to moderate temperatures in Texas and an always difficult to quantify July 4th Holiday effect.

Storage Outlook: **Storage injections remain well below seasonal norms and the YOY surplus should fall to the mid 400 BCF range by August. The surplus to the 5 year average may drop to near 400 BCF by early August.**

Supply Trends: Total supply rose 1.4 BCF/D to 69.0 BCF/D. US production rebounded with both Canadian and LNG imports also higher. The US Baker Hughes rig count followed the recent pattern of lower natural gas activity offsetting rising oil development. A higher Canadian count did lift the total North American rig count 20 to 2,229, now 50 lower than last year. **This is the first North American YOY activity deficit since January 2010. The higher efficiency US horizontal rig count fell 8 and at 1,166 remains 80 higher YOY.**

Demand Trends: Total demand rose 2.0 BCF/D to 63.1 BCF/D. Higher power demand yet again overcame lower R&C and industrial demand. Electricity demand rose 5,065 gigawatt-hrs to 93,031 which exceeds last year by 4,747 (5.4%) and the 5 year average by 8,714 (2.9%). **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 little changed as uncertainty grips sentiment. Numerous government bonds have traded with negative interest rates, underscoring the fear in the marketplace.


$/MMBtu Ratio of NYMEX CL and NG
NG $/MMBtu
CL $/MMBtu
$/MMBTU CL/NG Ratio
$/MMBtu
CL/NG Ratio
$26
$24
$22
$20
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
9.75
9.00
8.25
7.50
6.75
6.00
5.25
4.50
3.75
3.00
2.25
1.50
0.75
0.00
Jan-00
Jun-00
Dec-00
May-01
Nov-01
Apr-02
Oct-02
Mar-03
Sep-03
Feb-04
Aug-04
Jan-05
Jul-05
Dec-05
Jun-06
Nov-06
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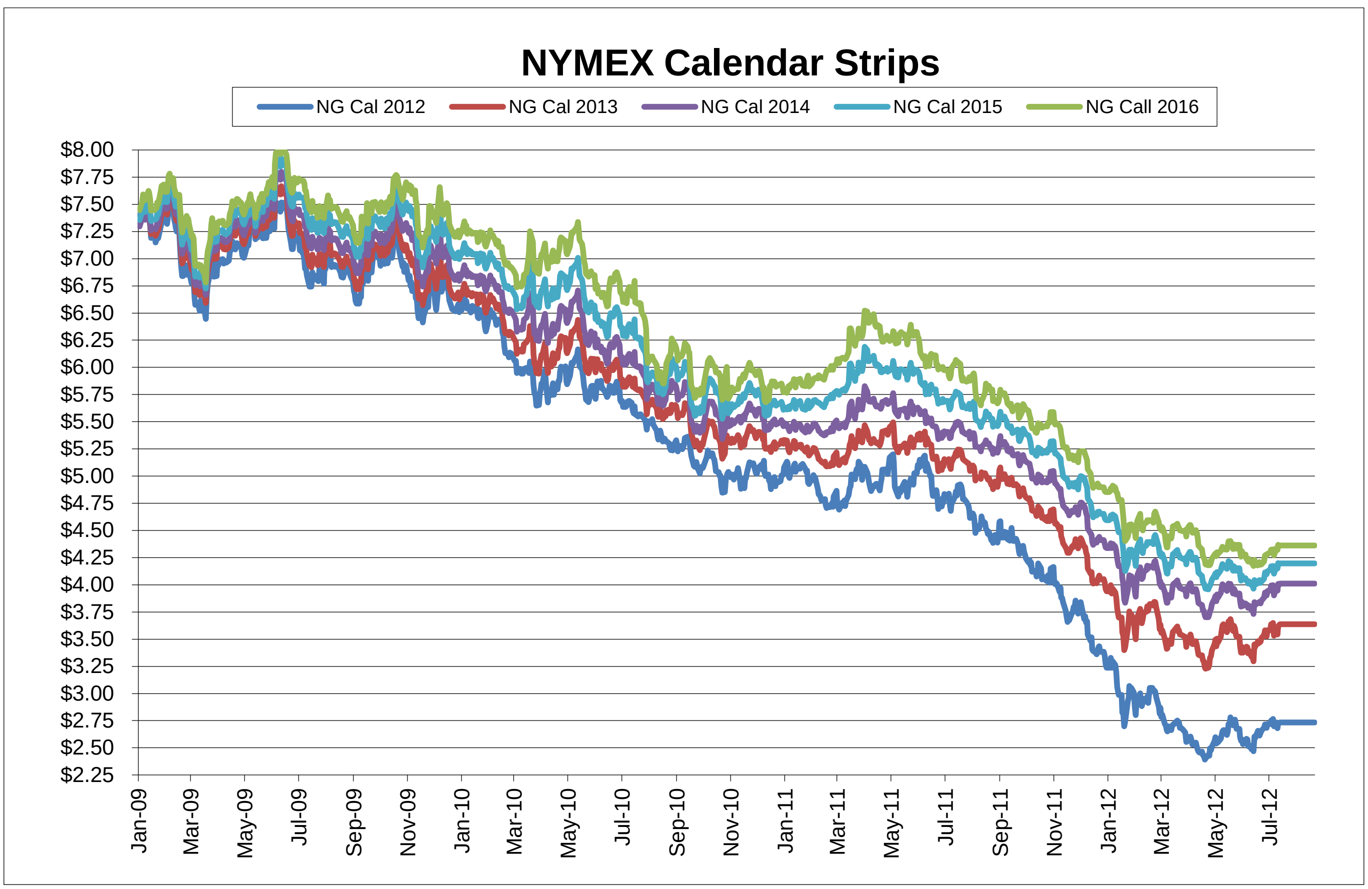
Aug-09
Feb-10
Aug-10
Jan-11
Jul-11
Dec-11


NYMEX Calendar Strips
NG Cal 2012
NG Cal 2013
NG Cal 2014
NG Cal 2015
NG Call 2016
$8.00
$7.75
$7.50
$7.25
$7.00
$6.75
$6.50
$6.25
$6.00
$5.75
$5.50
$5.25
$5.00
$4.75
$4.50
$4.25
$4.00
$3.75
$3.50
$3.25
$3.00
$2.75
$2.50
$2.25
Jan-09
Mar-09
May-09
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
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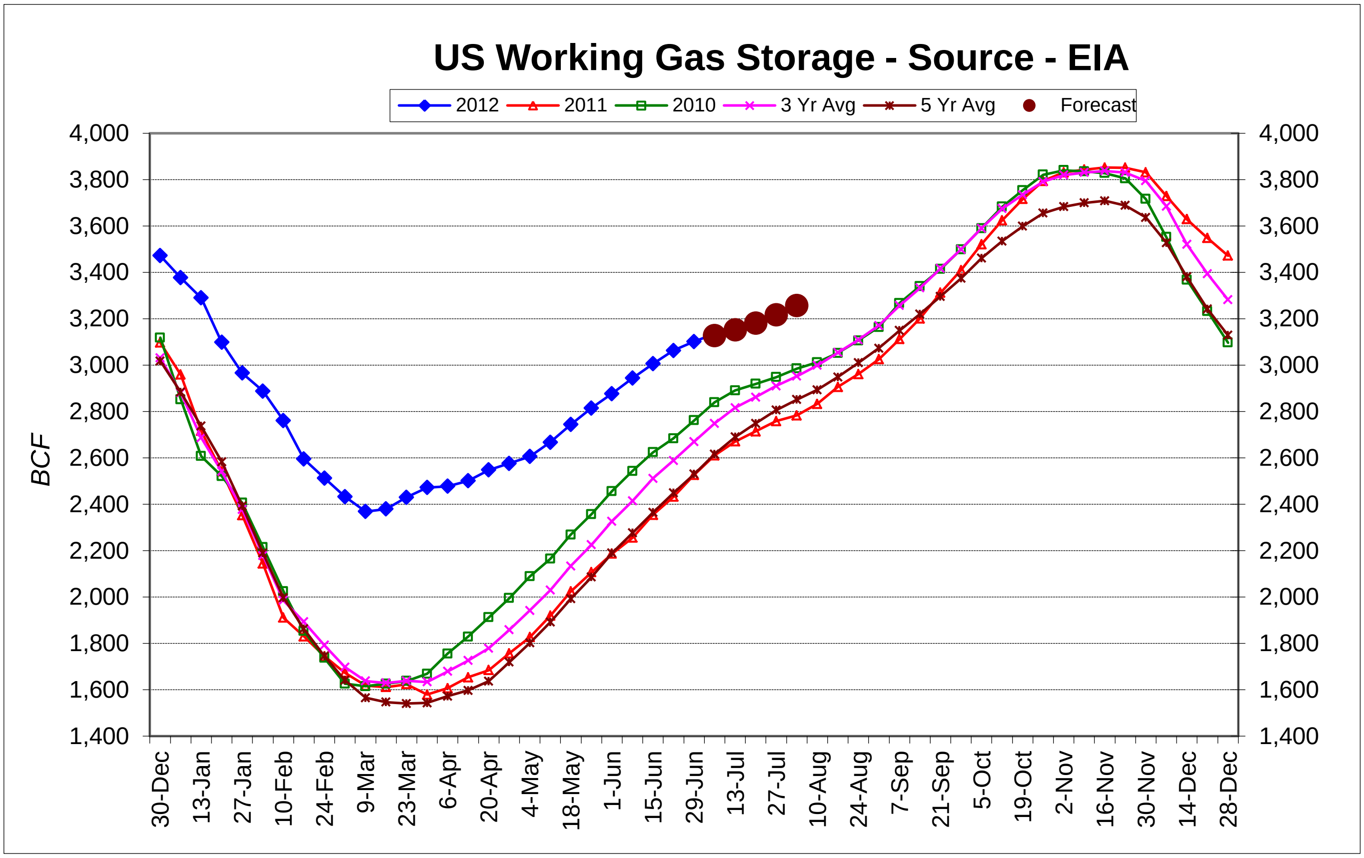
Mar-12
May-12
Jul-12



US Working Gas Storage - Source - EIA
2012
2011
2010
3 Yr Avg
5 Yr Avg
Forecast
BCF
4,000
3,800
3,600
3,400
3,200
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
30-Dec
13-Jan
27-Jan
10-Feb
24-Feb
9-Mar
23-Mar
6-Apr
20-Apr
4-May
18-May
1-Jun
15-Jun
29-Jun
13-Jul
27-Jul
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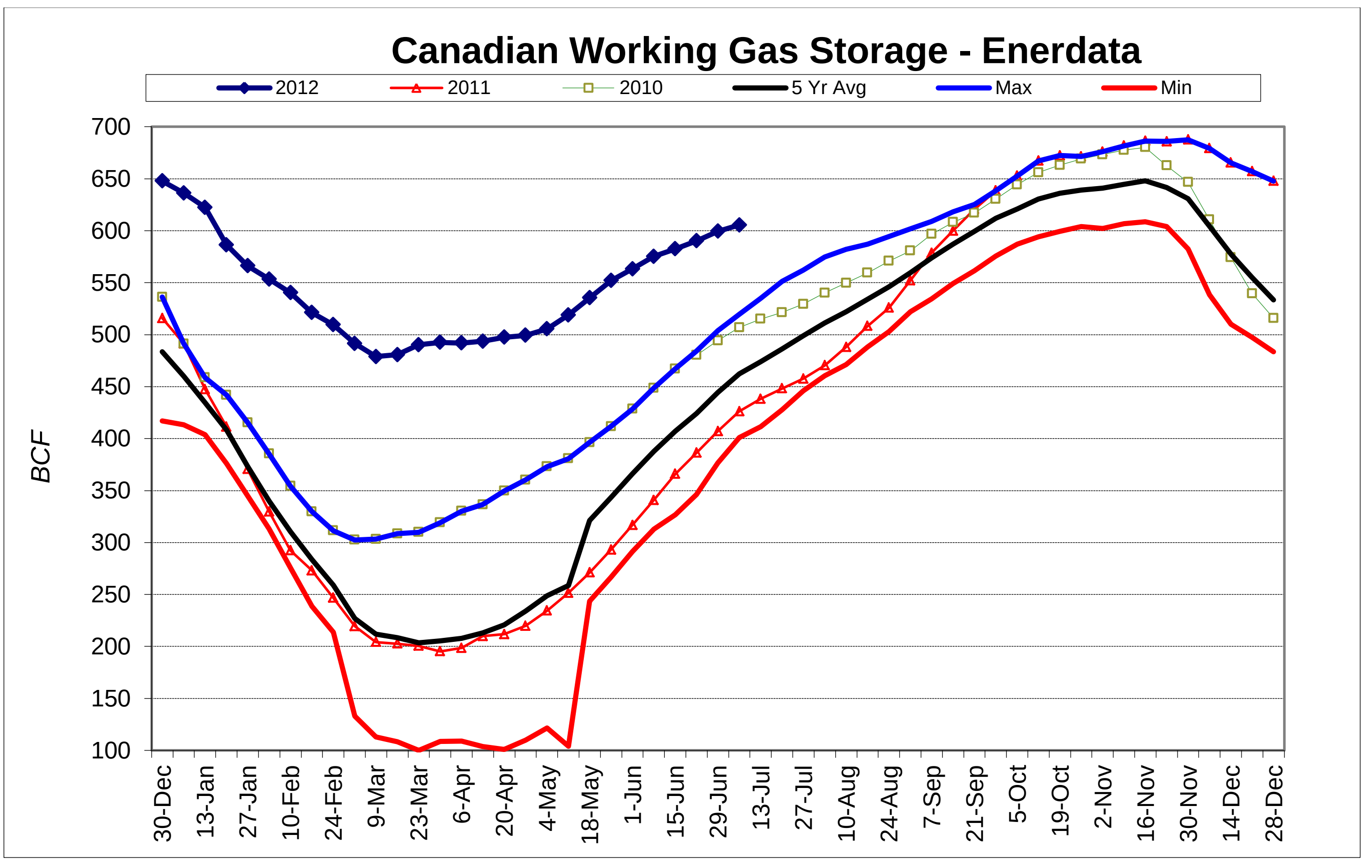
16-Nov
30-Nov
14-Dec
28-Dec



Canadian Working Gas Storage - Enerdata
2012
2011
2010
5 Yr Avg
Max
Min
BCF
700
650
600
550
500
450
400
350
300
250
200
150
100
30-Dec
13-Jan
27-Jan
10-Feb
24-Feb
9-Mar
23-Mar
6-Apr
20-Apr
4-May
18-May
1-Jun
15-Jun
29-Jun
13-Jul
27-Jul
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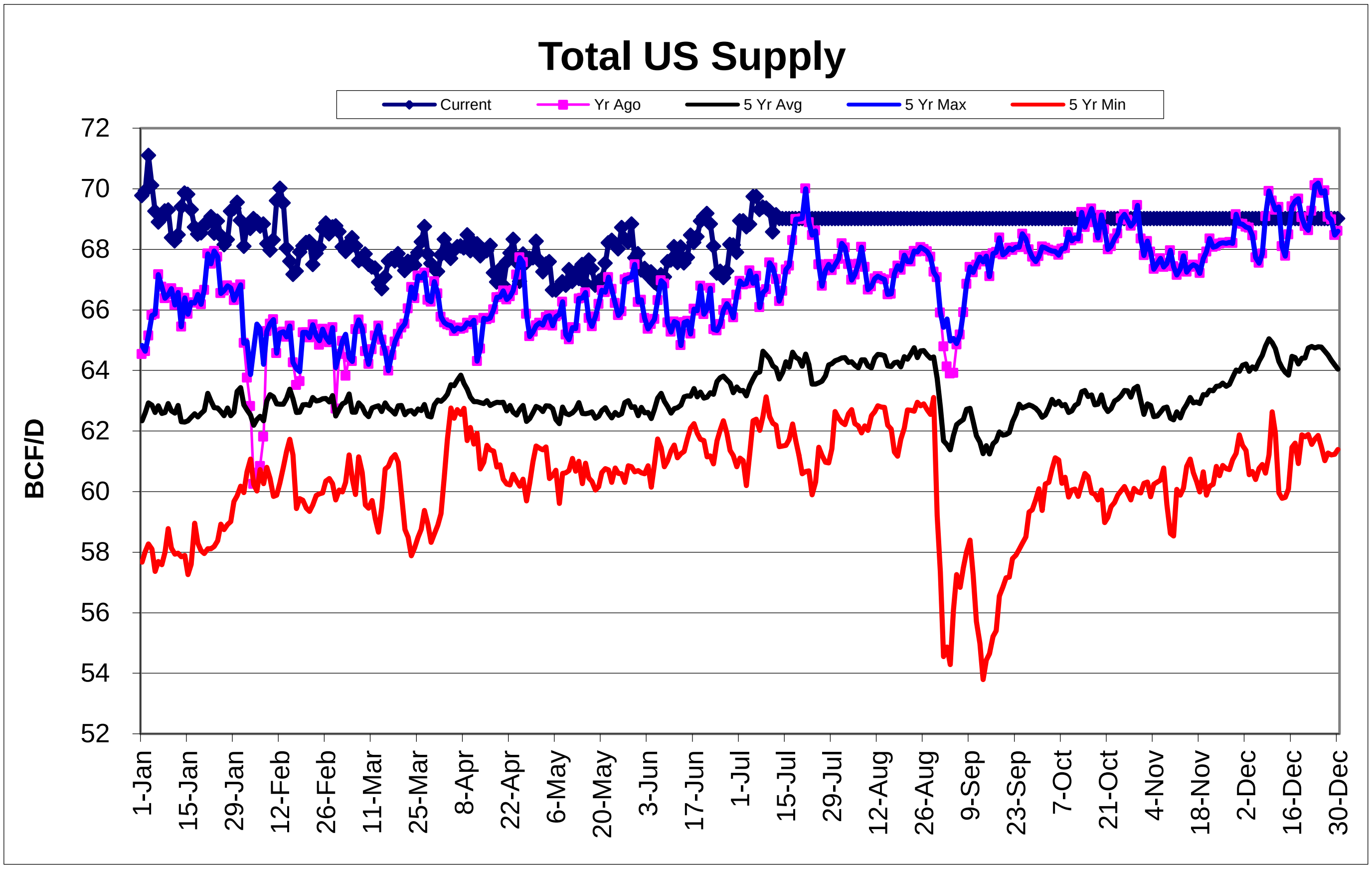
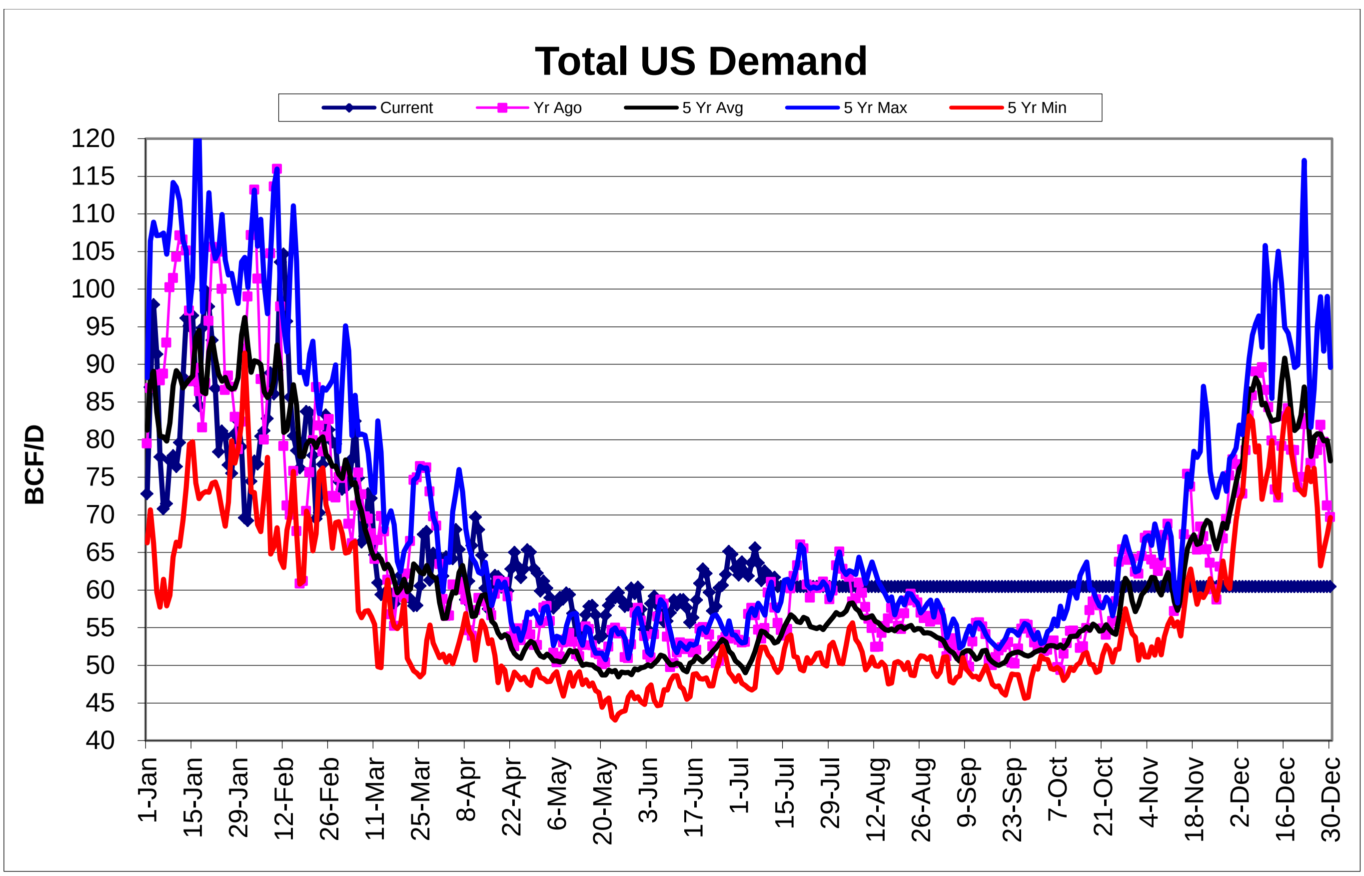
30-Nov
14-Dec
28-Dec





ADDITIONAL INFORMATION AVAILABLE UPON REQUEST