

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
October 19, 2012

Price Action: Prices added just a smidge with the November contract adding 0.6 cents (0.2%) to \$3.617 on a 24.9 cent range.

Price Outlook: Since 2000, 32 weeks have seen a new weekly high 4 weeks in a row, the current situation. Of those, just 14 weeks witnessed another new weekly high. However, a price of only \$3.648 is needed to establish a new high. There is little new and the situation seems eerily similar to last week. 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. The continued decrease in the yearly storage surplus remains a rather bullish market factor and will likely continue to provide price support. Storage levels could easily trail year ago levels by late November. There continue to be indications that coal is beginning to reclaim market share, a potentially bearish development. CFTC data indicated a continued increase in the speculative net long position as momentum remained positive. Total open interest also surged, reaching nearly 5.1 million contracts as of October 16. While high, the net long speculative position remains well below historical peaks and fund buying could propel prices even higher.

Weekly Storage: US working gas storage rose 51 BCF for the week ending October 12. Current inventory levels of 3,776 BCF now rise 152 BCF (4.2%) above last year while surpassing the 5 year average by 241 BCF (6.8%).

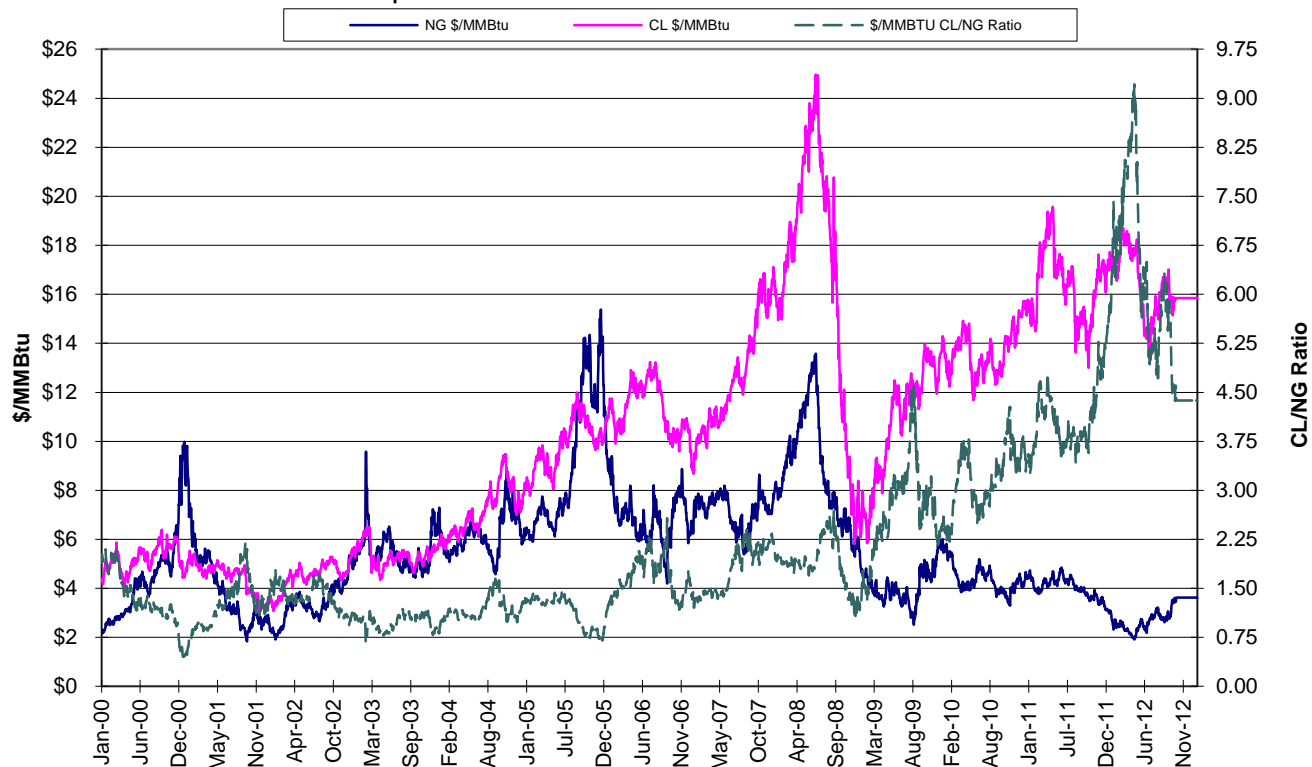
Storage Outlook: The 51 BCF injection was again considered rather bearish on a temperature adjusted and seasonal basis. However, the continued reduction in the YOY storage surplus is considered a major driver. After reaching a YOY storage surplus of 893 BCF on March 30, that surplus has been dramatically reduced. While power demand is expected to fall precipitously, increased heating demand will likely keep a bullish slant to yearly storage comparisons, due to the incredibly mild winter of 2011/12. Longer-term implications of the coal-to-gas interaction are deemed bearish.

Supply Trends: Total supply rose 0.3 BCF/D to 67.6 BCF/D. US production fell with Canadian imports surging. Mexican exports and LNG imports were unchanged. The US Baker Hughes rig count rose by 4 to 1,839 with lower oil activity offset by a slight uptick in natural gas. However, Canadian activity slipped and thus the total North American rig count fell by 2 to 2,194, which now trails last year by 316. The higher efficiency US horizontal rig count rose 2 and at 1,114 falls 28 behind last year.

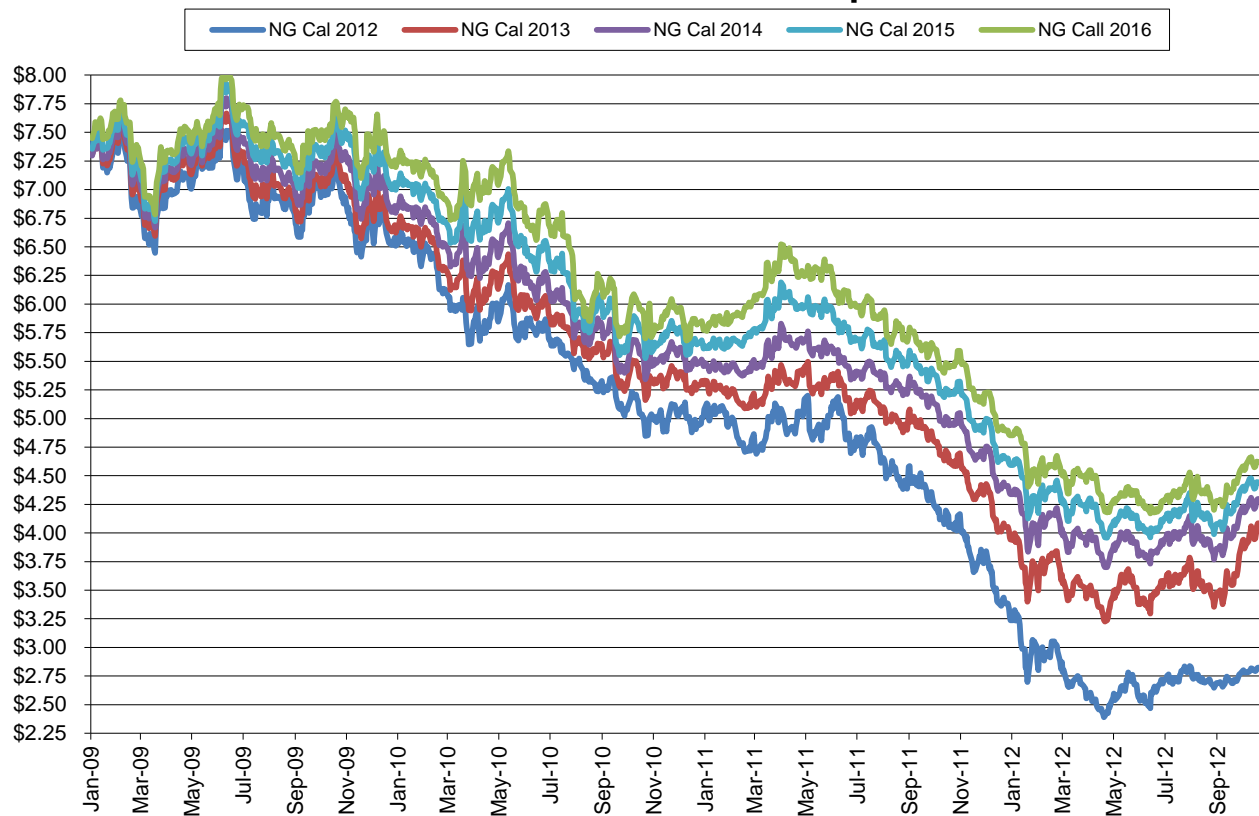
Demand Trends: Total demand rose 4.7 BCF/D to 61.6 BCF/D. Increased R&C and industrial demand more than offset lower power consumption. Electricity demand fell 2,044 gigawatt-hrs to 70,300, which trails last year by 1,249 (1.7%) and the 5 year average by 2,452 (3.4%). From this point forward, below normal temperatures are considered bullish.

Other Factors: The S&P 500 index did manage a slightly higher close, but was very weak on Friday. The weekly jobless claims shot higher as they reversed the suspiciously low prior week's number.

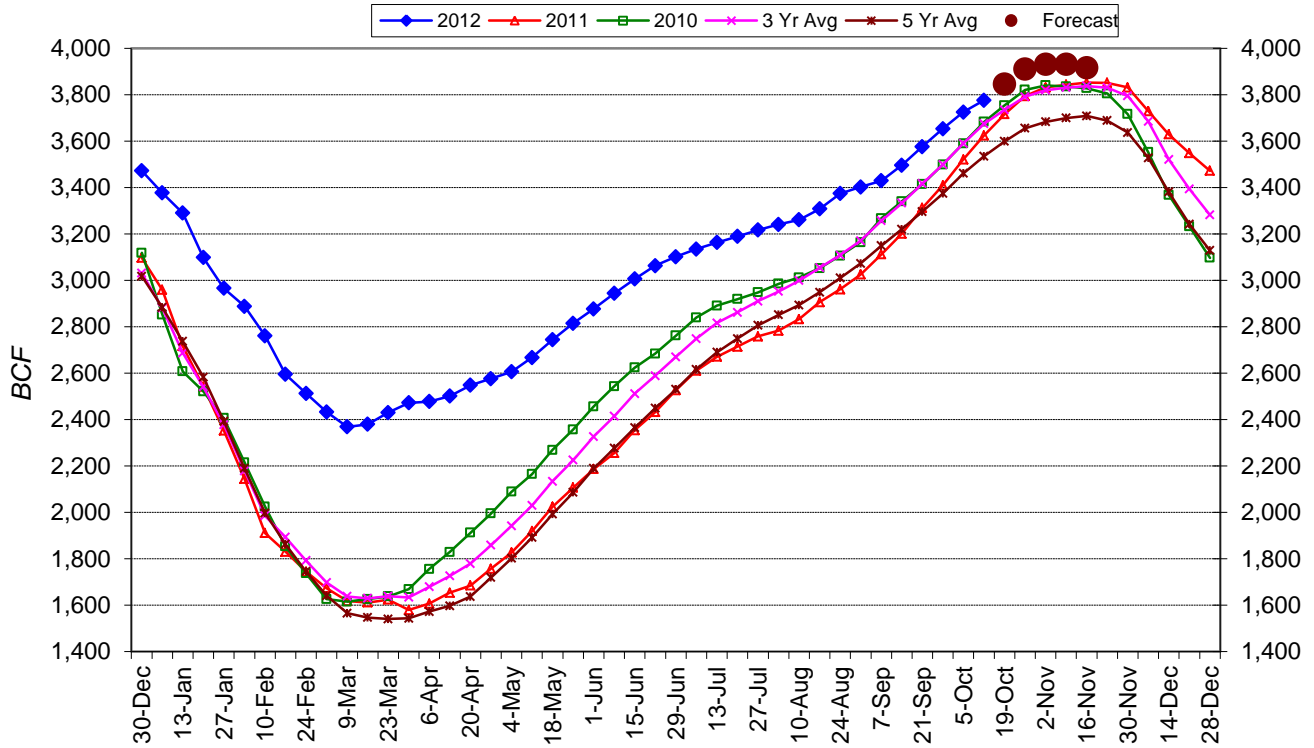
\$/MMBtu Ratio of NYMEX CL and NG



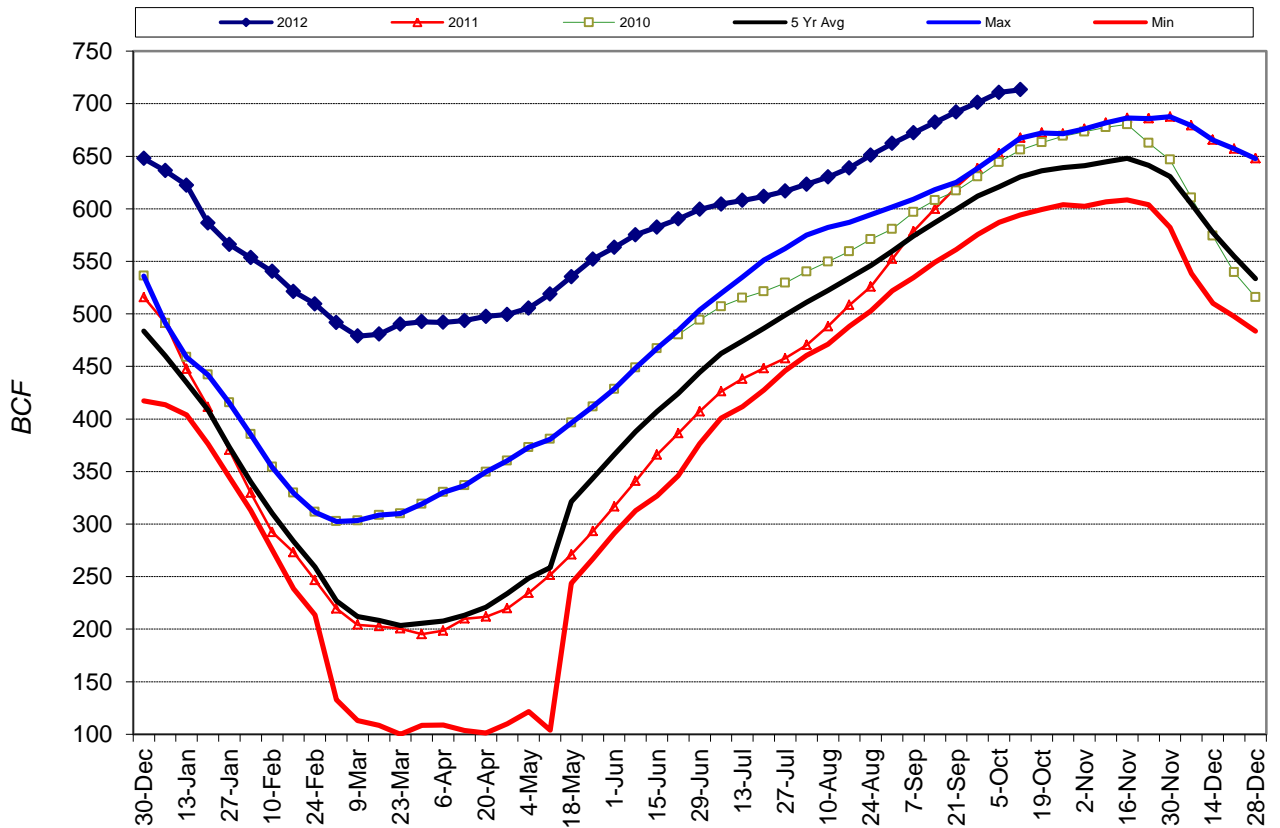
NYMEX Calendar Strips



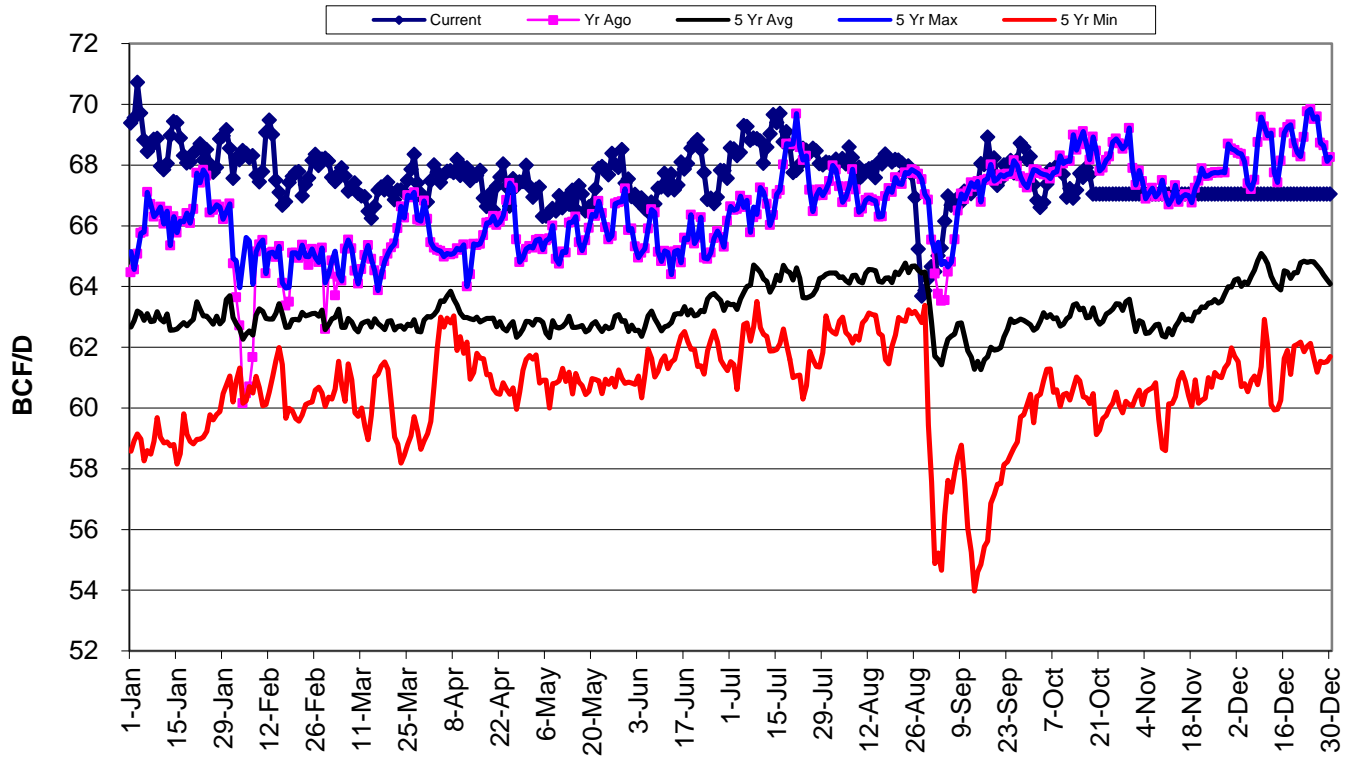
US Working Gas Storage - Source - EIA



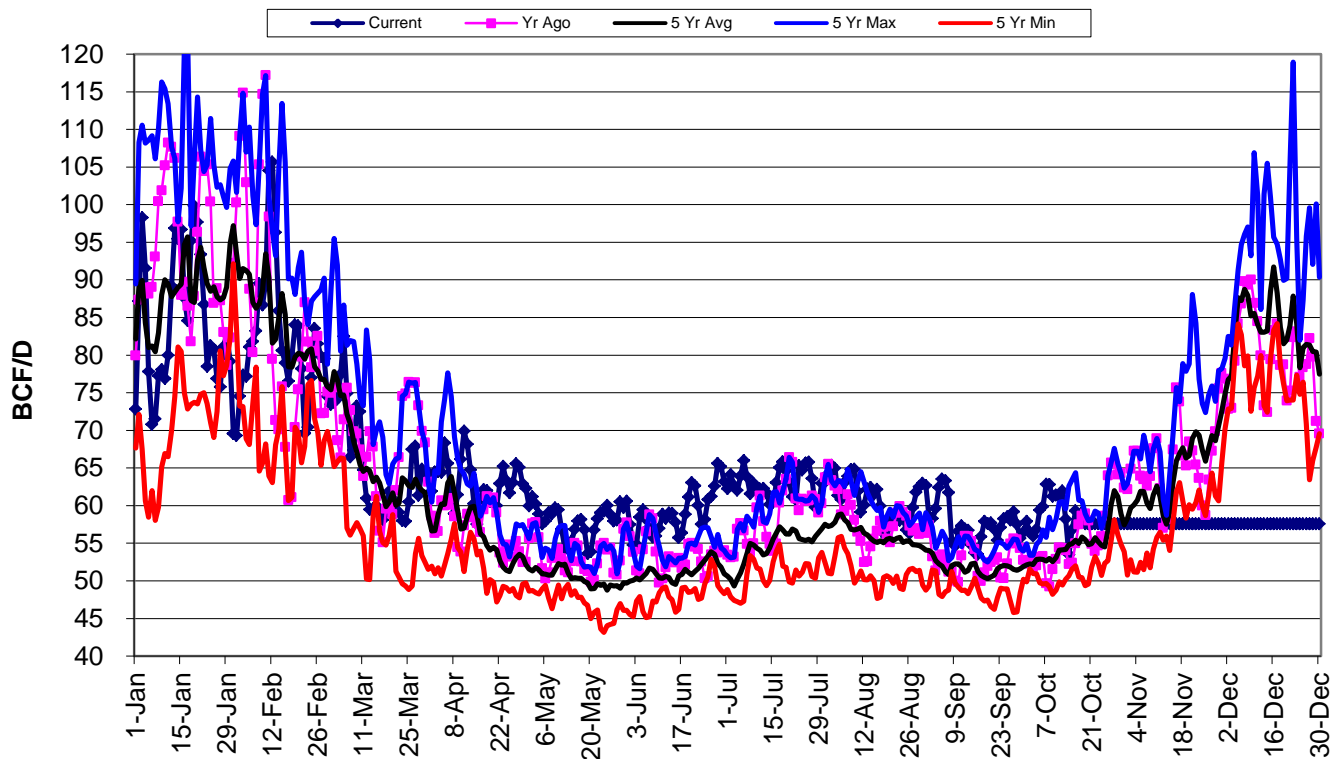
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any commodity, futures contract, or option contract. Although any statements of fact in this report have been obtained from and are based upon sources that IAF Advisors believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. IAF Advisors, its officers and/or employees, may at any time have a long and/or short position in any commodity, futures contract, or option contract mentioned in this report. All opinions and estimates included in this report constitute IAF Advisors judgment as of the date of this report and are subject to change without notice.

© 2012 IAF Advisors.