IAF Advisors
Energy Market Outlook

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Price Action: Prices continued to rise with the November contract adding 7.6 cents (2.3%) to $3.396 on a 22.1 cent range. Price action was again considered mostly technical with a huge surge in speculative long positions as well a substantial rise in open interest.

Price Outlook: **A continued decrease in the yearly storage surplus and forecasts for early season heating demand were also considered influential. However, prices did close on a relatively weak note and power demand is indicating signs of falling on a temperature adjusted basis. While weather remains the primary natural gas driver, the power sector has been the balancing factor in 2012. With signs of significant moderation of power burn on a temperature basis, a more bearish outlook may be warranted unless temperatures fall to below normal levels. CFTC data indicated another huge surge in the speculative net long position with a continuation of last week's activity. Although total open interest remains subdued at just 4.89 million contracts as of October 2, a continuation of the last two week's activity may see further buying with the net long position still well below historical peaks.**

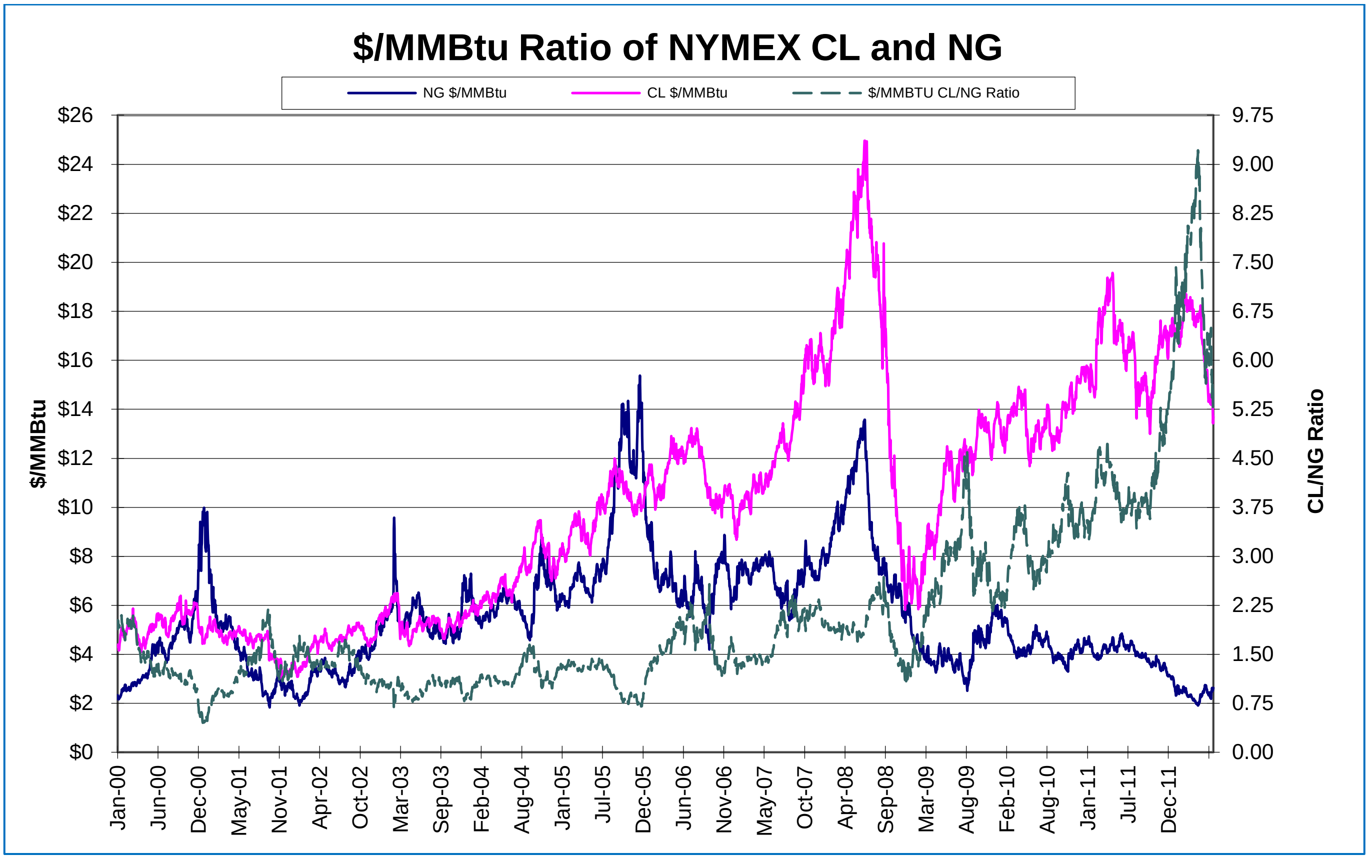
Weekly Storage: US working gas storage rose 77 BCF for the week ending September 28. Current inventory levels of 3,653 BCF now rise 244 BCF (7.2%) above last year while surpassing the 5 year average by 279 BCF (8.3%).

Storage Outlook: **The 77 BCF injection is again considered very relevant considering seasonal trends and the overall temperature profile. While this week was not deemed quite as bearish as last week, it is still considered bearish and especially so in comparison to most of 2012. At the same time, only 2009, 2010 and 2011 have ever witnessed total working gas storage levels exceeding current readings.**

Supply Trends: Total supply rose 0.2 BCF/D to 68.4 BCF/D. US production was unchanged with increased Canadian imports offsetting a rise in Mexican exports. LNG imports were unchanged. The US Baker Hughes rig count fell by 10 to 1,837 with lower oil activity not completely offset by a small uptick in natural gas. Canadian activity rose and thus lifted the total North American rig count by 1 to 2,208, which now trails last year by 326. **The higher efficiency US horizontal rig count fell 10 and at 1,132 falls 16 behind last year.**

Demand Trends: Total demand rose 1.5 BCF/D to 58.0 BCF/D. All sectors registered increases with R&C the biggest gainer. Electricity demand rose 327 gigawatt-hrs to 73,293, which trails last year by 2,753 (3.6%) and the 5 year average by 3,452 (4.5%). **The now higher price level will be watched closely for indications of coal regaining market share.**

Other Factors: The S&P 500 index managed a small gain with apparent optimism regarding Mr. Romney's improved election chances after the first political debates.



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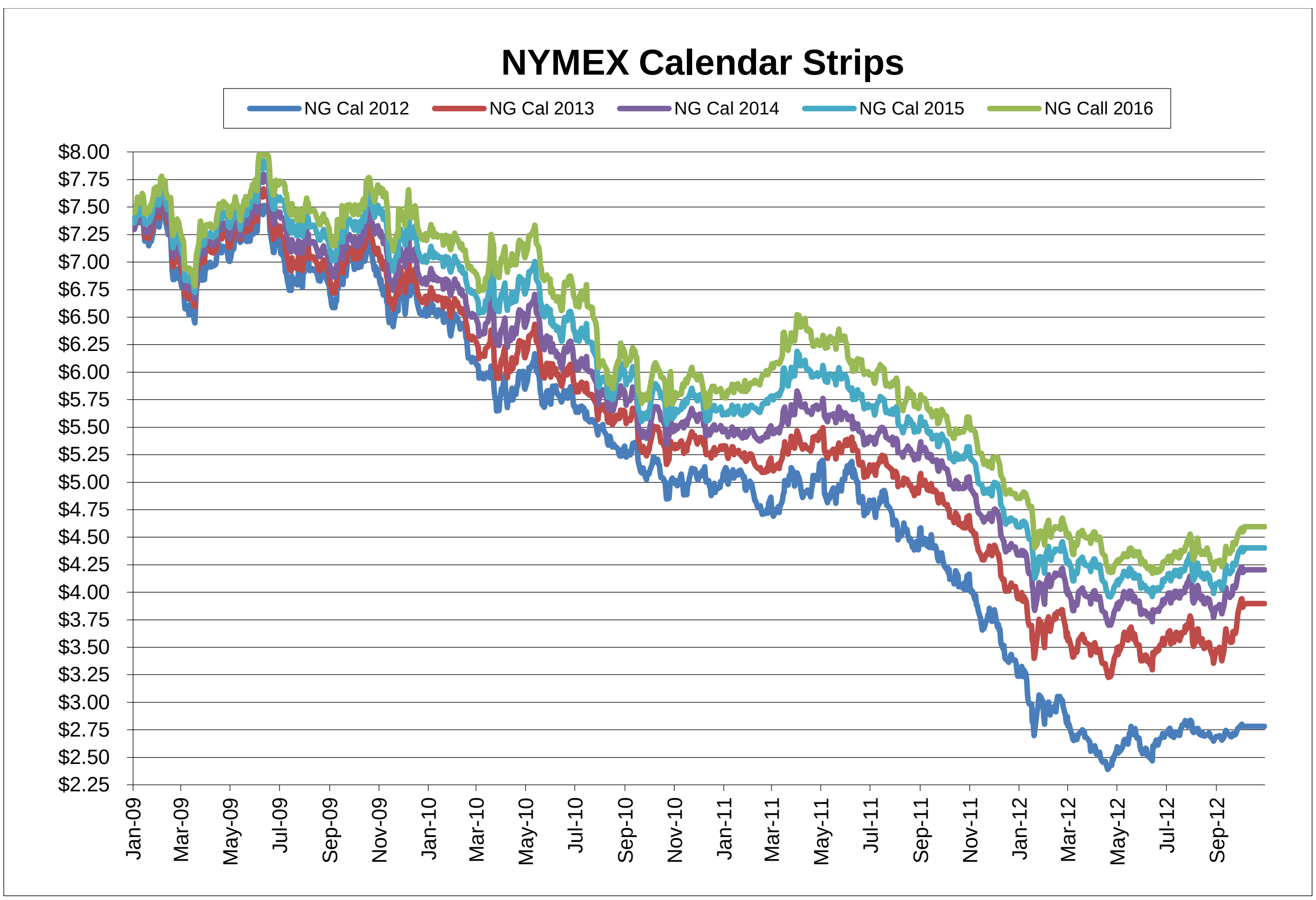
Aug-10
Jan-11
Jul-11
Dec-11



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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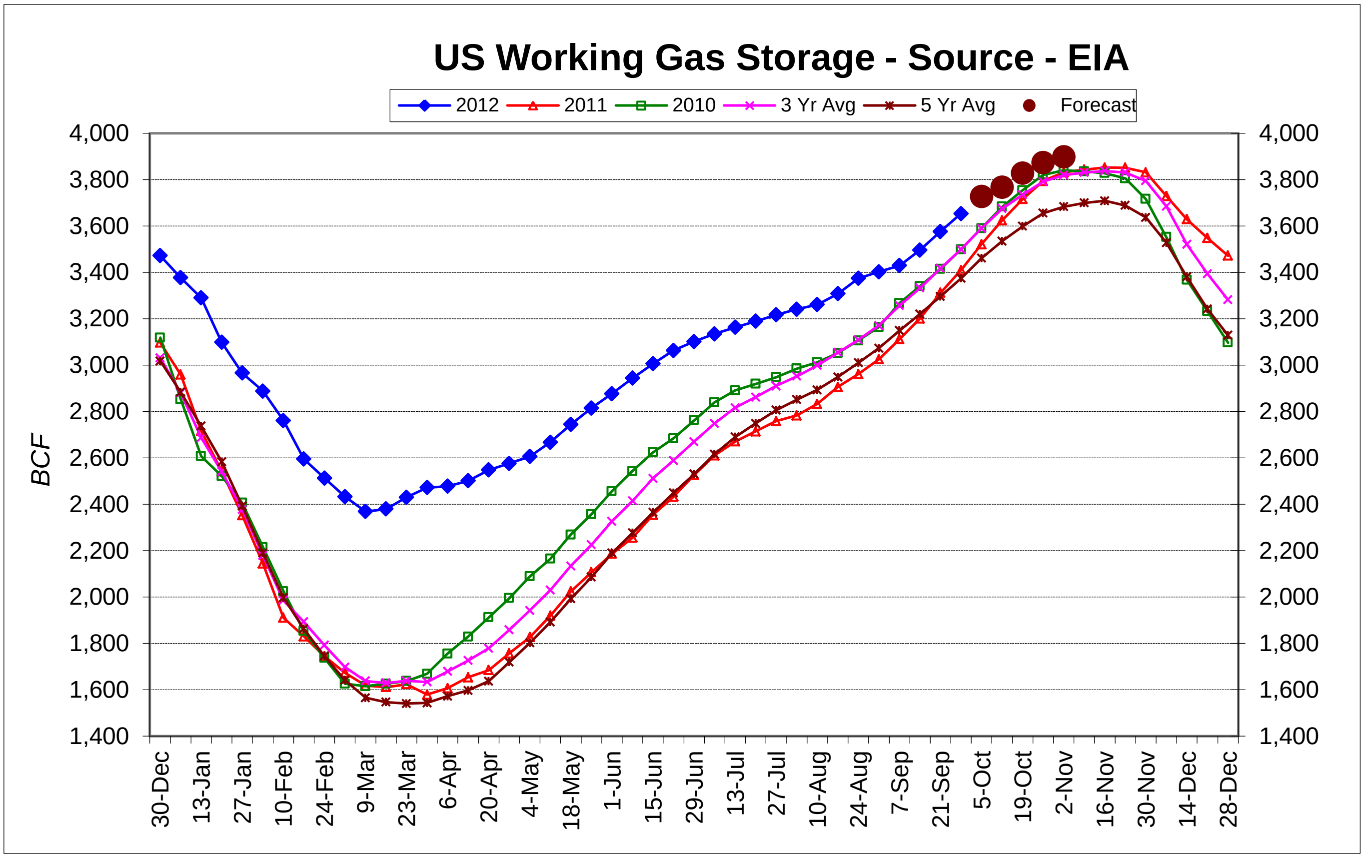
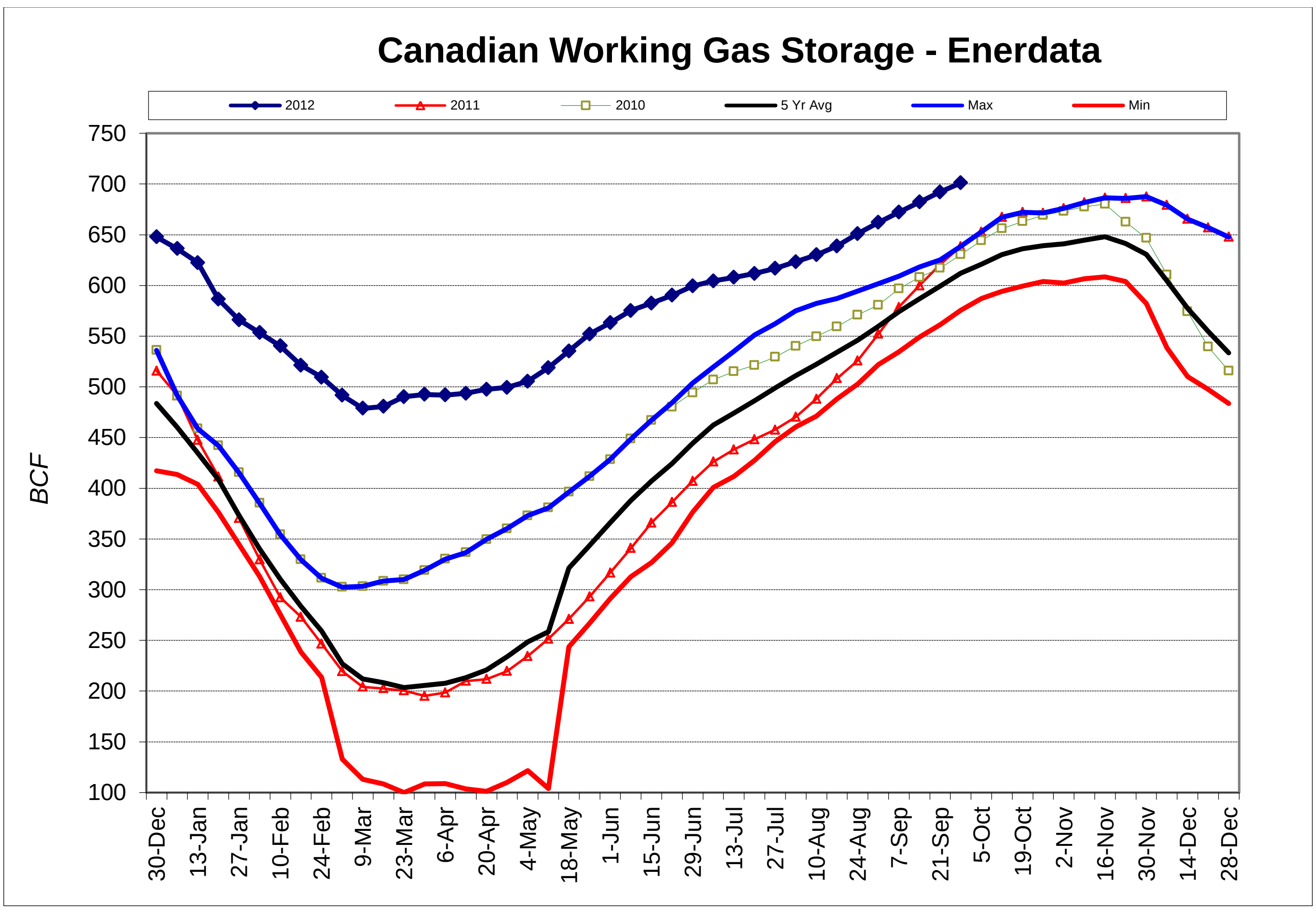
May-12
Jul-12
Sep-12


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
10-Aug
24-Aug
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
750
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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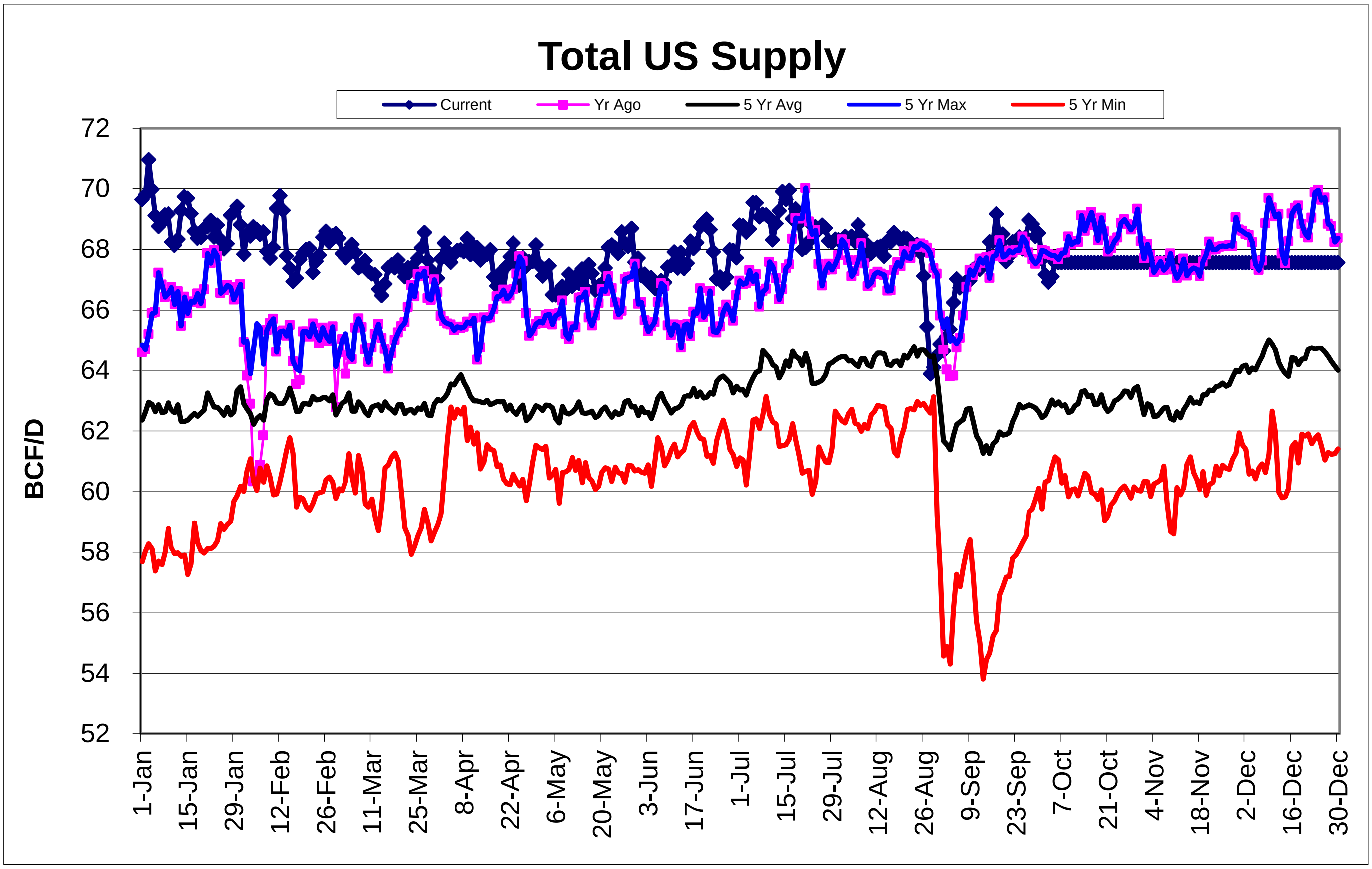
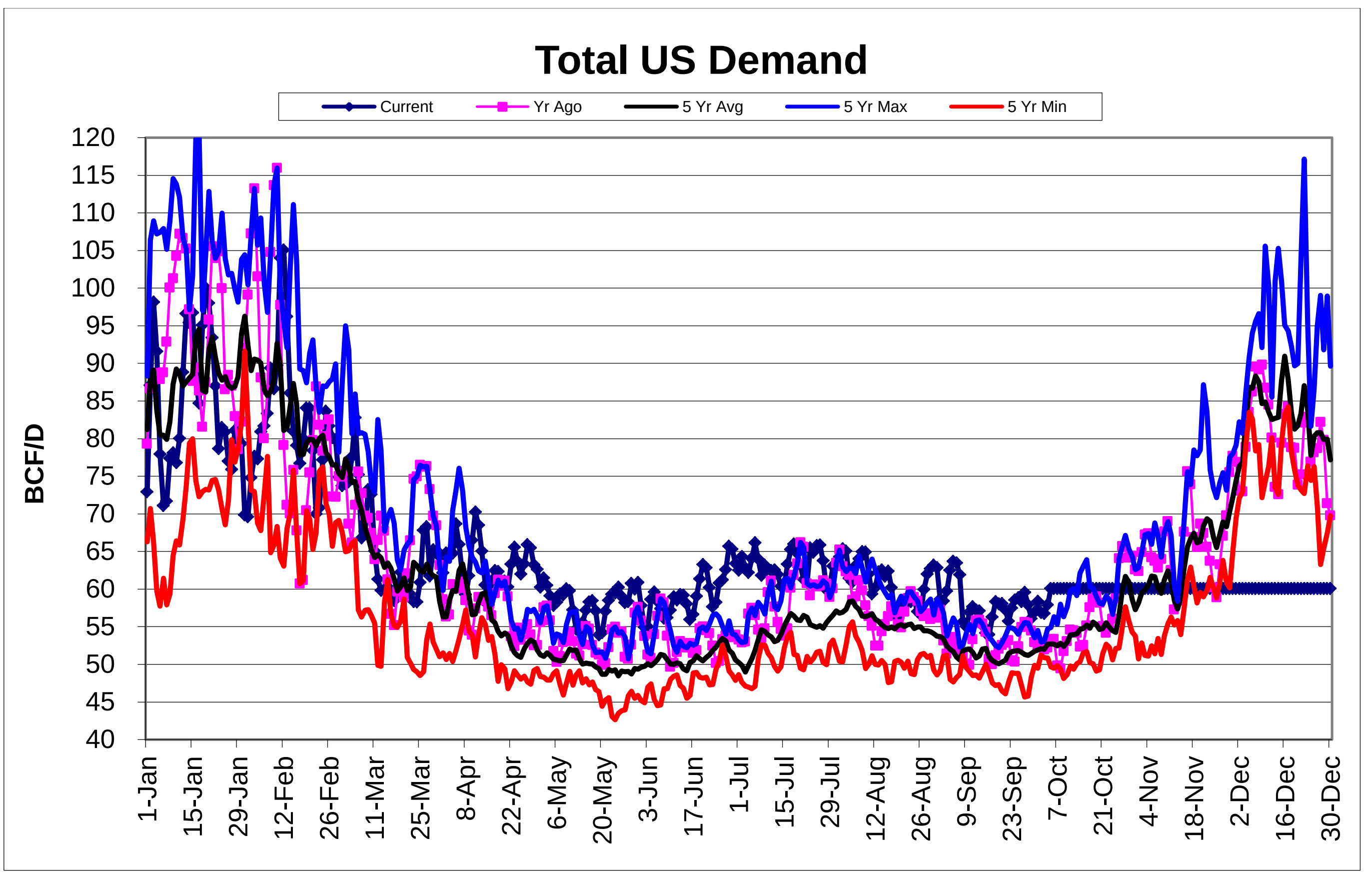
30-Nov
14-Dec
28-Dec





ADDITIONAL INFORMATION AVAILABLE UPON REQUEST