

IAF Advisors  
Energy Market Outlook  
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**Price Action:** Prices again slipped, but only barely as a bearish storage report was countered by Tropical Storm Isaac. Prices fell 1.7 cents (0.6%) to \$2.702 on a 19.5 cent range.

**Price Outlook:** Prices did indeed establish another new weekly low, but only by 3 ticks. Thus, 33 weeks since 2000 have witnessed exactly 4 weeks in a row of a new weekly low. Of those, 17 have seen another new low. However, another new low may be difficult to achieve until any possible infrastructure damage is determined. The market will clearly focus on Isaac. Forecast to be a roughly 100 mph storm at landfall, he is large and does have potential to cause damage. However, the GOM now produces just 4.5 BCF/D while the Gulf Coast is home to a heavy industrial complex. Thus the balance of lost supply to lower demand also due to rain fall and power outages is considered nearly neutral with a slight bullish bias. CFTC data indicated another drop in the speculative net long position. Total net length has been reduced by over 50,000 contracts since late July. Total open interest also fell further below the 5.3 million contracts level as of August 21. Despite the storm concerns, long liquidation could lead to further price weakness.

**Weekly Storage:** US working gas storage rose 47 BCF for the week ending August 17. Current inventory levels of 3,308 BCF now rise 402 BCF (13.8%) above last year while surpassing the 5 year average by 359 BCF (12.2%).

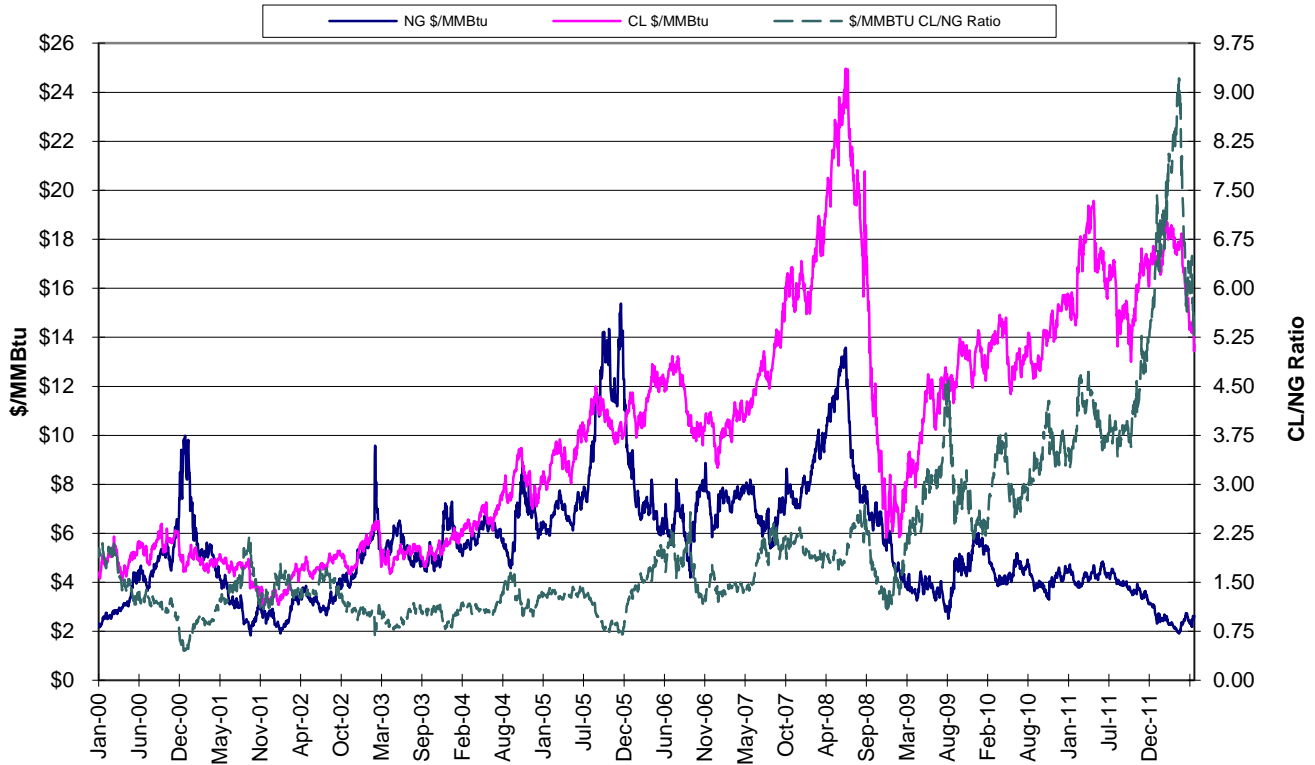
**Storage Outlook:** The implications of the 47 BCF injection should not be lost as the bullish temperature adjusted supply/demand balance was significantly reduced and has profound bearish implications for the coming weeks. The build on a temperature adjusted basis was considered the least bullish since late March.

**Supply Trends:** Total supply fell 0.1 BCF/D to 68.4 BCF/D. Increased US production was offset by lower imports with exports little changed. The US Baker Hughes rig count saw oil activity fall while natural gas recorded a rare increase. Although Canadian activity again rose, it was not enough to lift the total North American rig count. The total North American rig count fell 8 and at 2,232 now trails last year by 251. The higher efficiency US horizontal rig count rose 6 and at 1,159 remains just 19 higher YOY.

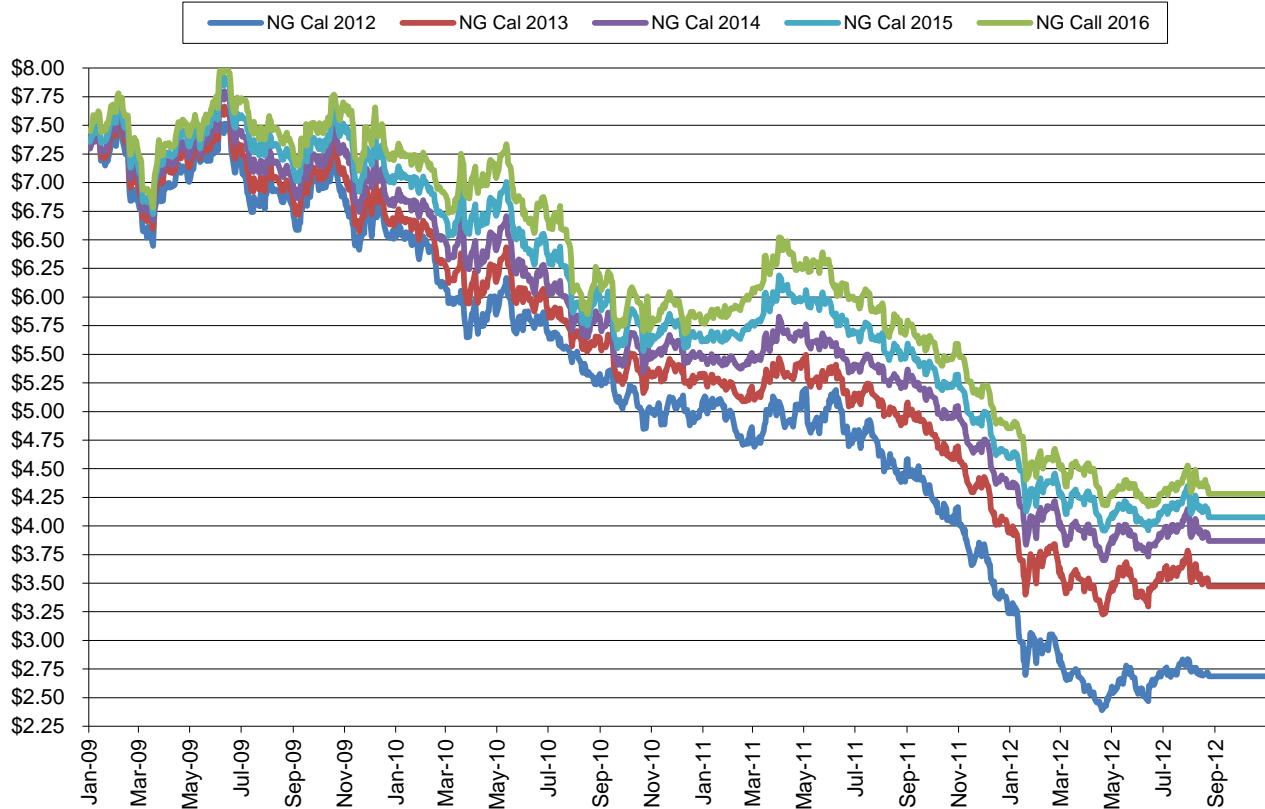
**Demand Trends:** Total demand fell 1.9 BCF/D to 61.2 BCF/D. Lower power demand more than offset increased R&C and industrial consumption. Electricity demand fell 5,120 gigawatt-hrs to 86,416 which trails last year by 1,557 (1.8%) and the 5 year average by 3,393 (3.8%). Demand has now peaked and unlikely to reach recent levels until late October.

**Other Factors:** The S&P 500 index slipped marginally as the recent advance took a slight breather.

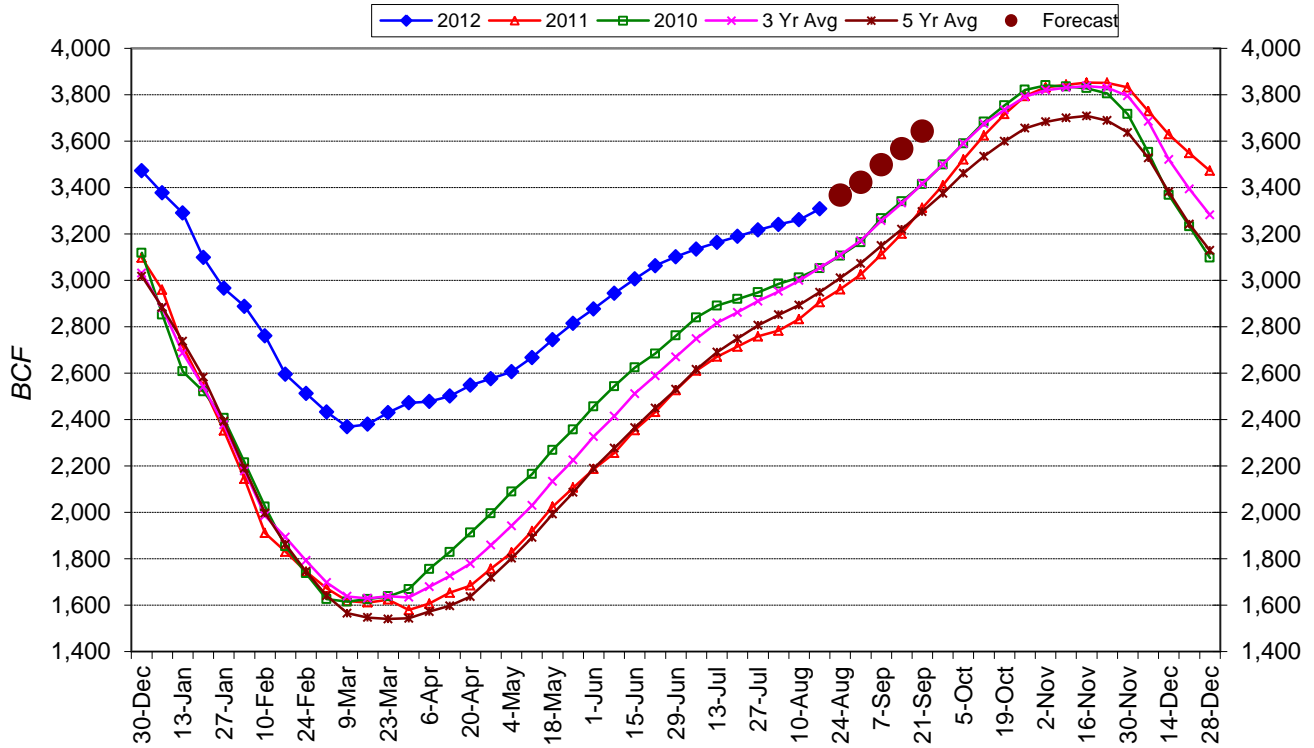
## \$/MMBtu Ratio of NYMEX CL and NG



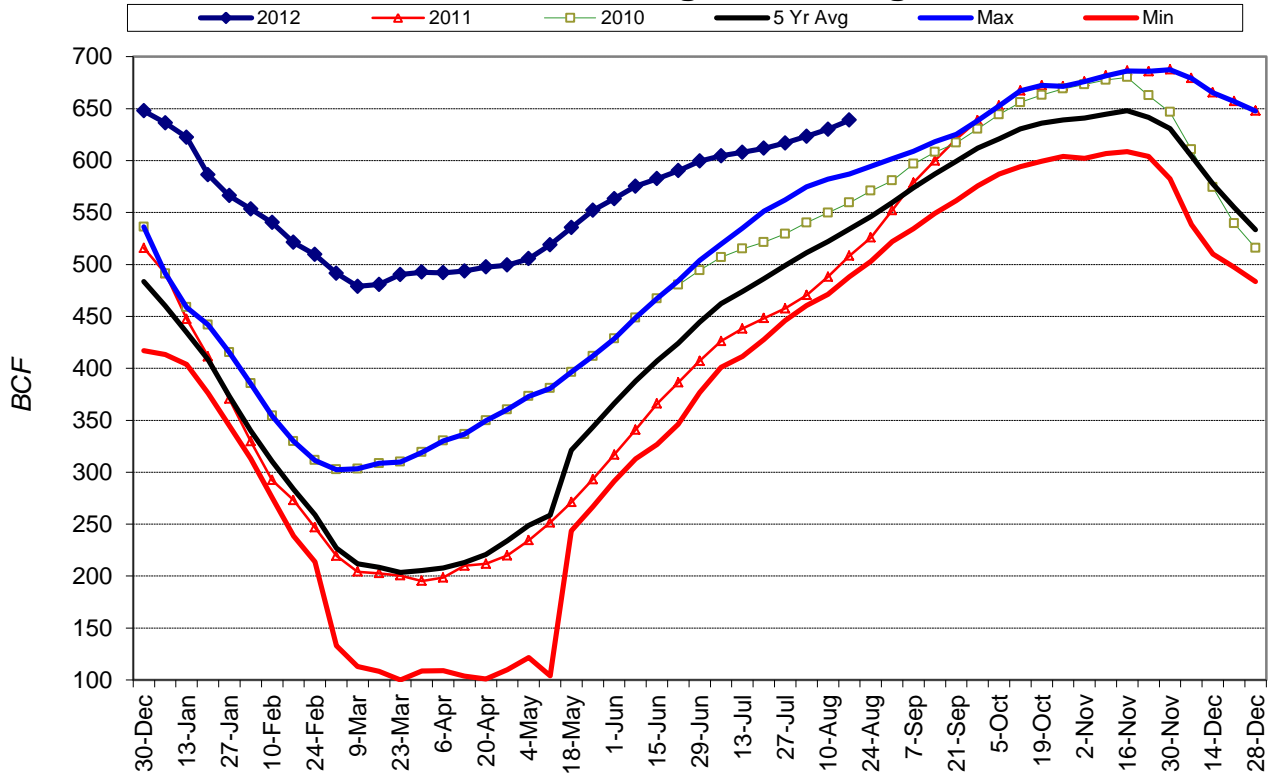
## NYMEX Calendar Strips



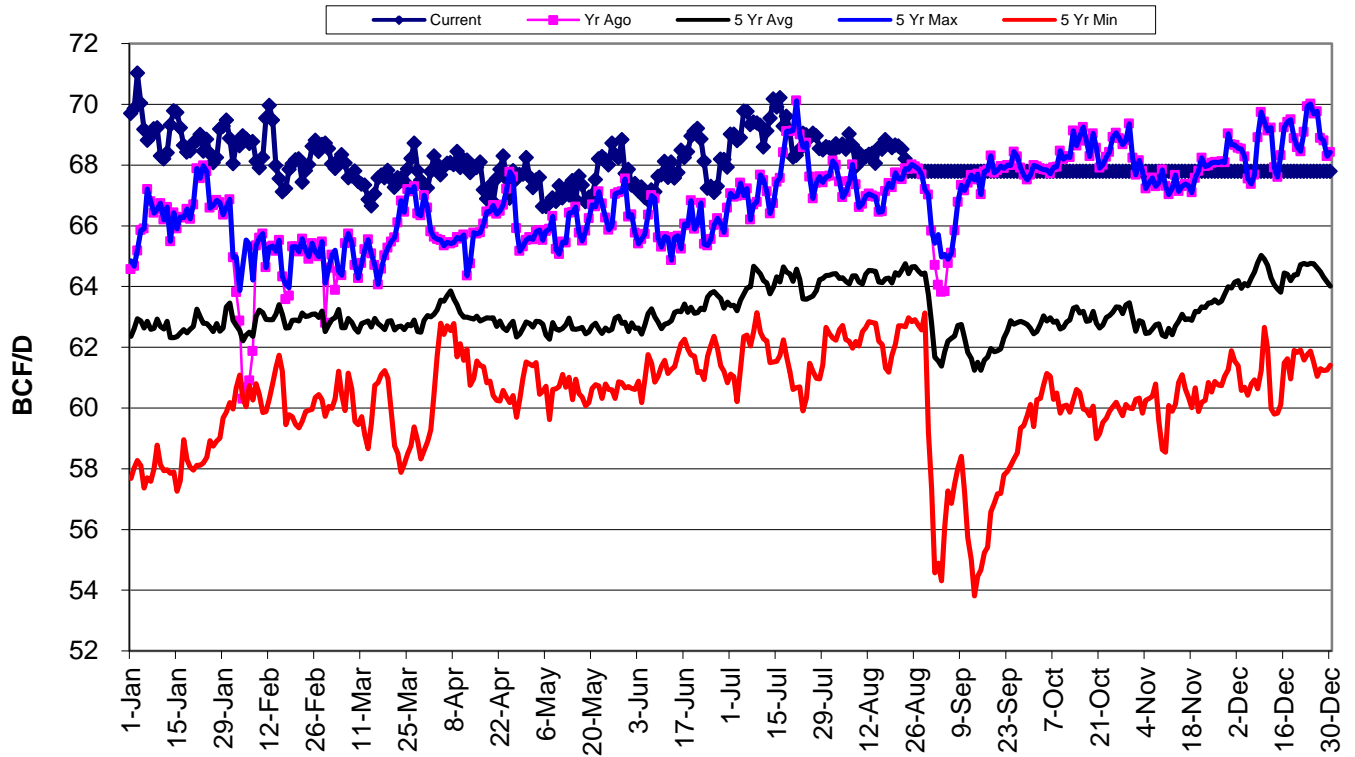
## US Working Gas Storage - Source - EIA



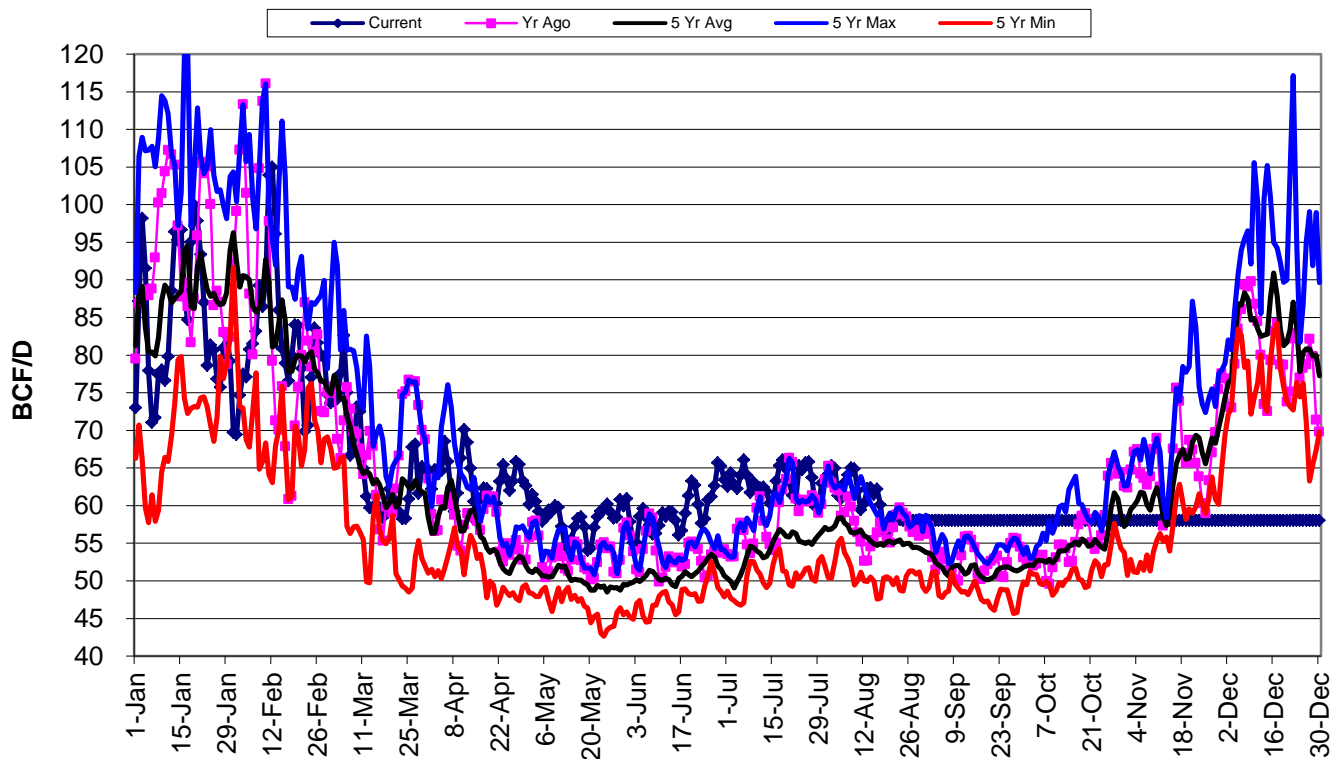
## Canadian Working Gas Storage - Enerdata



## Total US Supply



## Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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