

IAF Advisors
Energy Market Outlook
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Price Action: Prices rocketed higher in what appears to be a delayed response to Hurricane Isaac and the bullish implications of two low storage injections. Prices rose 26.1 cents (9.7%) to \$2.943 on a 42.3 cent range.

Price Outlook: Prices shot higher despite moderating temperatures and indications of increasing injections. Although supply was returning more slowly than expected, there remains little evidence of permanent supply loss from Hurricane Isaac. Some support was likely garnered from forecasts indicating well below normal temperatures. It would be quite bullish if temperatures were to develop a below normal pattern almost exactly when below normal temperatures are to be considered bullish. Weather patterns have been extreme and temperature related demand will remain a primary market driver. Although the equity markets rallied on the announcement of more monetary stimulus, a moribund economy is not considered supportive of robust industrial demand. Failure to address lingering fundamental economic issues is not considered financially healthy. CFTC data indicated yet another reduction in the speculative net long position. Total net length has been reduced by nearly 100,000 contracts since late July. Total open interest did rebound back above 5.0 million contracts as of September 11. Money flow could easily drive prices in either direction in coming weeks.

Weekly Storage: US working gas storage rose 27 BCF for the week ending September 7. Current inventory levels of 3,429 BCF now rise 317 BCF (10.2%) above last year while surpassing the 5 year average by 280 BCF (8.9%).

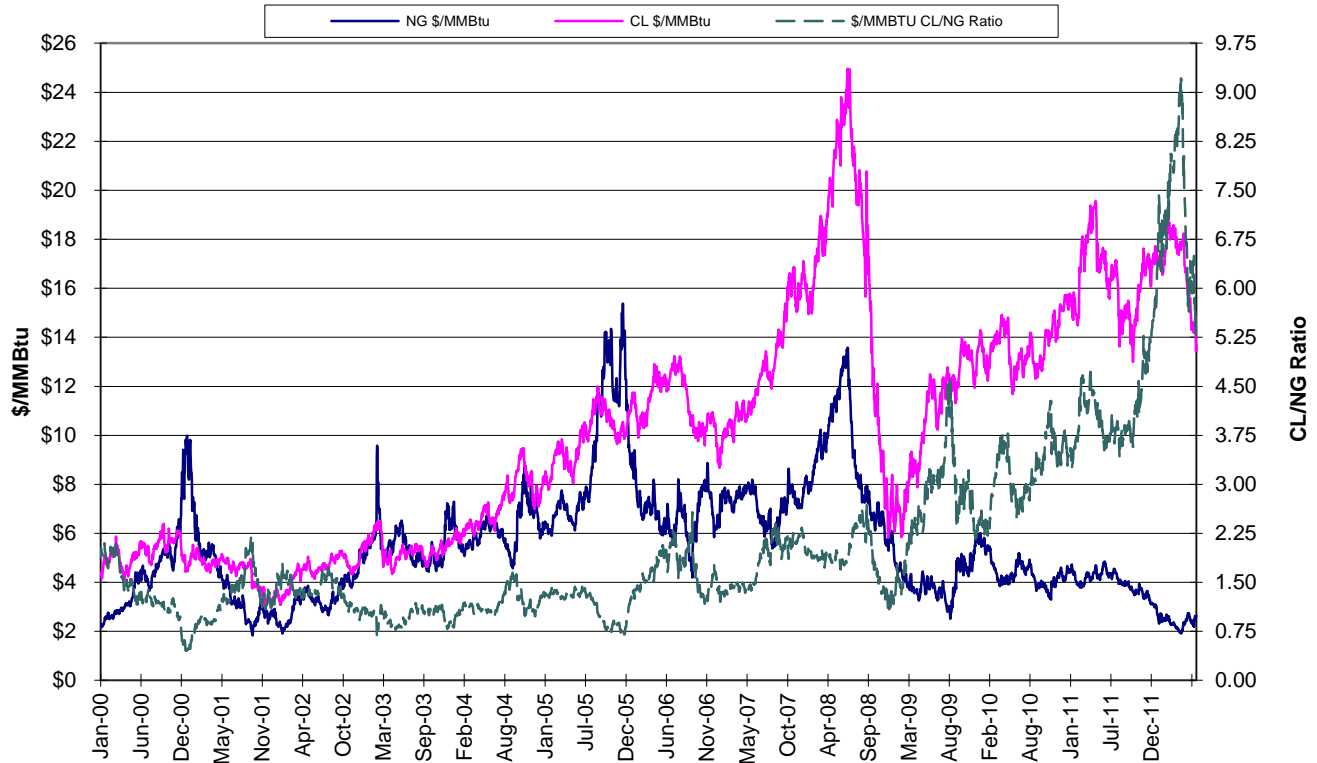
Storage Outlook: Although Hurricane Isaac ended up as a much more bullish S&D event than expected, recent indications are of a temperature adjusted S&D balance much less bullish. Thus, although absolute inventory levels are not expected to breach 4,000 BCF, there are longer term bearish implications to the now perceived S&D balance.

Supply Trends: Total supply rose 0.6 BCF/D to 66.2 BCF/D. Increased US production offset lower Canadian imports. LNG imports and Mexican exports were unchanged. The US Baker Hughes rig count returned to the general 2012 trend. A higher oil count was offset by lower natural gas activity, resulting in no change in the US level. Canadian activity picked up and lifted the total North American rig count 9 and at 2,218 now trails last year by 268. The higher efficiency US horizontal rig count fell 2 and at 1,135 now trails last year by 4. This is the first YOY horizontal US rig count deficit since December 2009.

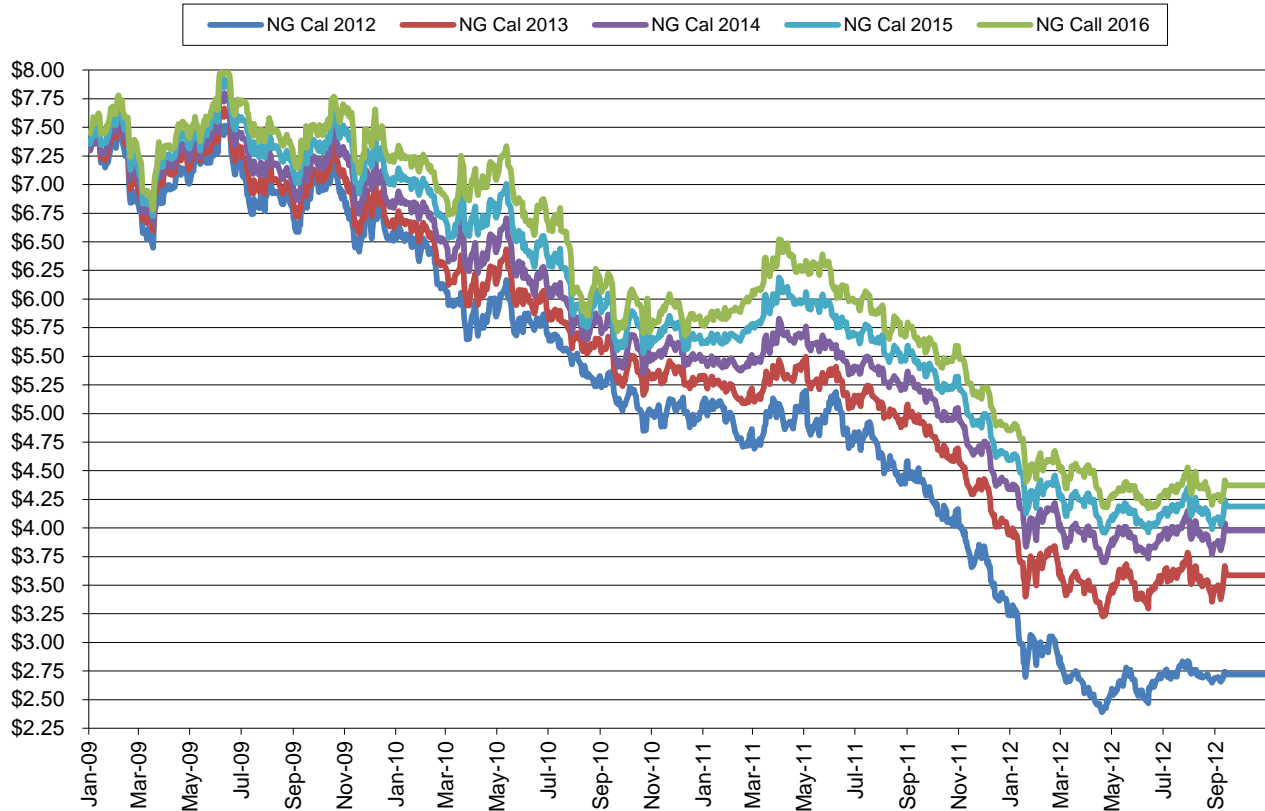
Demand Trends: Total demand rose 0.6 BCF/D to 61.2 BCF/D. Higher power demand more than offset lower R&C and industrial consumption. Electricity demand fell 2,306 gigawatt-hrs to 84,701 which surpasses last year by 7,760 (10.1%) and the 5 year average by 3,641 (4.5%). Below normal temperatures in coming weeks are to be considered bullish.

Other Factors: The S&P 500 index surged as the fed indicated new monetary stimulus. While monetary inflationary pressures may lift commodity prices and lower bond prices, the underlying physical economy remains anemic and true physical demand growth is likely to remain depressed.

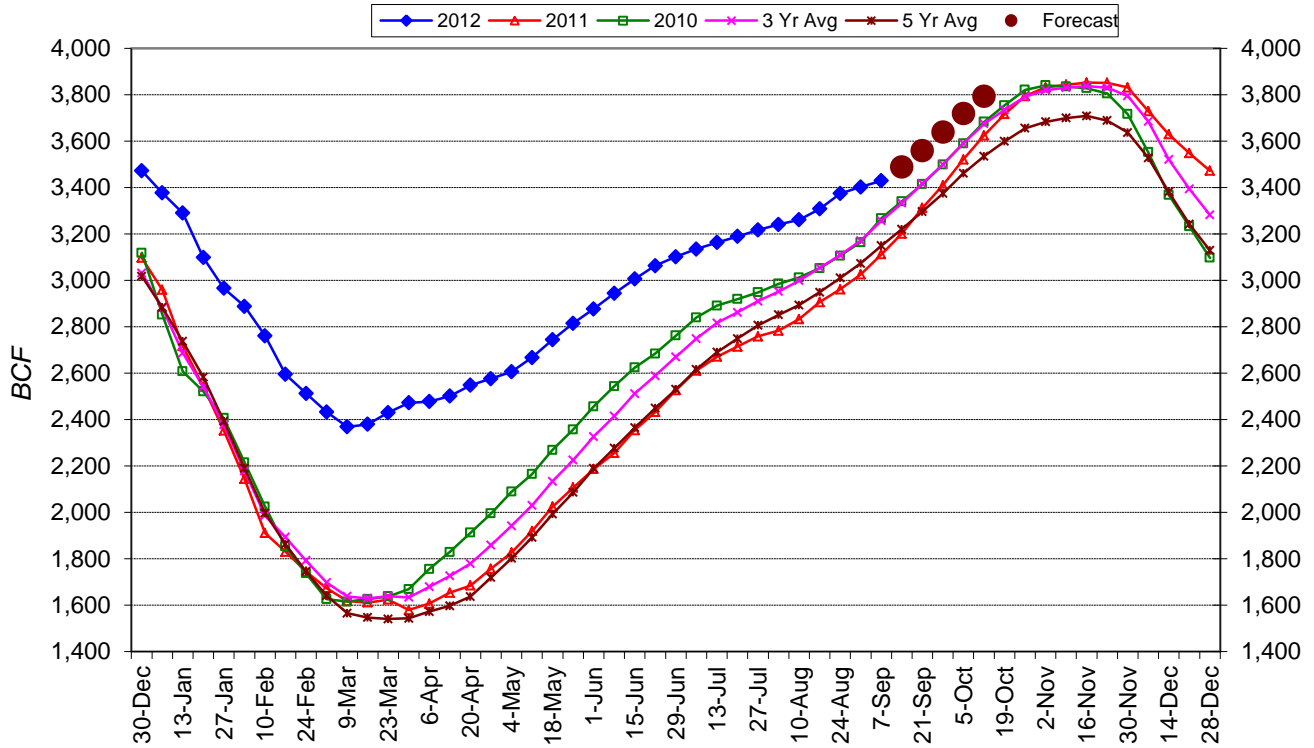
\$/MMBtu Ratio of NYMEX CL and NG



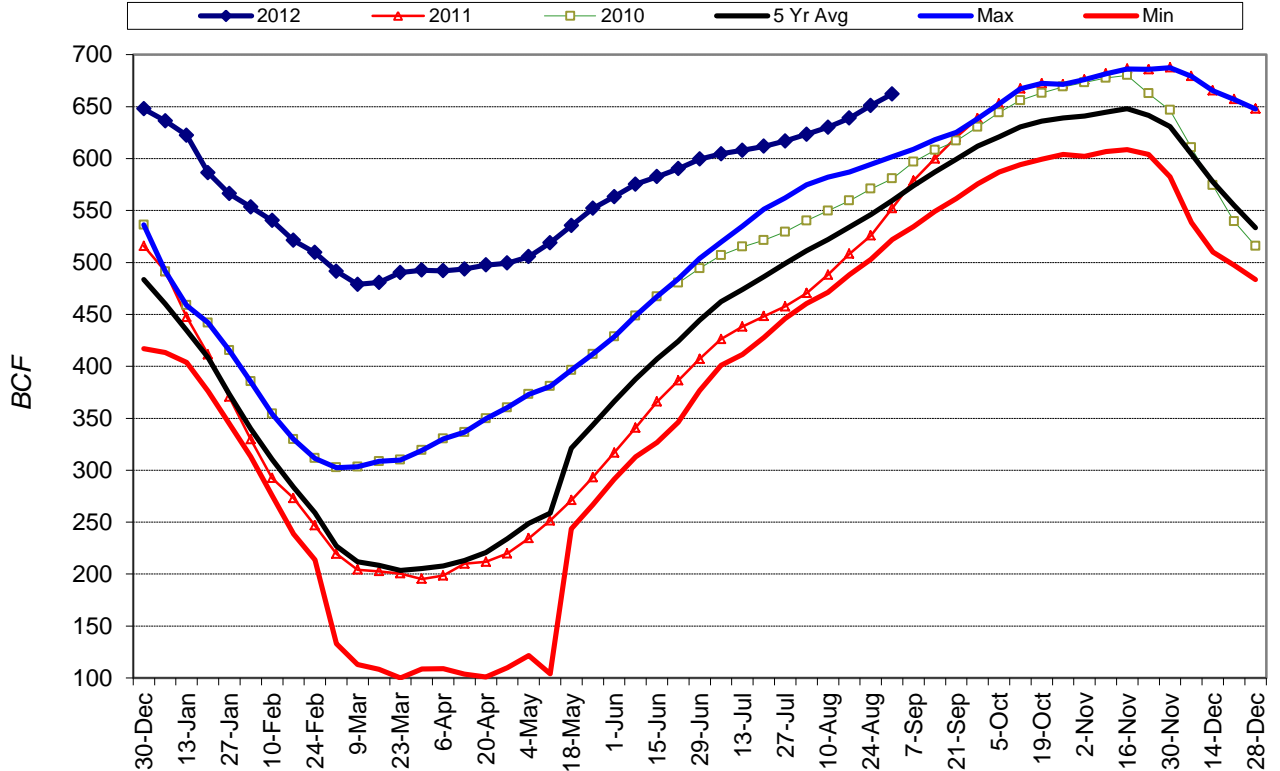
NYMEX Calendar Strips



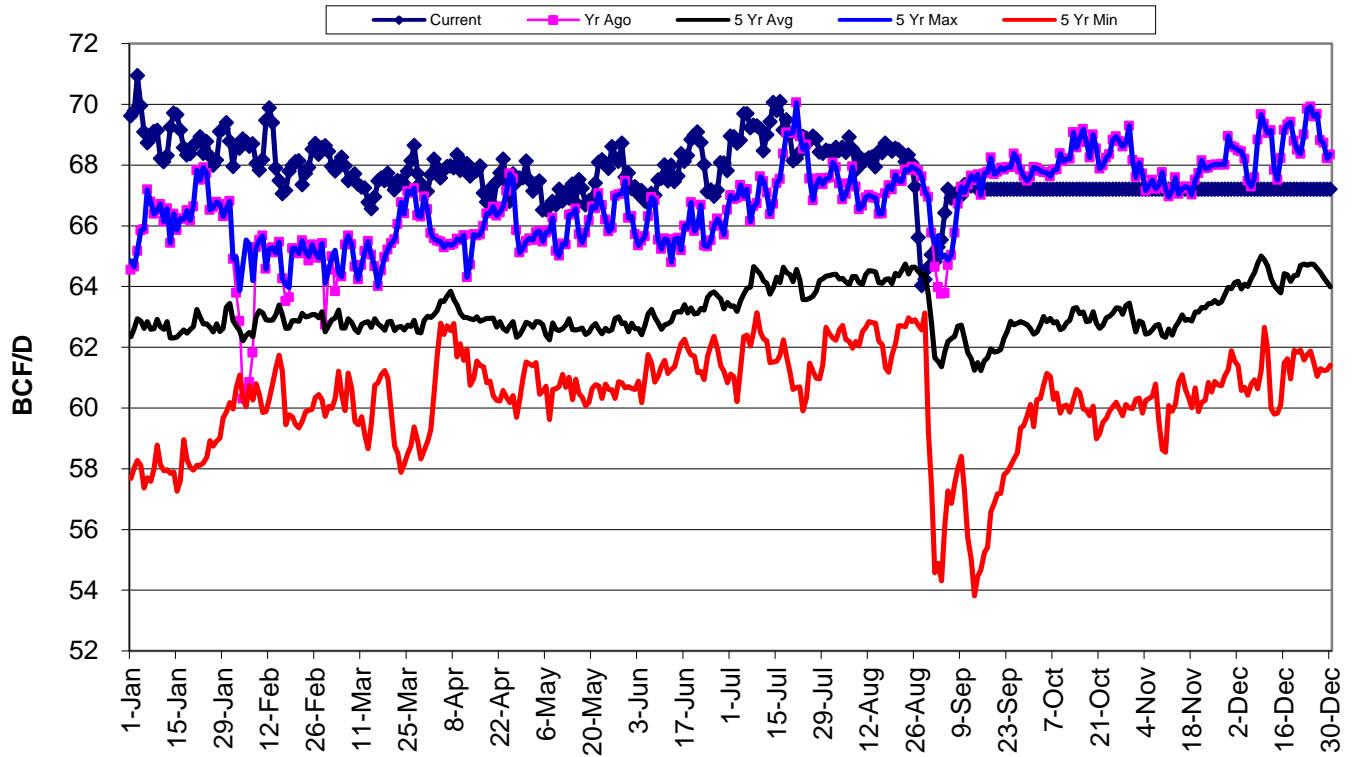
US Working Gas Storage - Source - EIA



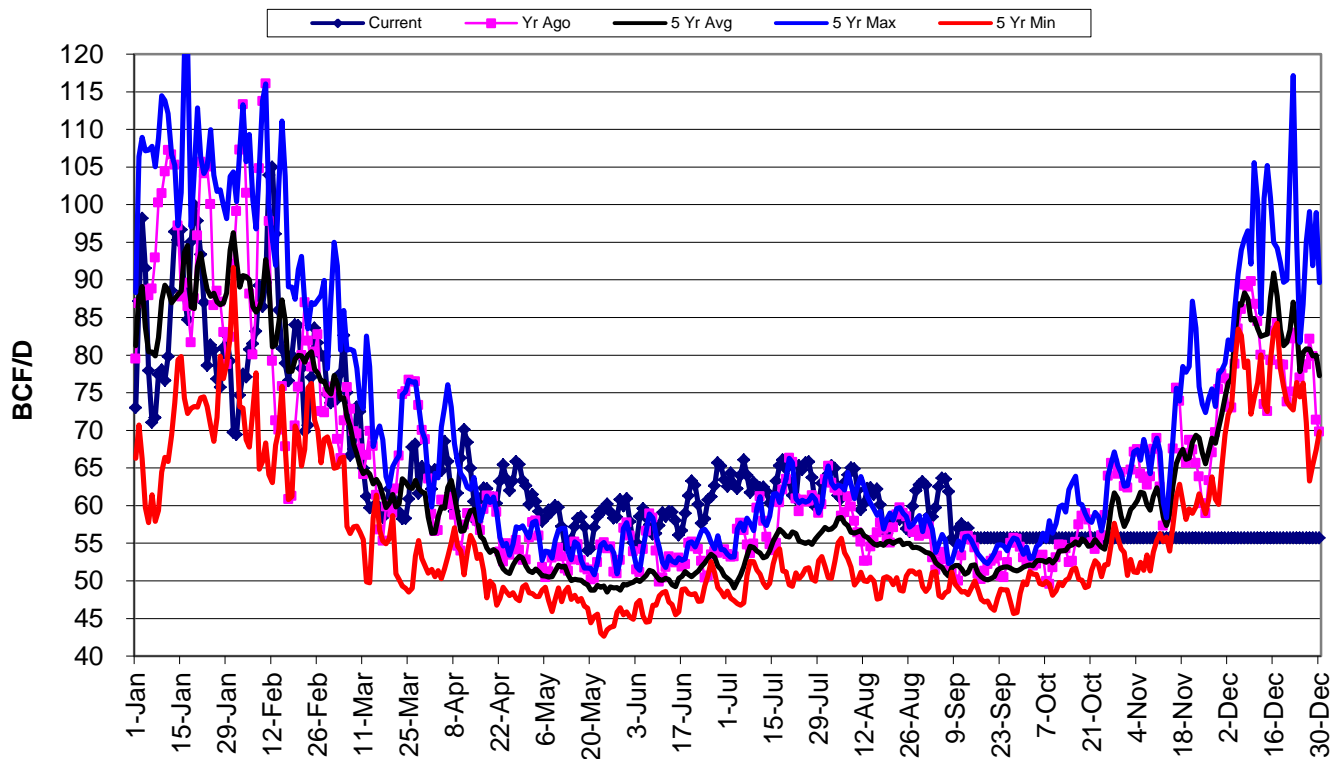
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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