

IAF Advisors
Energy Market Outlook
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Price Action: Prices continued to rise with the November contract adding 21.5 cents (6.3%) to \$3.611 on a 31.1 cent range.

Price Outlook: Since 2000, 50 weeks have seen a new weekly high 3 weeks in a row, the current situation. Of those, 31 weeks witnessed another new weekly high. A price of only \$3.639 is needed to establish a new high. While fundamentals seem to be loosening, market momentum is clearly positive and funds have been adding length and still have room to buy more contracts. Bullish weather forecasts could easily continue to support higher prices. At the same time, the continued decrease in the yearly storage surplus remains bullish. Due to cooler temperatures and high injections in 2011, the storage surplus will likely continue to contract through the end of October. CFTC data indicated another sizable increase in the speculative net long position with a continuation of last week's activity. The position now eclipses the July peak. Although total open interest remains subdued at just shy of 5 million contracts as of October 9, the momentum is currently upward and while high, the net long speculative position remains well below historical peaks and fund buying could continue the recent upward momentum. However, without cooler temperatures, current prices are subject to a pullback.

Weekly Storage: US working gas storage rose 72 BCF for the week ending October 5. Current inventory levels of 3,725 BCF now rise 204 BCF (5.8%) above last year while surpassing the 5 year average by 264 BCF (7.6%).

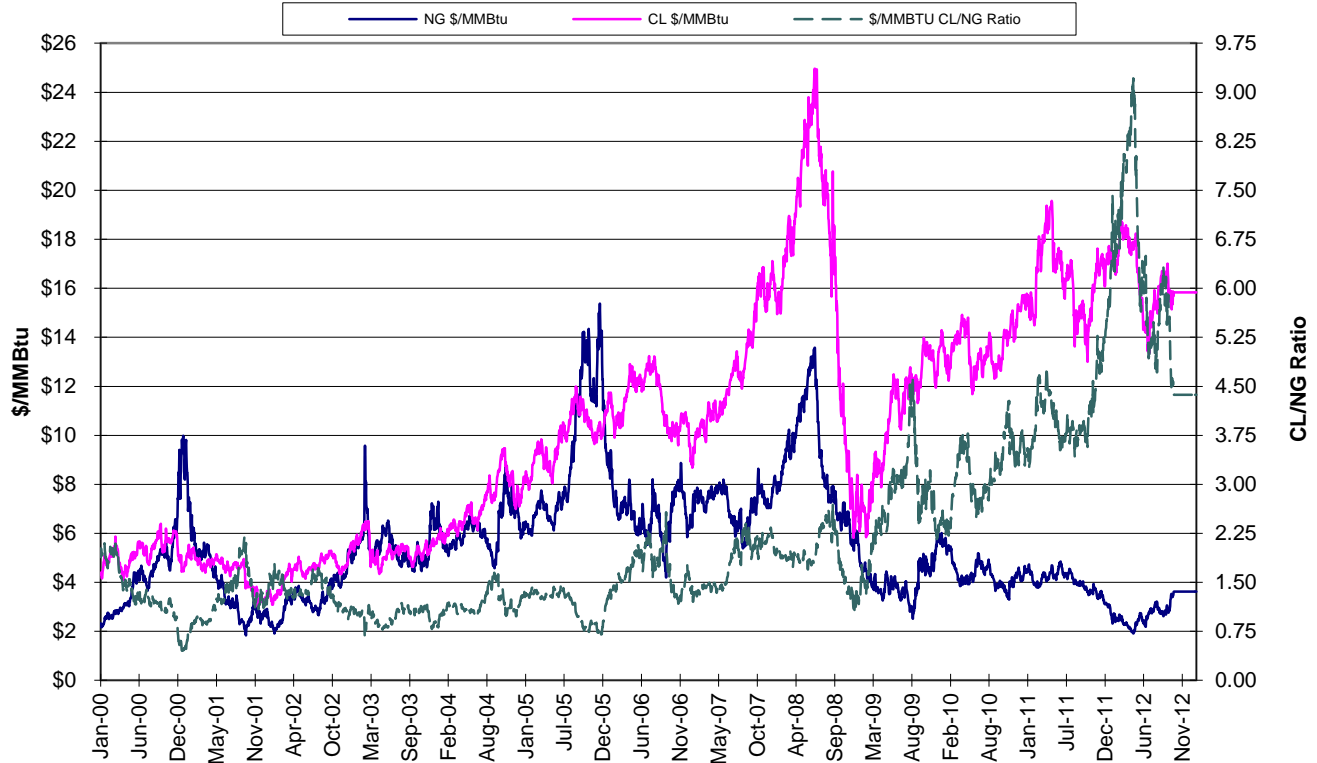
Storage Outlook: The 72 BCF injection was not considered nearly as bearish as recent injections. However, it appears to be an aberration as indications for injections for the week ending October 12 again appear rather bearish and power burn levels are indicating a significant loss of demand on a temperature adjusted basis.

Supply Trends: Total supply fell 0.8 BCF/D to 67.6 BCF/D. US production and Canadian imports fell with Mexican exports rising. LNG imports were unchanged. The US Baker Hughes rig count fell by 2 to 1,835 with higher oil activity not completely offset by another drop in natural gas. Canadian activity also slipped and thus the total North American rig count fell by 12 to 2,196, which now trails last year by 339. The higher efficiency US horizontal rig count fell 20 and at 1,112 falls 41 behind last year.

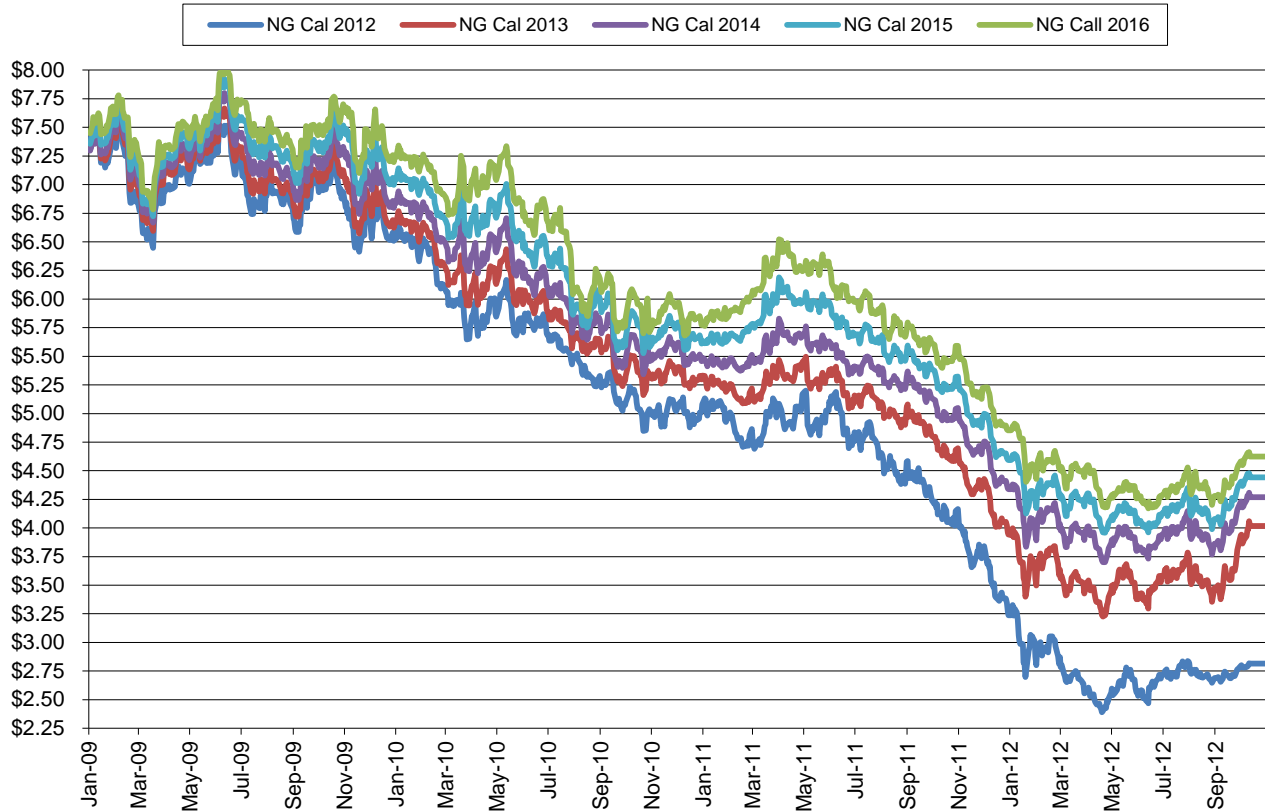
Demand Trends: Total demand fell 0.7 BCF/D to 57.4 BCF/D. Increased R&C demand was more than offset by lower power and industrial consumption. Electricity demand fell 949 gigawatt-hrs to 72,344, which exceeds last year by 1,474 (2.1%) while falling behind the 5 year average by 420 (0.6%). However, the main balancing factor in the natural gas market has been the coal-to-gas switching and there are signs that coal is beginning to reclaim market share, a potentially bearish development.

Other Factors: The S&P 500 index slipped despite a very positive weekly jobless claims number. However, skepticism was apparent as one state did not report.

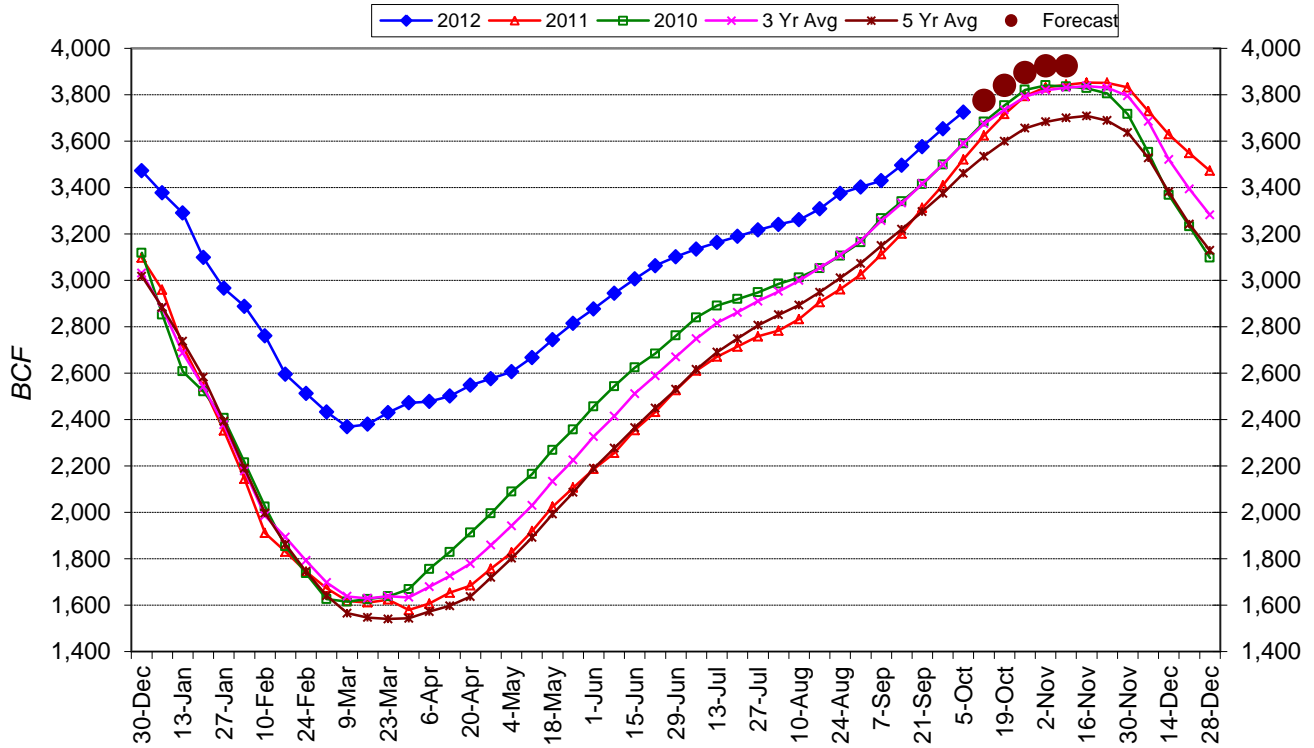
\$/MMBtu Ratio of NYMEX CL and NG



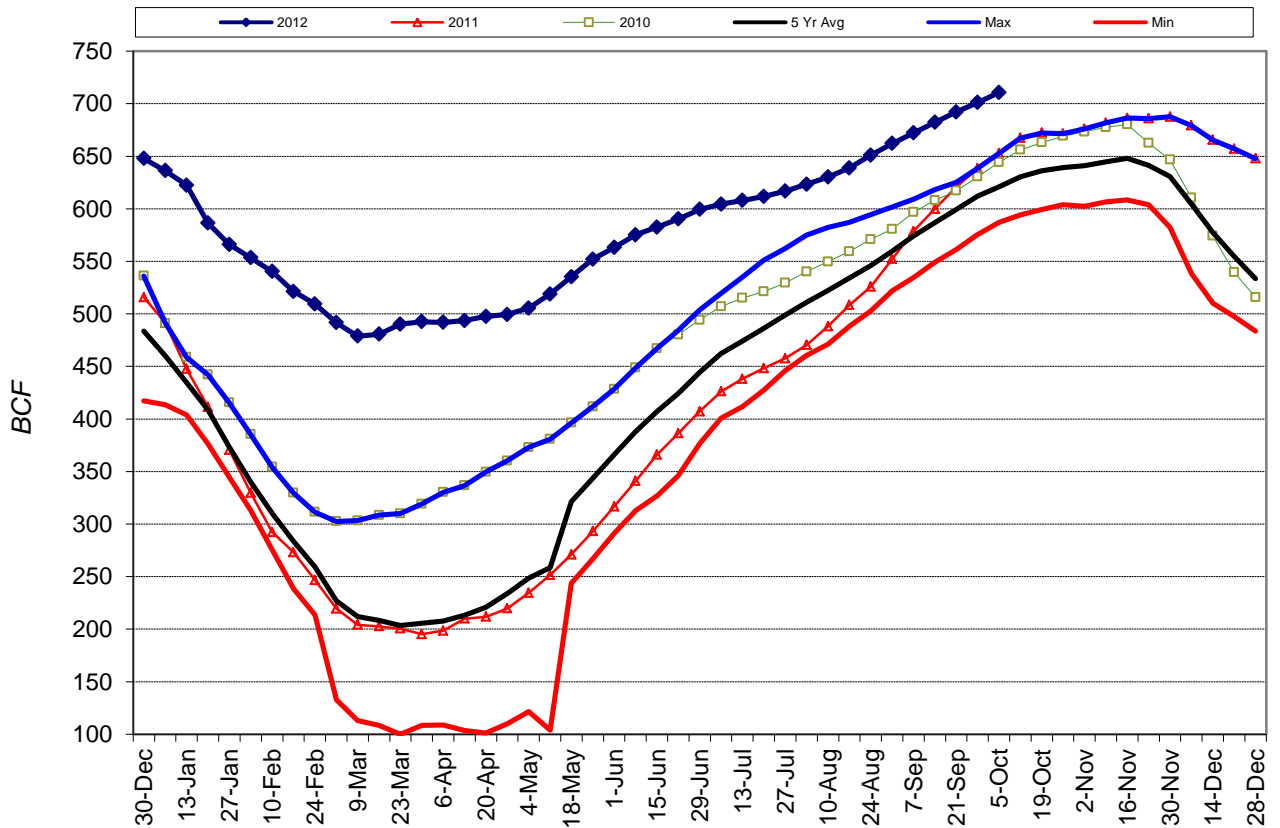
NYMEX Calendar Strips



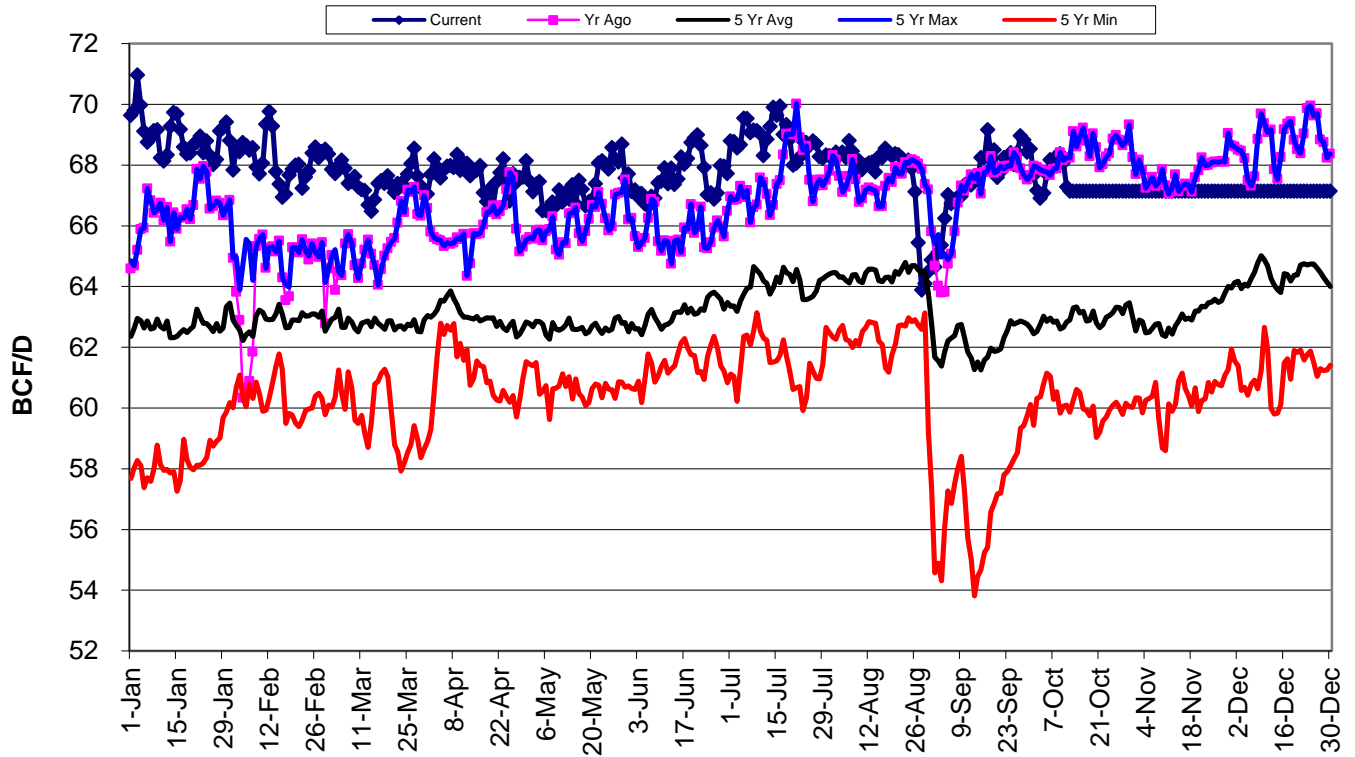
US Working Gas Storage - Source - EIA



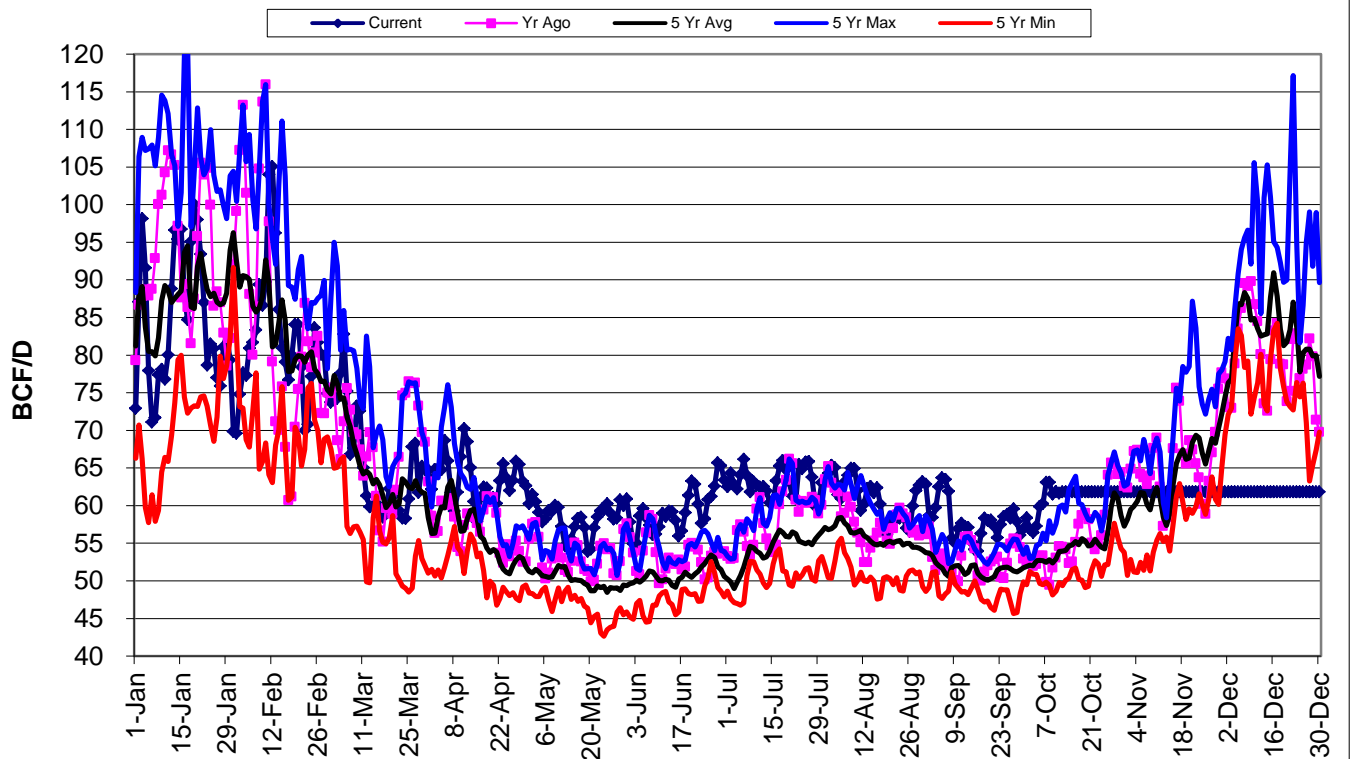
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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