

IAF Advisors
Energy Market Outlook
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Price Action: Although prices surged to a new multi-month high of \$3.277, the strength could not be maintained and prices fell 13.3 cents (4.4%) to \$2.877 on a 43.7 cent range.

Price Outlook: Natural gas is historically volatile and has a strong tendency to move either up or down. A rarity occurred last week with prices establishing a new weekly high early in the week, only to collapse by the end and also make a new weekly low. Considering the weak close, it is considered likely a new weekly low is in store for the upcoming week. CFTC data indicated a small drop in the net long position. It should be noted this data is as of Tuesday, July 31, the day the contract reached a new weekly high. Thus, the recent weakness and the break back below the psychological \$3 level could result in long liquidation. Total open interest plummeted below 5.3 million contracts.

Weekly Storage: US working gas storage rose 28 BCF for the week ending July 27. Current inventory levels of 3,217 BCF now rise 459 BCF (16.6%) above last year while surpassing the 5 year average by 411 BCF (14.6%).

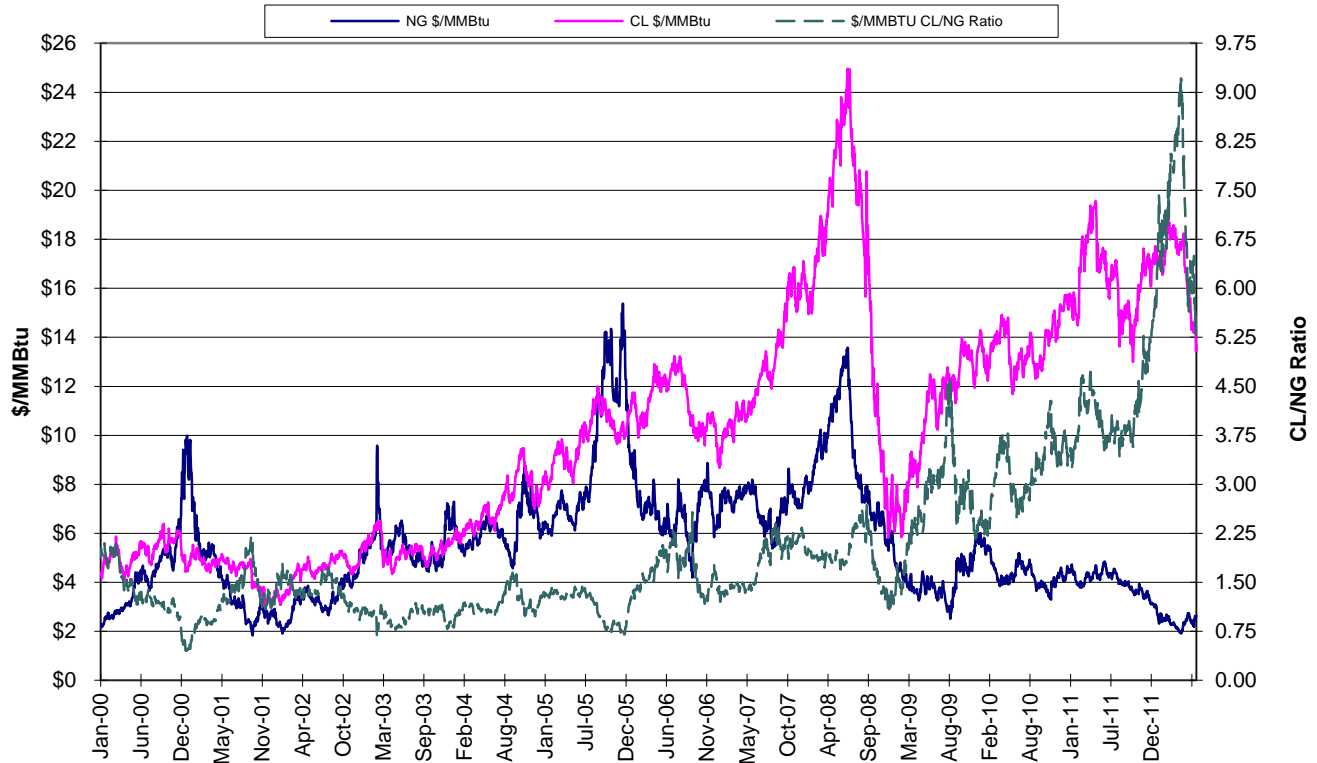
Storage Outlook: The absolute storage levels remain quite bearish. Only 2009 witnessed end of July inventory levels above even 3,000 BCF. 2009 was also the only year that August inventories eclipsed 3,200 BCF. The projected end of August inventories above 3,400 BCF will still establish a new seasonal maximum. Thus, despite a significant and projected continual reduction in the storage surplus, the absolute level remains on a track for a new record high.

Supply Trends: Total supply fell 0.7 BCF/D to 68.8 BCF/D. US production and Canadian imports fell while Mexican exports rose, each contributing to the supply drop. The US Baker Hughes 2012 trend of higher oil activity and lower natural gas activity remained intact. The US natural gas rig count of 498 has not been this low since July 1999. However, an unexpected drop in the Canadian count lead to a lower total North American rig count. At 2,233, the total North American rig count now trails last year by 119. The higher efficiency US horizontal rig count rose 4 and at 1,155 remains 56 higher YOY.

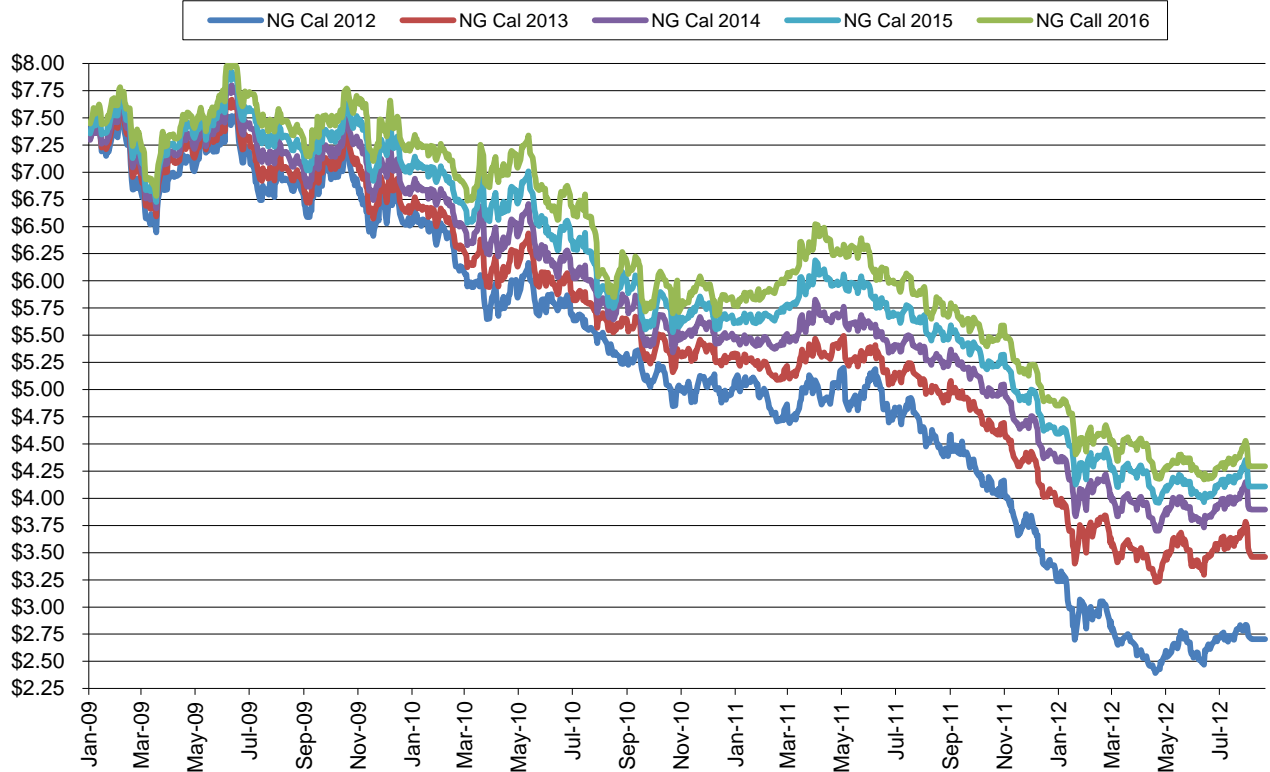
Demand Trends: Total demand rose 0.6 BCF/D to 63.4 BCF/D. Higher power demand offset lower R&C demand with industrial consumption effectively unchanged. Electricity demand rose 1,734 gigawatt-hrs to 94,263 which trails last year by 2,349 (2.4%) while eclipsing the 5 year average by 4,273 (4.7%). Peak 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 the US jobs report was much better than expectations. However, the report likely substantially reduces the possibility of new Federal Reserve monetary stimulus.

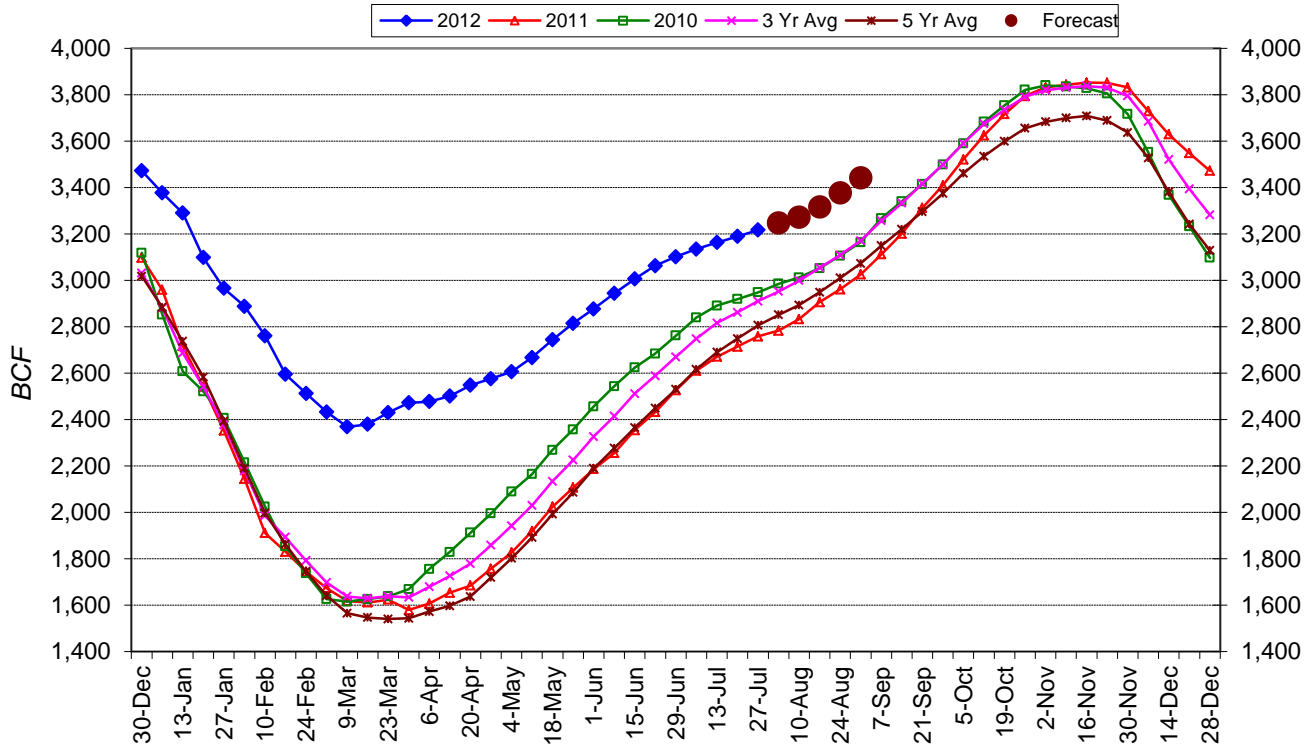
\$/MMBtu Ratio of NYMEX CL and NG



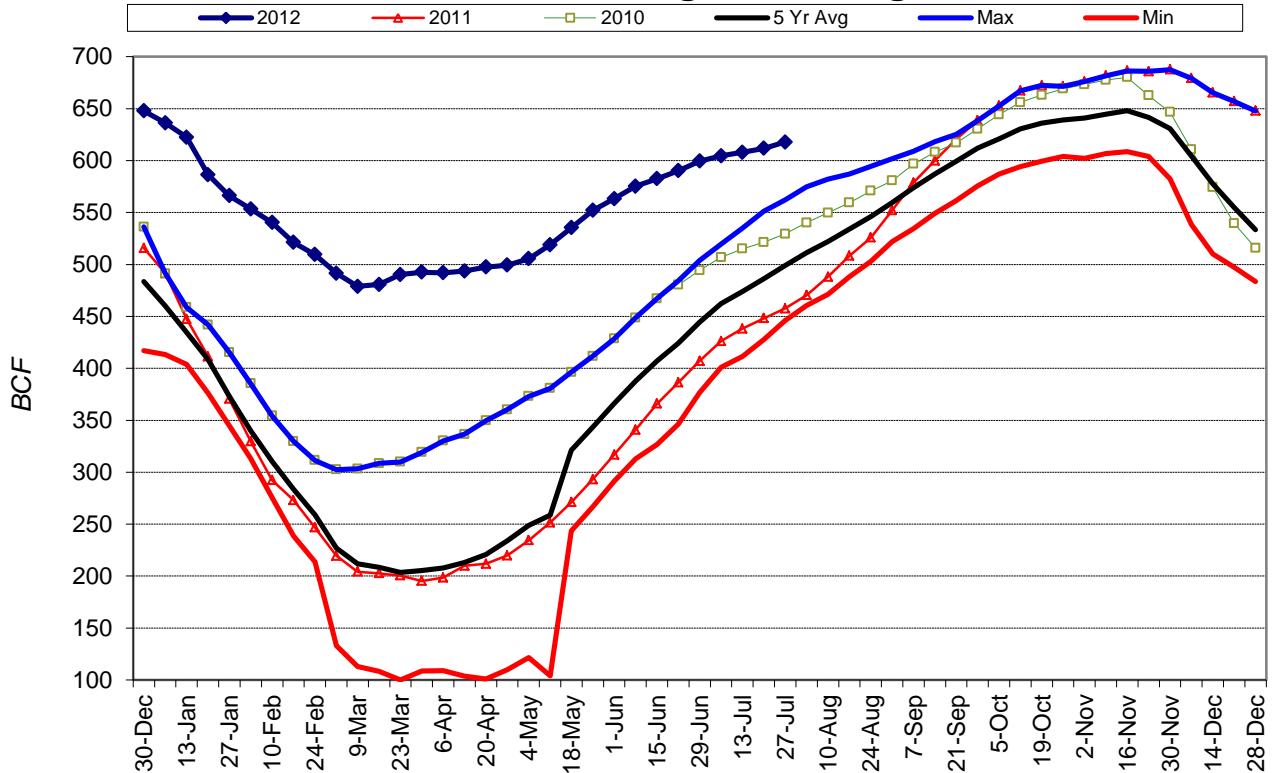
NYMEX Calendar Strips



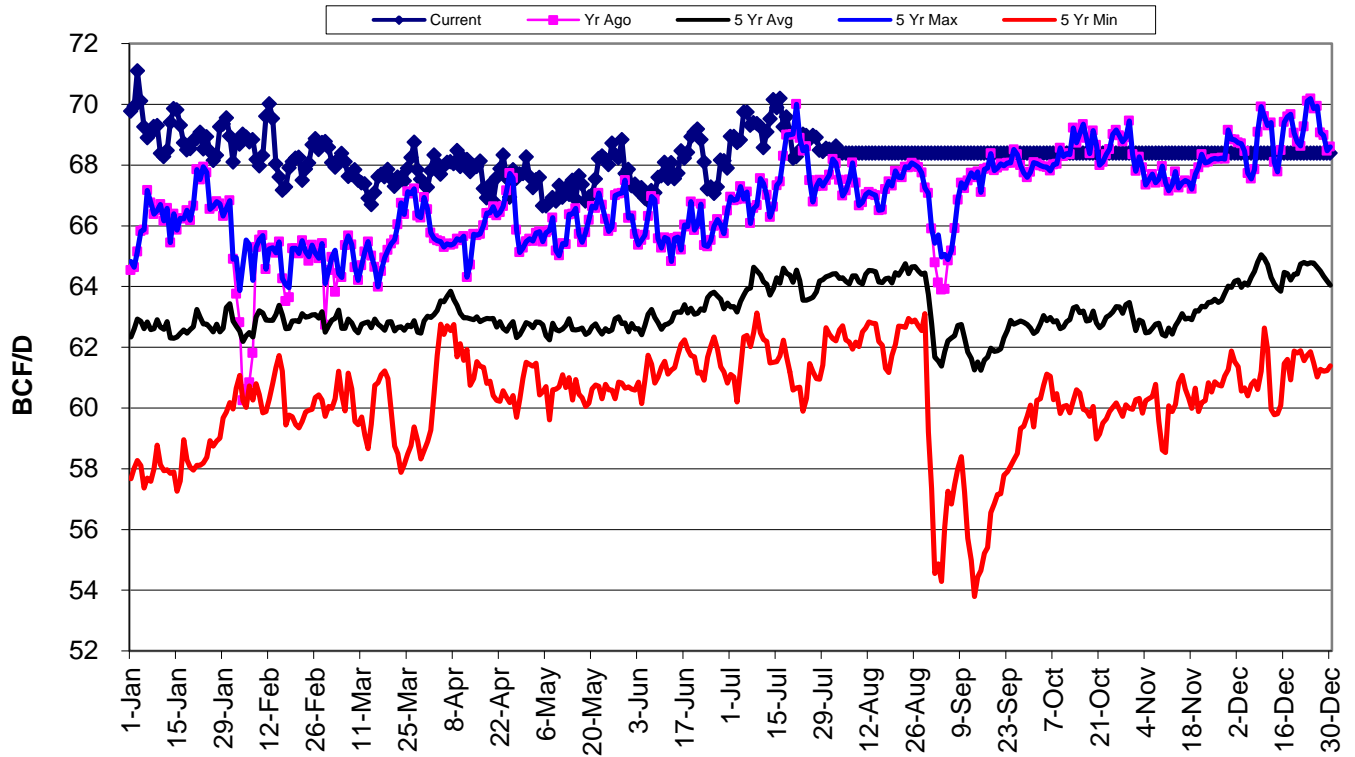
US Working Gas Storage - Source - EIA



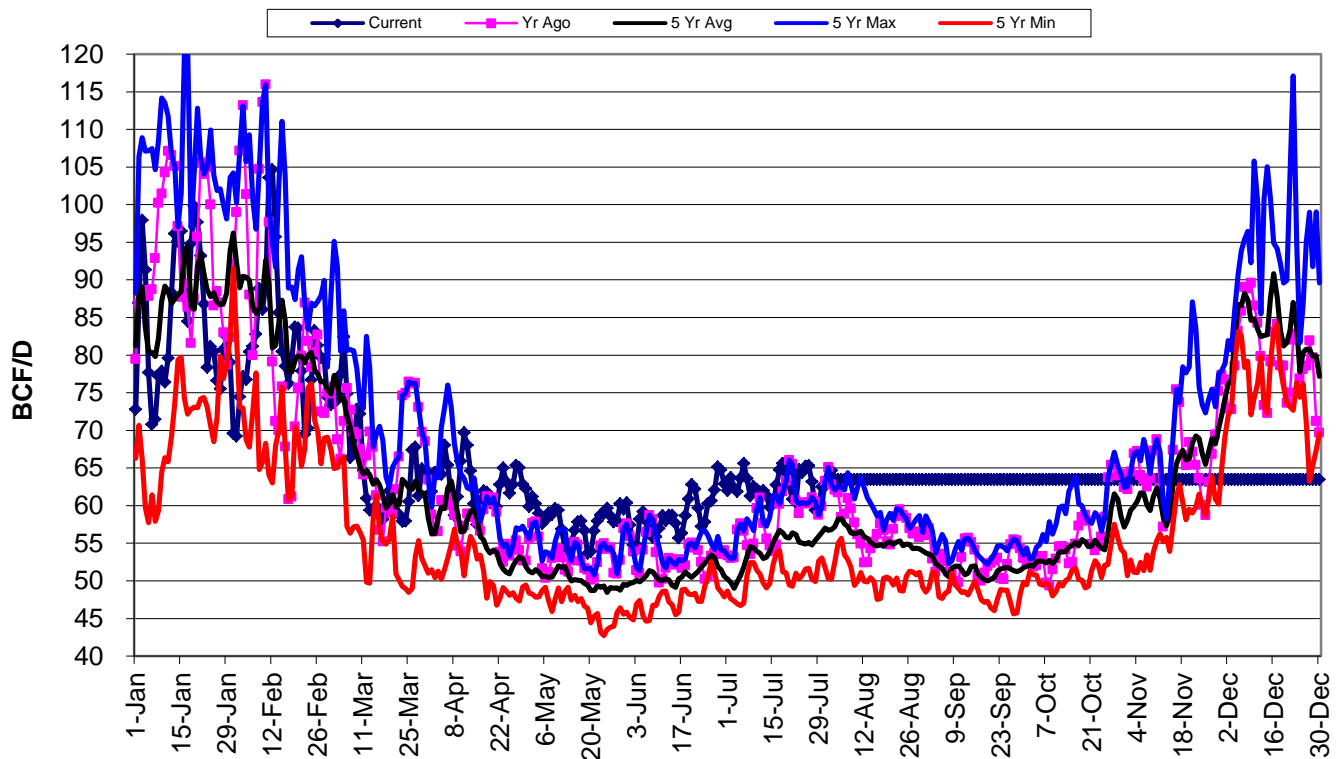
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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