IAF Advisors
Energy Market Outlook
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Price Action: Prices slipped as temperatures remain moderate and injections rose. Prices fell 5.8 cents (2.0%) to $2.885 on a 24.6 cent range. The October contract will expire on Wednesday.

Price Outlook: **Prices slipped as the storage injection was above market expectations and supply indications are suggesting production is now above pre-storm levels. Although this week witnessed another large reduction in the yearly storage surplus, the injection was above market consensus and storage injections will likely increase in coming weeks. As temperatures moderate, cooling or heating demand remains absent and power burn, the main supply and demand balancing factor throughout 2012 has fallen. Even on a temperature adjusted basis, natural gas electricity related demand appears to have weakened, a bearish situation if sustained. CFTC data indicated yet another reduction in the speculative net long position, although at a slower pace. Total net length has now been reduced over 100,000 contracts since late July. Total open interest slipped, but remained above 5.0 million contracts as of September 18. Money flow could easily drive prices in either direction in coming weeks.**

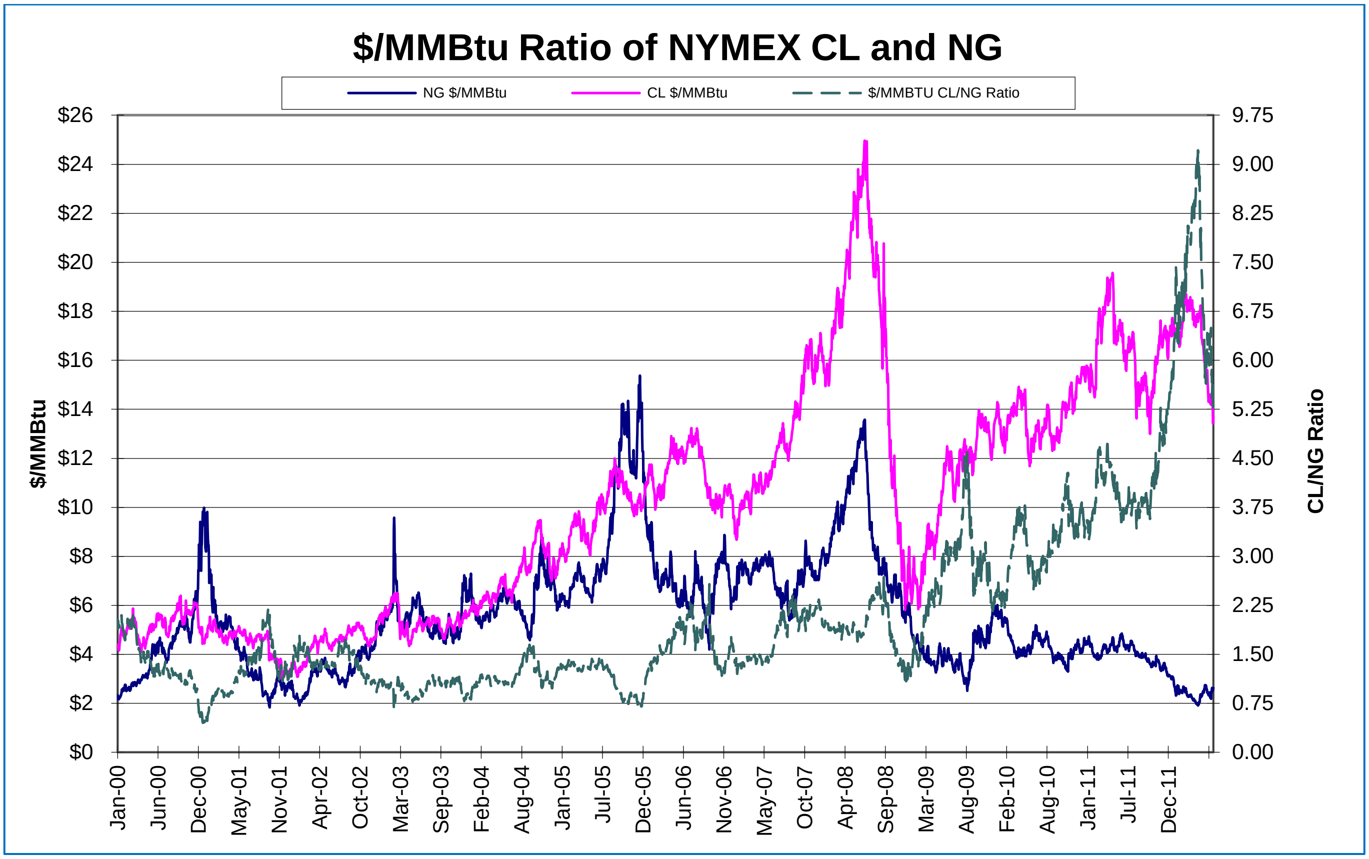
Weekly Storage: US working gas storage rose 67 BCF for the week ending September 14. Current inventory levels of 3,496 BCF now rise 295 BCF (9.2%) above last year while surpassing the 5 year average by 275 BCF (8.6%).

Storage Outlook: **After reaching a YOY storage surplus peak of 893 BCF on March 31, the power generation demand and well above normal temperatures have combined to eliminate the threat of storage containment issues. Still, inventories are easily on track to establish a new record level and the recent power burn indications and supply measurements are considered bearish.**

Supply Trends: Total supply rose 1.3 BCF/D to 67.3 BCF/D. US production surged and more than offset lower Canadian imports. LNG imports and Mexican exports were again unchanged. The US Baker Hughes rig count witnessed a lower oil count not completely offset by higher natural gas activity, a reversal of the 2012 trend. Canadian activity rose and lifted the total North American rig count 4 and at 2,222 now trails last year by 274. **The higher efficiency US horizontal rig count rose 16 and at 1,149 now again surpasses last year by 9.**

Demand Trends: Total demand dropped 4.8 BCF/D to 56.4 BCF/D. A plunge in power demand more than offset higher R&C and industrial consumption. Electricity demand fell 7,820 gigawatt-hrs to 79,881 which trails last year by 1,409 (1.8%) and the 5 year average by 2,072 (2.6%). **Below normal temperatures in coming weeks are to be considered bullish.**

Other Factors: The S&P 500 index slipped as economic indicators remain lackluster. Equity strength appears supported solely by central bank monetary policy.


$/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
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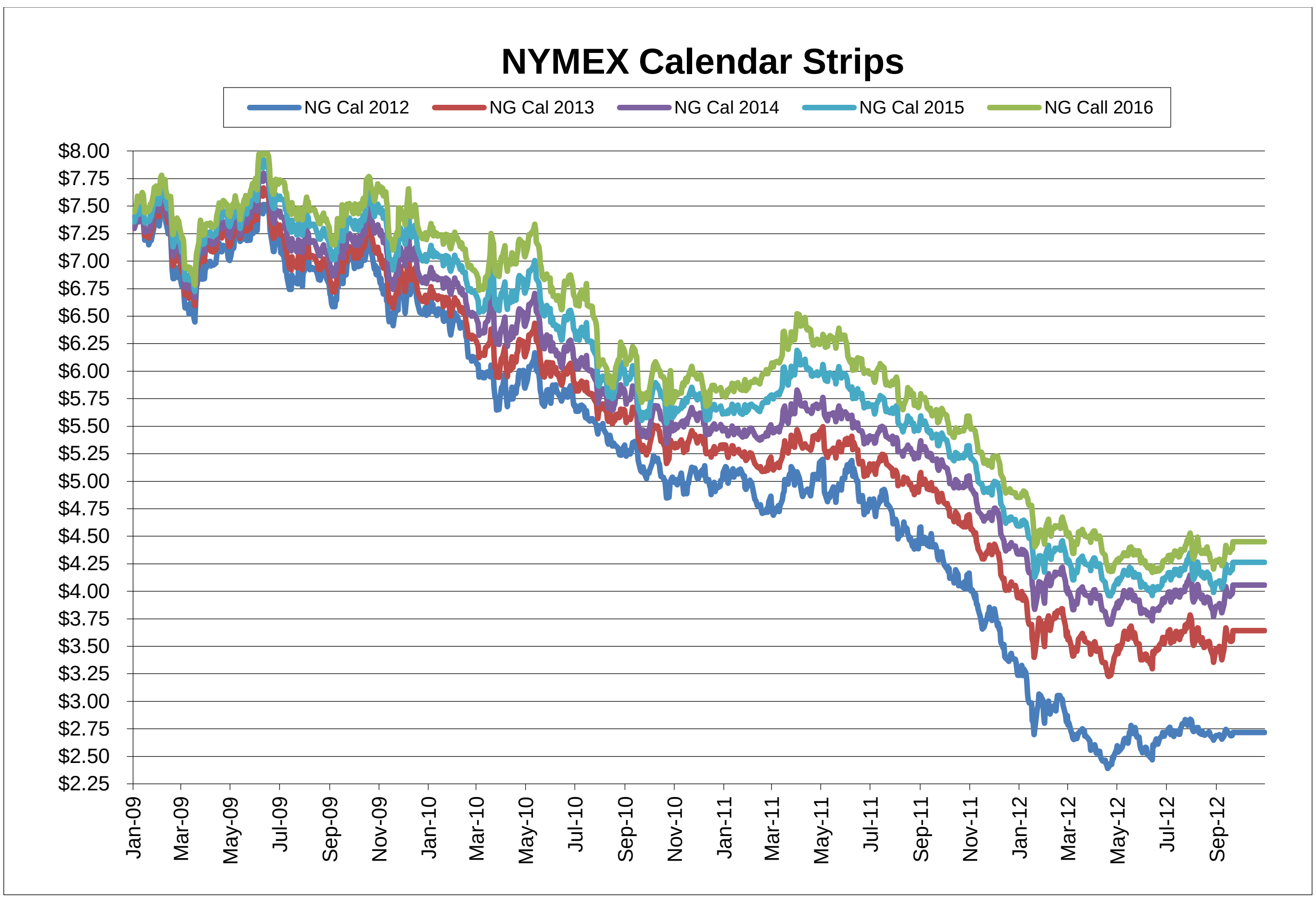
Aug-10
Jan-11
Jul-11
Dec-11


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
Sep-10
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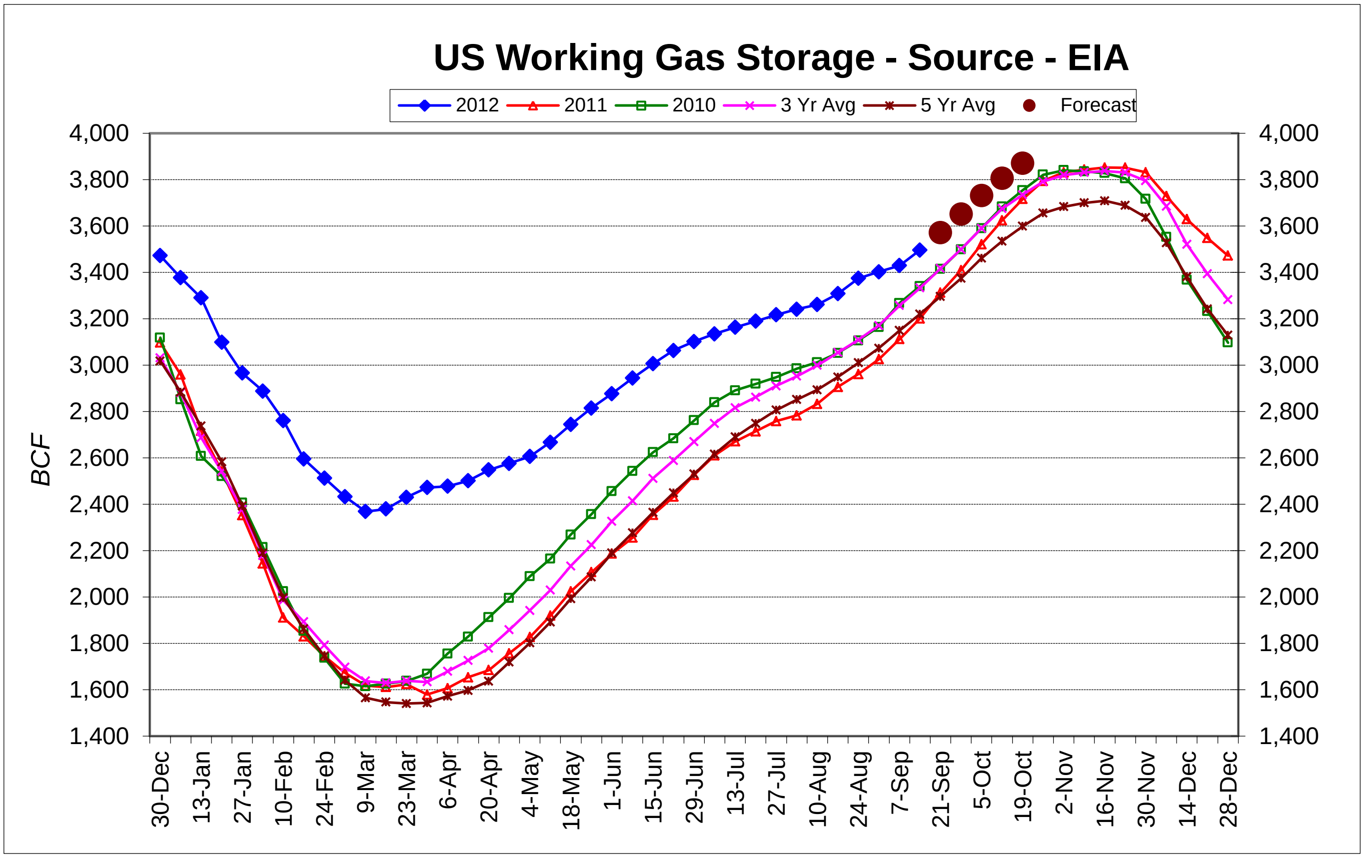
May-12
Jul-12
Sep-12


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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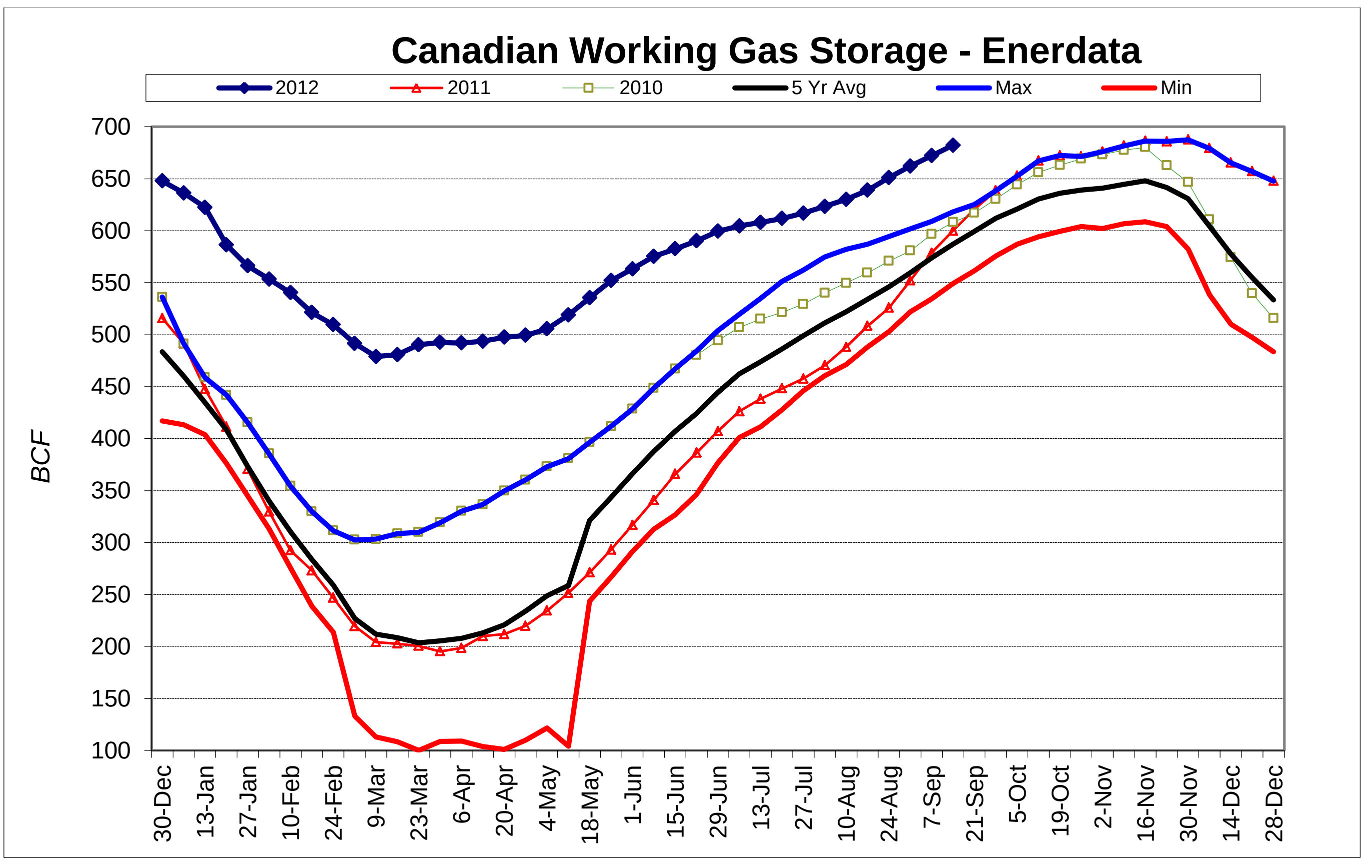
7-Sep
21-Sep
5-Oct
19-Oct
2-Nov
16-Nov
30-Nov
14-Dec
28-Dec


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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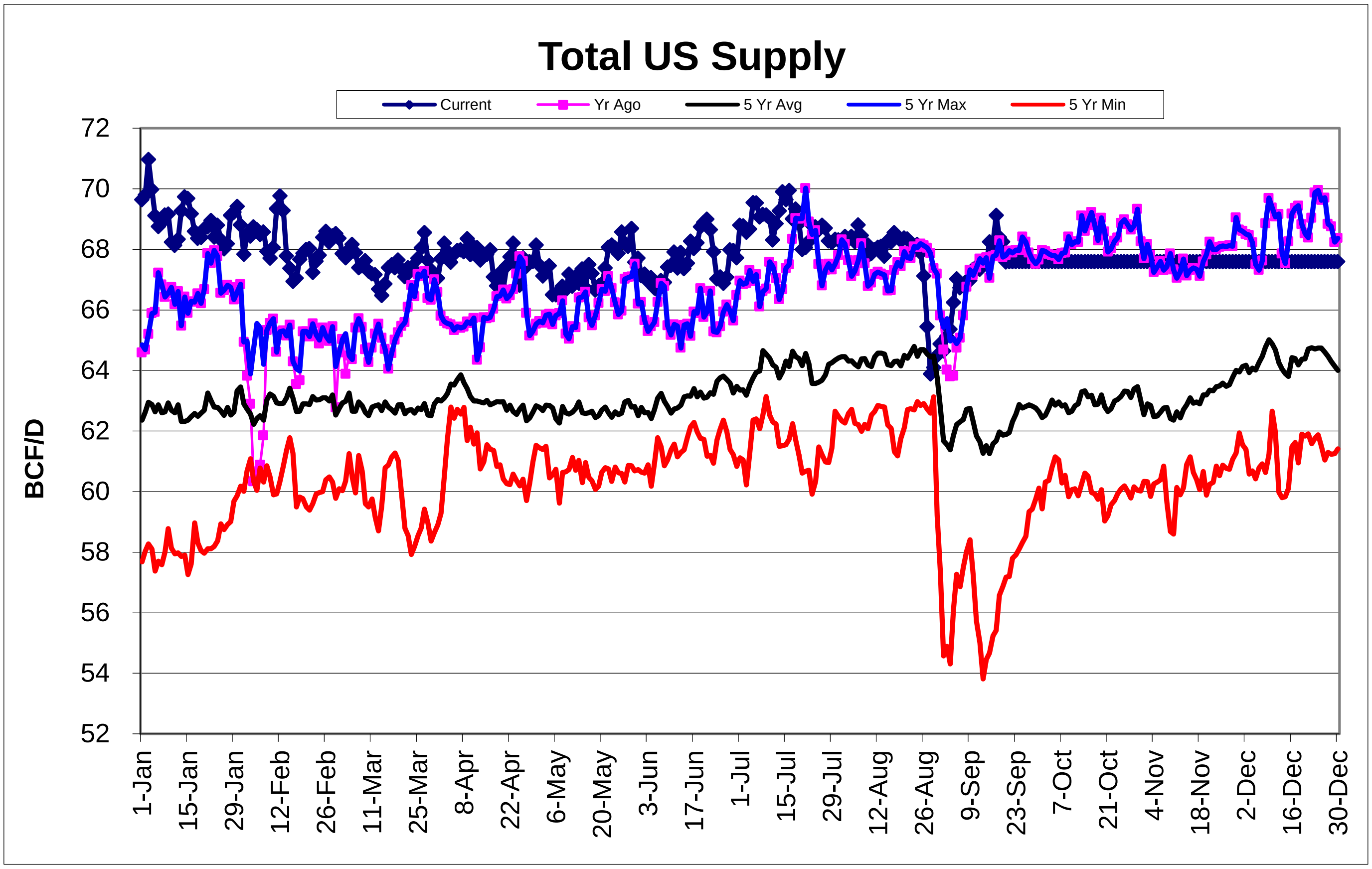
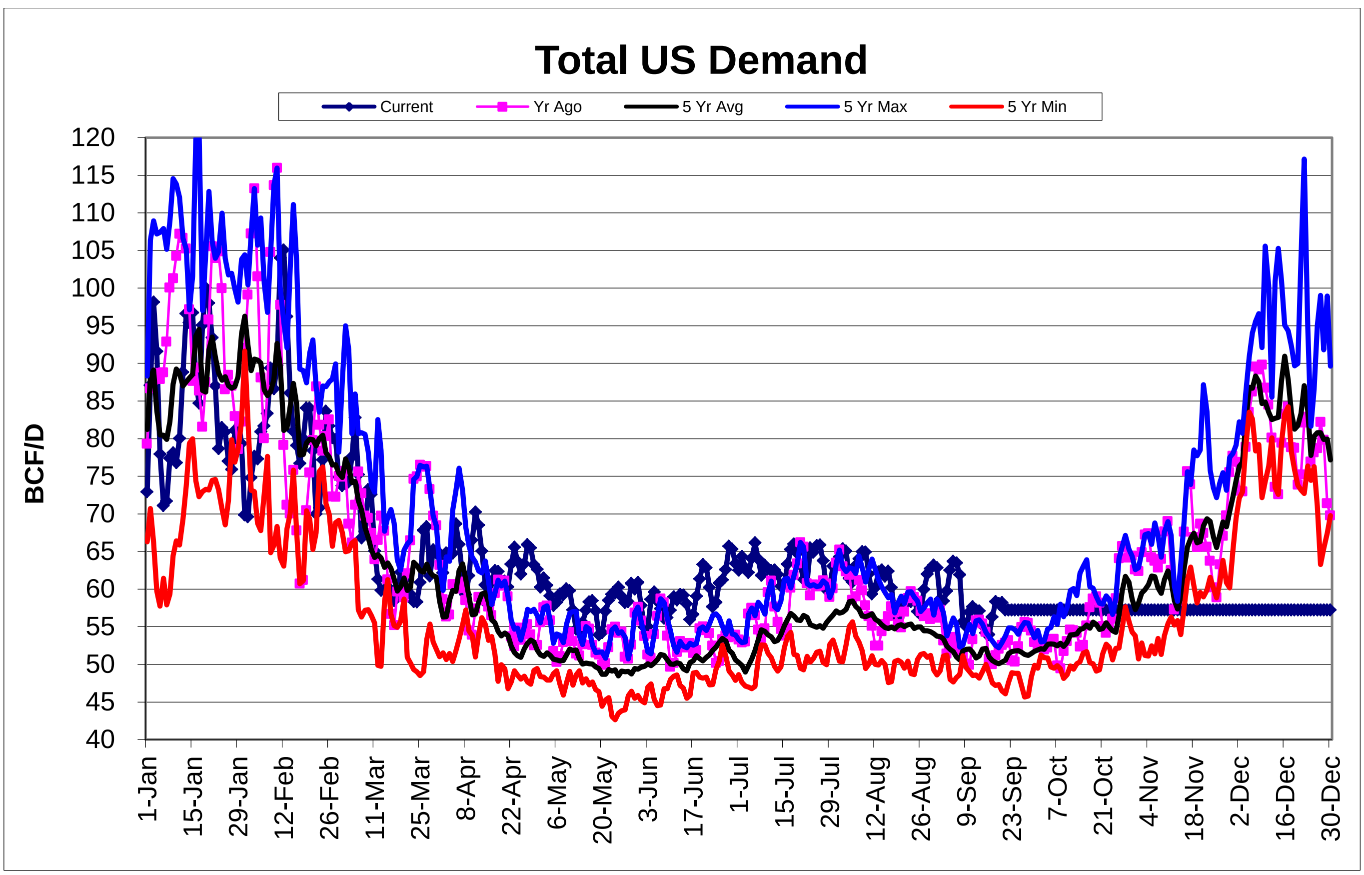
30-Nov
14-Dec
28-Dec





ADDITIONAL INFORMATION AVAILABLE UPON REQUEST