

IAF Advisors
Energy Market Outlook
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Price Action: Although prices surged after a lower than expected storage injection, prices could not maintain the strength and ended weakly. Prices fell 10.7 cents (3.7%) to \$2.770 on a 36.0 cent range.

Price Outlook: For data beginning in 2000, 75 weeks have seen a new low only two weeks in a row. Of those 75 weeks, 48 established another new low in the third week. Considering the close of \$2.770 and the need to only print a \$2.759 for a new weekly low, it is considered likely a new weekly low is in store for the upcoming week. CFTC data indicated a rather significant drop in the speculative net long position. It appears the failure to move higher and sustain recent upward momentum proved detrimental to psychology and price. Total open interest fell further below 5.3 million contracts as of August 7. Further net long liquidation may lead to additional weakness.

Weekly Storage: US working gas storage rose 24 BCF for the week ending August 3. Current inventory levels of 3,241 BCF now rise 458 BCF (16.5%) above last year while surpassing the 5 year average by 390 BCF (13.7%).

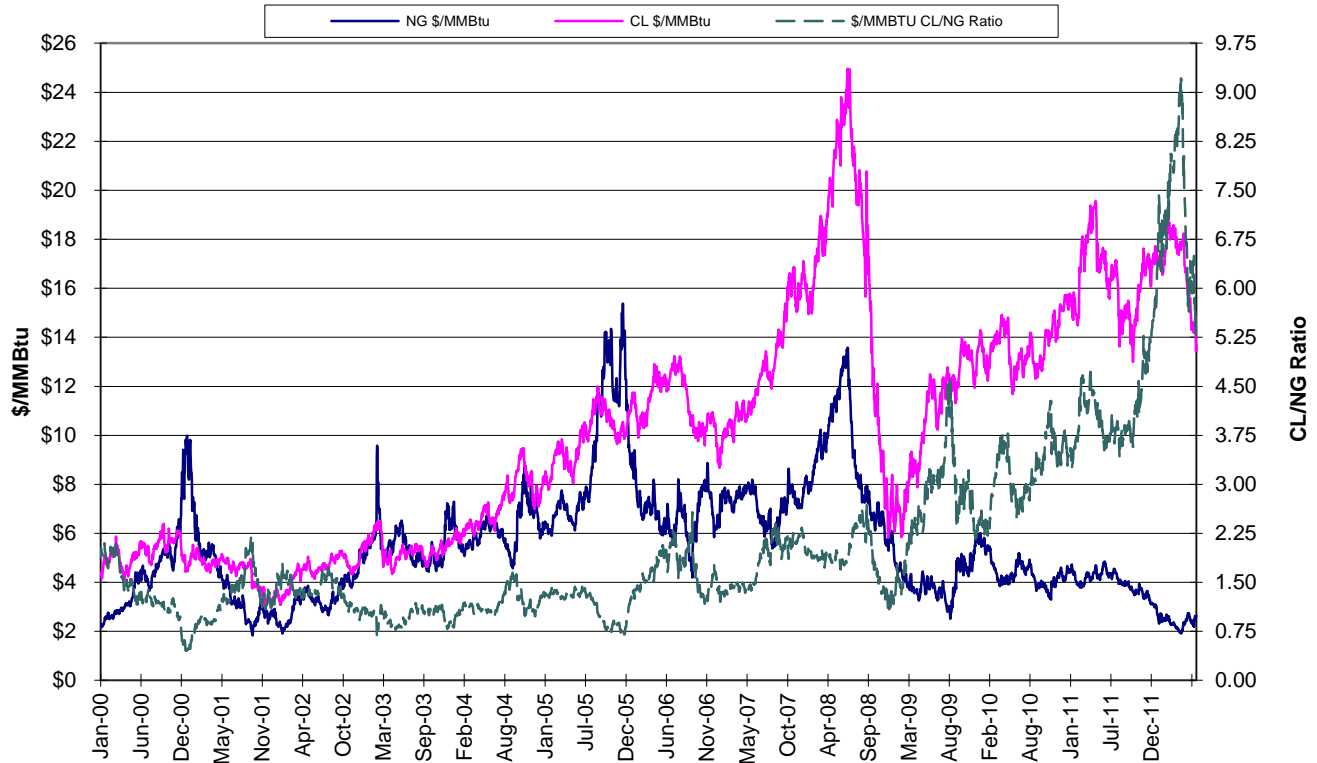
Storage Outlook: While the absolute storage levels remain quite bearish, this is the smallest YOY surplus since December 16, 2011 and the trend of the storage surplus remains decidedly bullish. That trend is expected to remain in place with increasing 2011 injections unlikely to be matched in coming weeks. Despite the bullish trend in storage comparisons, inventories remain on track to establish a new record level in October or November.

Supply Trends: Total supply fell 0.3 BCF/D to 68.5 BCF/D. US production was unchanged with a drop in Canadian imports accounting for the reduction. Mexican exports were unchanged. The US Baker Hughes 2012 trend of higher oil activity and lower natural gas activity remained intact. Like last week, another drop in the Canadian count lead to a lower total North American rig count. The total North American rig count fell 3 and at 2,233 now trails last year by 193. The higher efficiency US horizontal rig count rose 6 and at 1,161 remains 38 higher YOY.

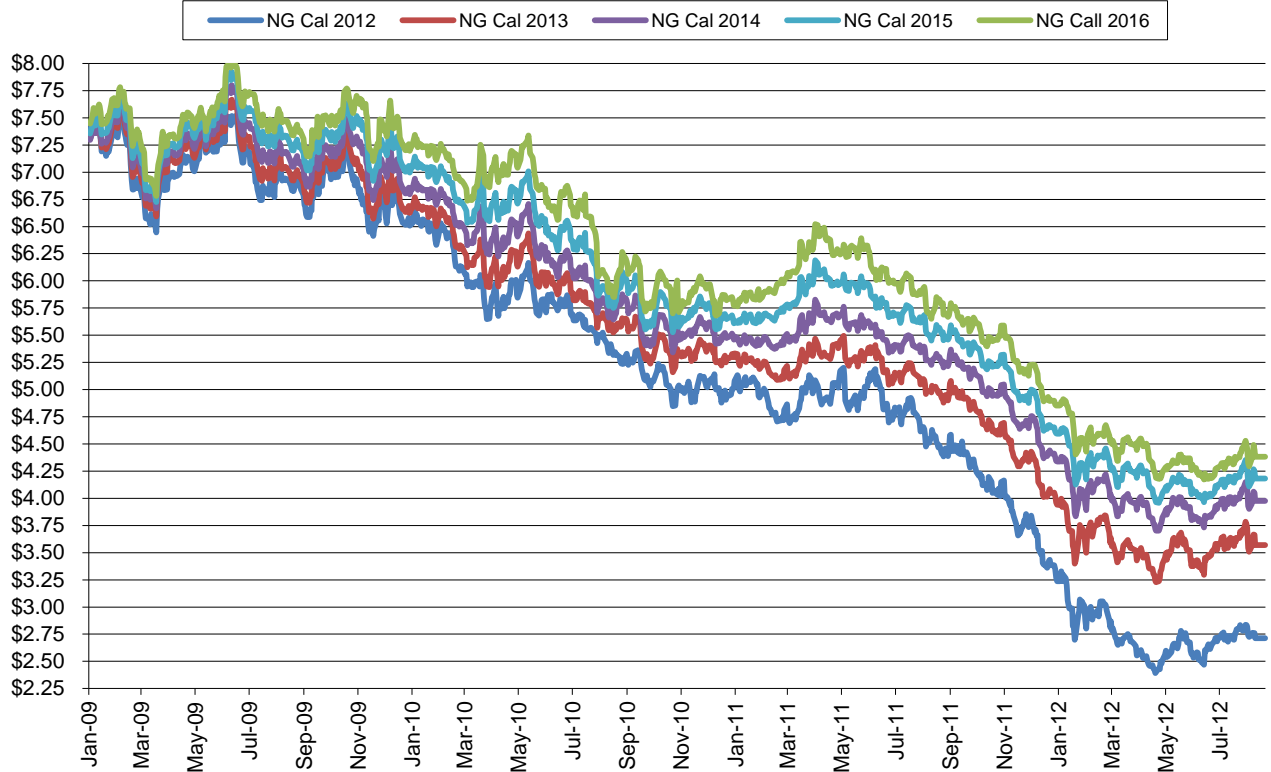
Demand Trends: Total demand fell 0.4 BCF/D to 63.0 BCF/D. Lower power and R&C demand offset increased industrial consumption. Electricity demand fell 214 gigawatt-hrs to 94,049 which trails last year by 2,880 (3.0%) while eclipsing the 5 year average by 1,319 (1.4%). Peak seasonal temperatures have now past and begin to fall rapidly in mid/late-August. Temperatures will be cooler in coming weeks, lowering demand.

Other Factors: Equity markets continued to grind higher with the S&P 500 index rising for the 5th consecutive week.

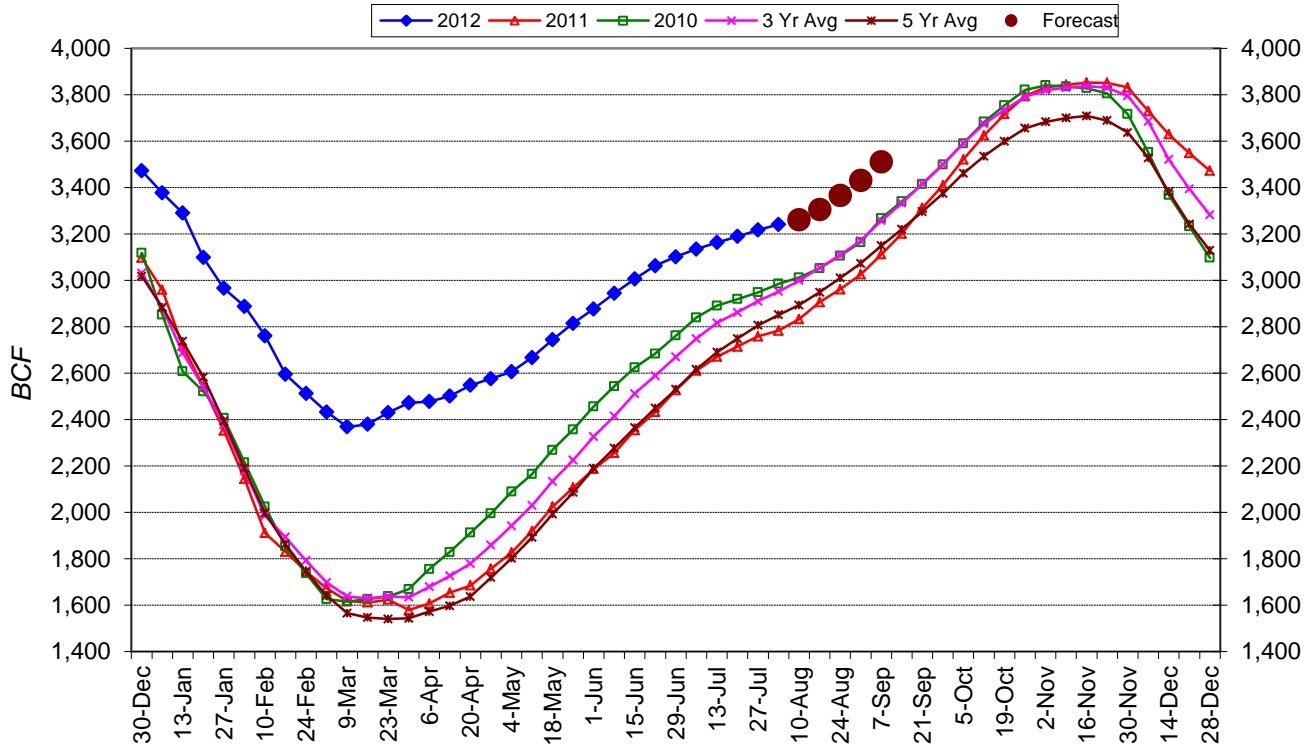
\$/MMBtu Ratio of NYMEX CL and NG



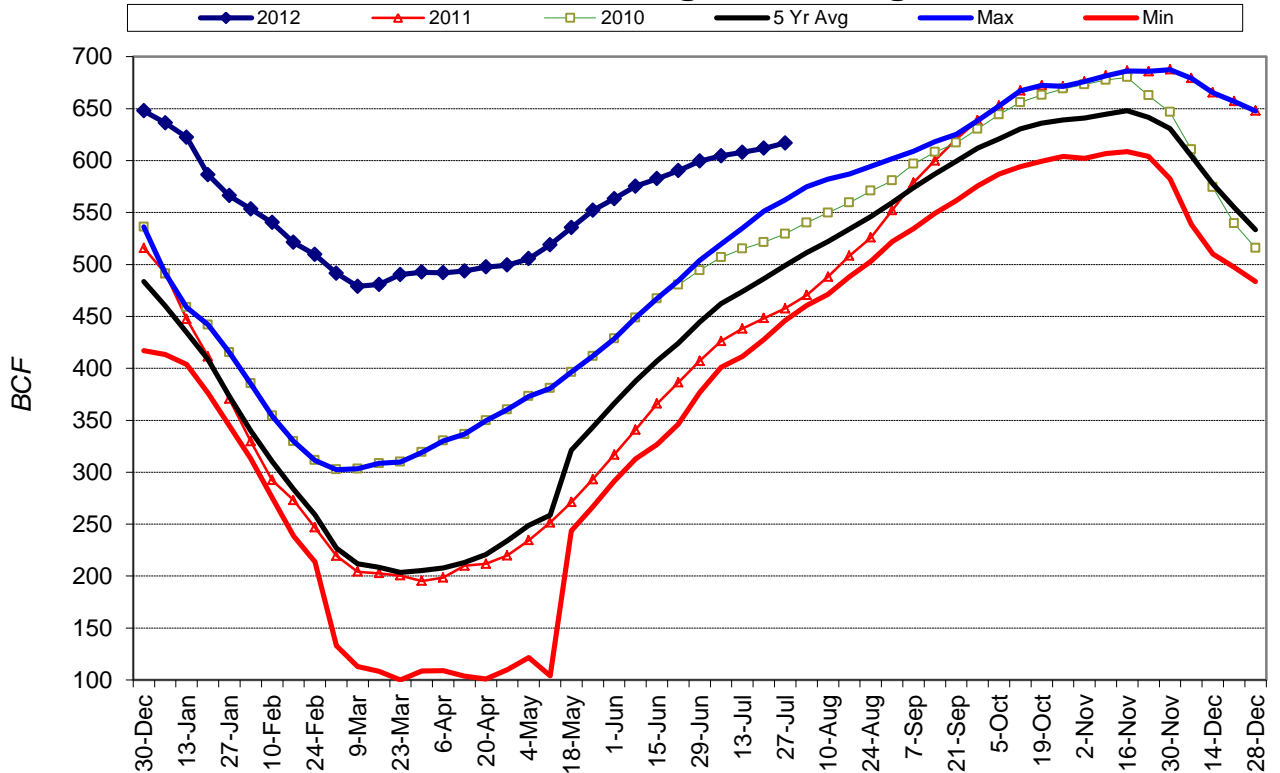
NYMEX Calendar Strips



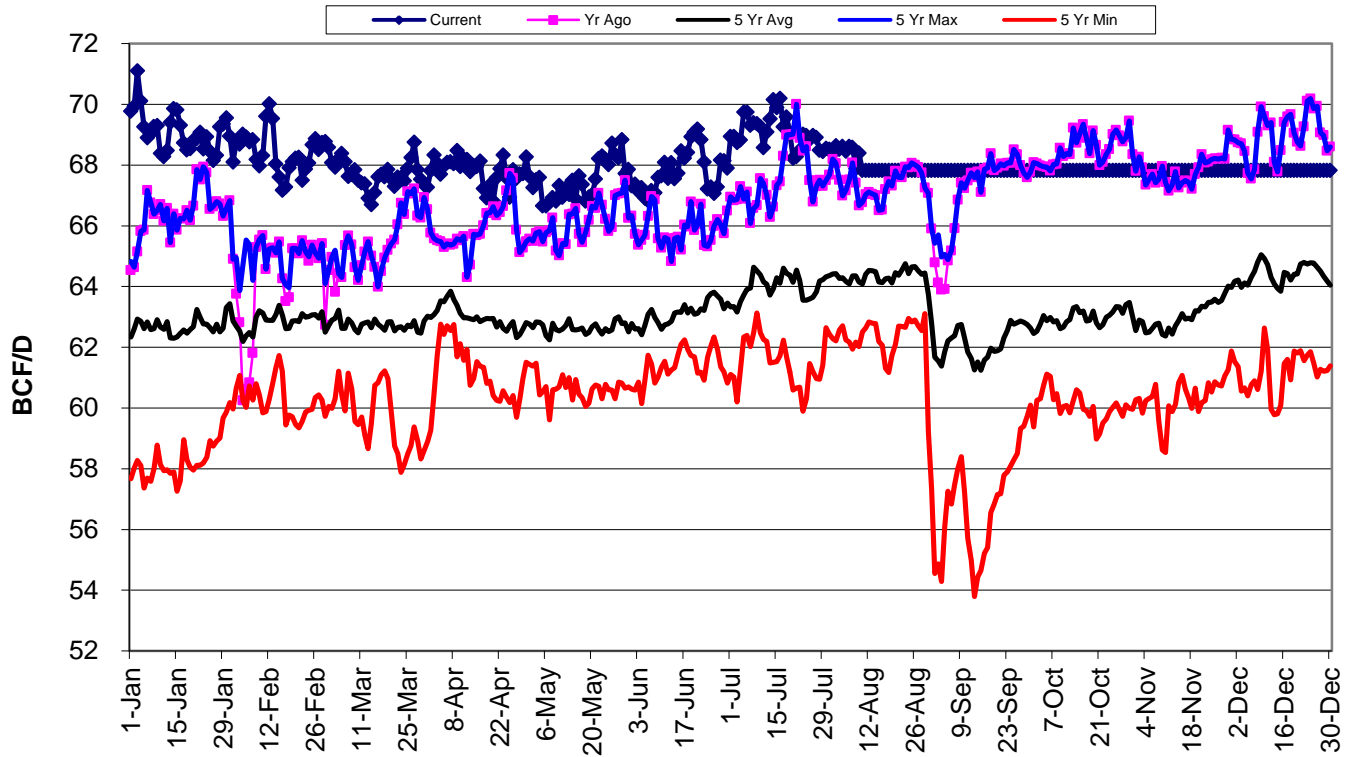
US Working Gas Storage - Source - EIA



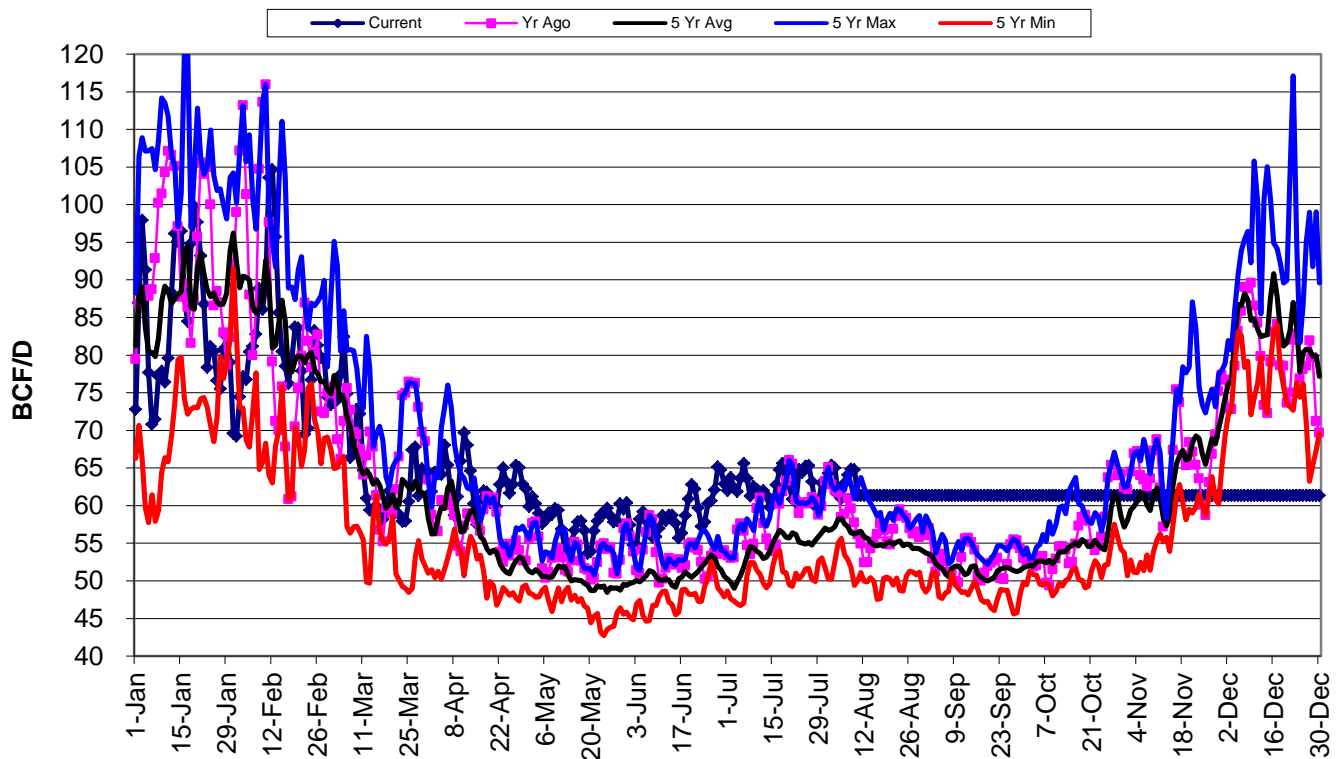
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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