

IAF Advisors  
Energy Market Outlook  
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November 16, 2012

**Price Action:** Prices soared with the December contract up 28.7 cents (8.2%) to \$3.790 on a 36.0 cent range.

**Price Outlook:** After establishing a new low early in the week, prices finished on a strong note and prices are likely to establish a new weekly high as that requires just a \$3.831 print. Natural gas has a strong tendency to establish a new weekly high or low, and after witnessing a slight pause in the recent upward momentum, further upside is considered probable. Despite a weekly storage withdrawal that fell short of expectations, technical momentum and forecasts for below normal temperatures to end the month provided support. The market seemingly extrapolates the 11-15 day forecast for the balance of winter, resulting in a huge range of end of season values. Thus, while simplistic, this thought process does seem to drive market action in November and even early December. As the winter progresses and the end of season storage range contracts, this sensitivity to varying weather forecasts will diminish. CFTC data indicated another decrease in the speculative net long position. This was again as of Tuesday and the strength at the end of the week may indicate that the liquidation has ended. Price action suggests that new fund buying have further reduced the position. Total open interest rose slightly as of November 13, but remains on the low side.

**Weekly Storage:** US working gas storage fell 18 BCF for the week ending November 9. Current inventory levels of 3,911 BCF now rise 68 BCF (1.8%) above last year while surpassing the 5 year average by 211 BCF (5.7%).

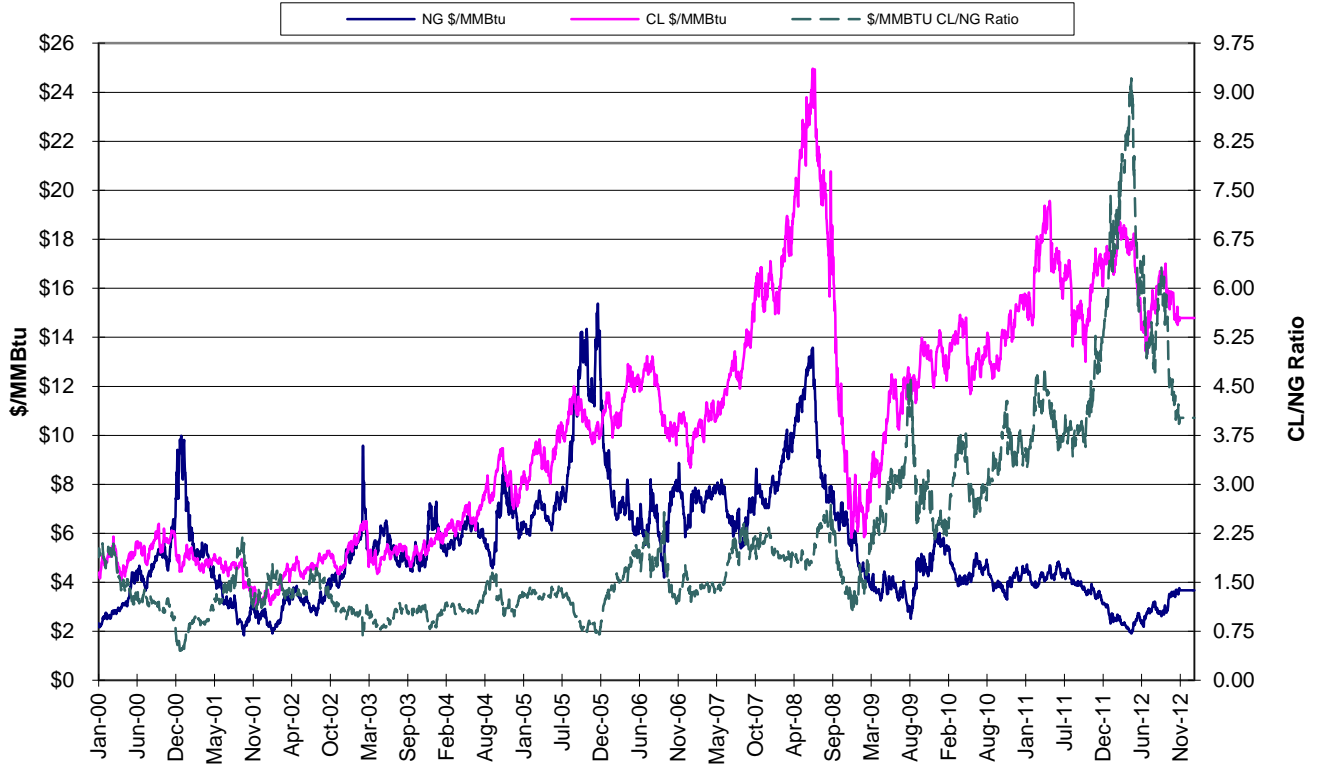
**Storage Outlook:** Considering expectations for another withdrawal for the week ending November 16, the seasonal peak has likely been seen. Inventories remain on track to fall below year ago levels by the end of November and preliminary estimates for end of winter stock levels still remain near 1,800 BCF. While well below the record 2012, this will remain a very high level to begin the 2013 injection season. However, with a full winter still ahead, the final inventory estimation is subject to substantial revision.

**Supply Trends:** Total supply fell 0.3 BCF/D to 68.2 BCF/D. Lower US production and Canadian imports more than offset lower Mexican exports to increase supply. 3rd quarter E&P company reports generally remain bearish as most continue to indicate efficiency gains and most projecting continued production growth. The US Baker Hughes rig count rose 3 to 1,809 as both oil and natural gas activity picked up. Canadian activity also rose and thus the total North American rig count rose by 17 to 2,193, which now trails last year by 295. **The higher efficiency US horizontal rig count rose 1 and at 1,105 falls 42 behind last year.**

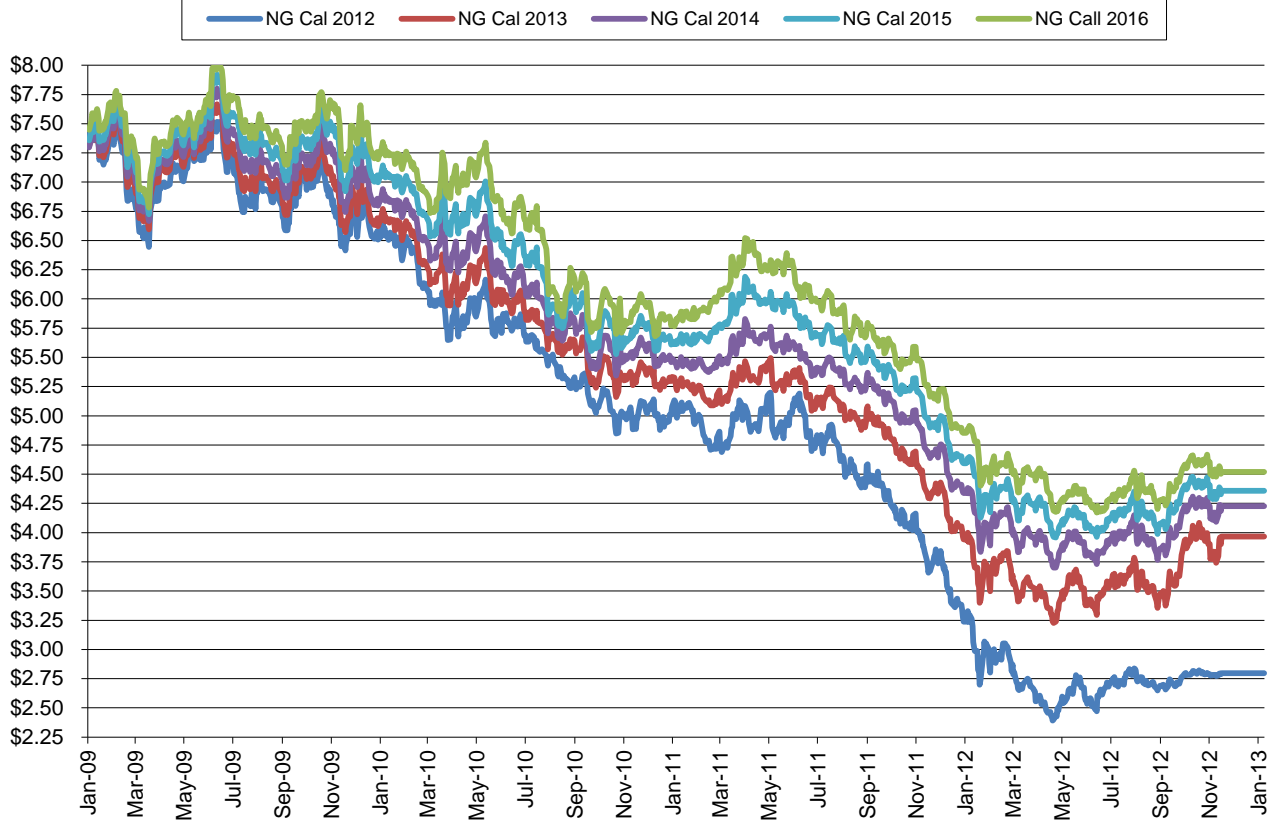
**Demand Trends:** Total demand rose another 4.6 BCF/D to 69.3 BCF/D. Lower power demand was again more than offset by increased R&C and industrial demand. Electricity demand rose 1,783 gigawatt-hrs to 70,501, which trails last year by 405 (0.6%) and the 5 year average by 633 (0.9%). **There continues to be evidence of a drop in temperature adjusted power demand, a quite bearish factor.**

**Other Factors:** The S&P 500 index continued to slide, although it did end on an uptick as hope about a compromise between Congressional leaders and the White House emerged.

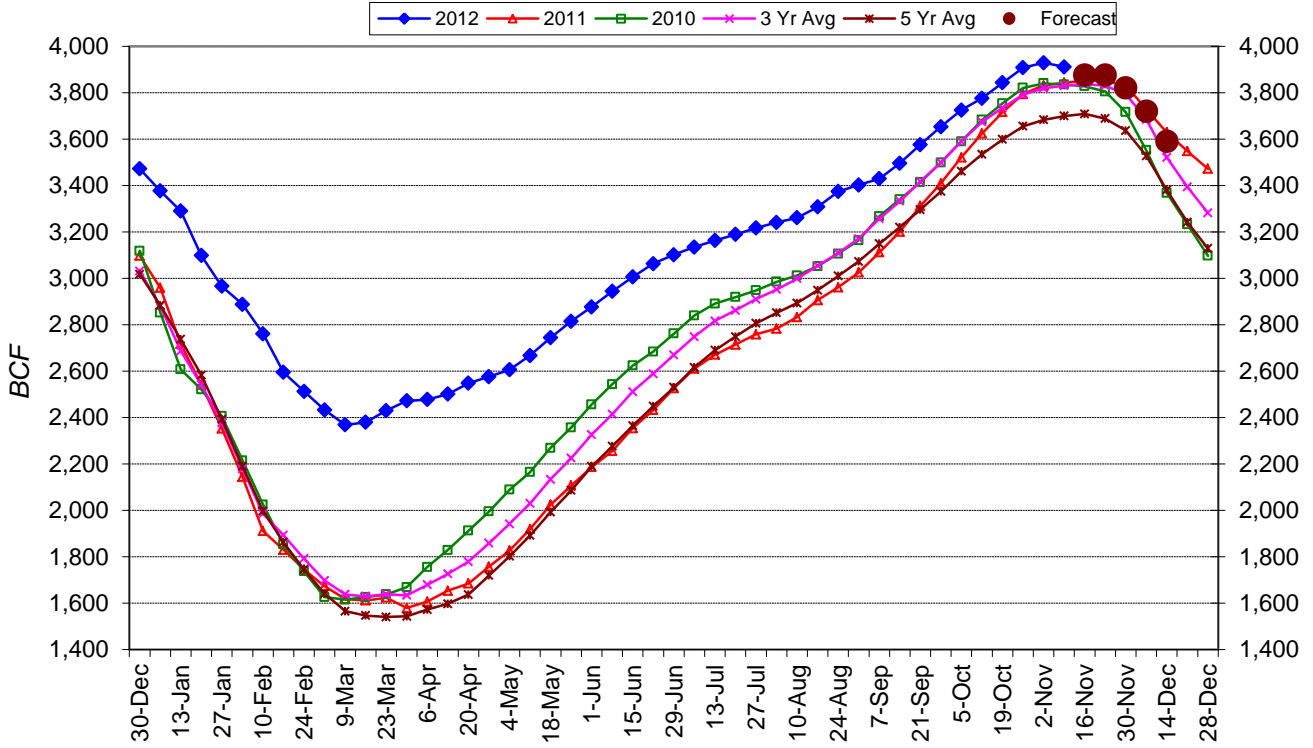
### \$/MMBtu Ratio of NYMEX CL and NG



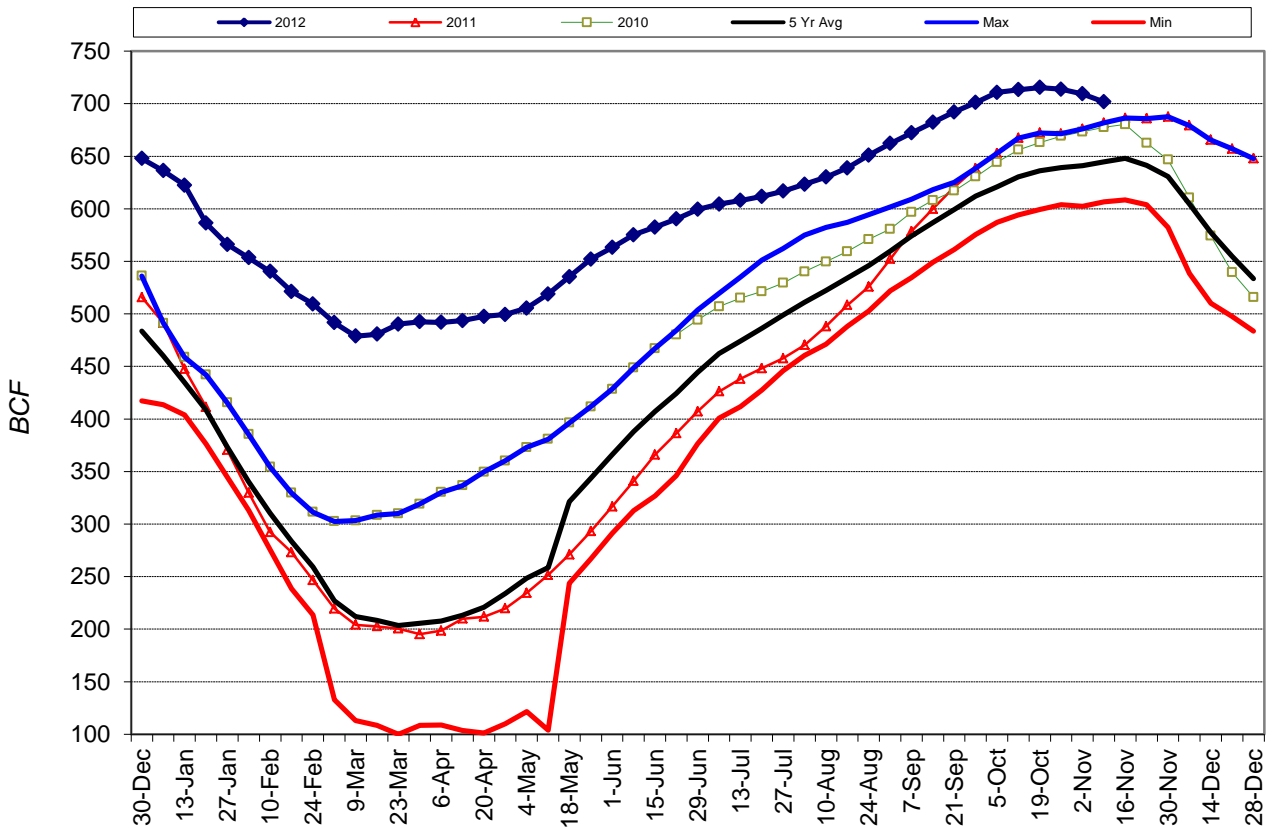
### NYMEX Calendar Strips



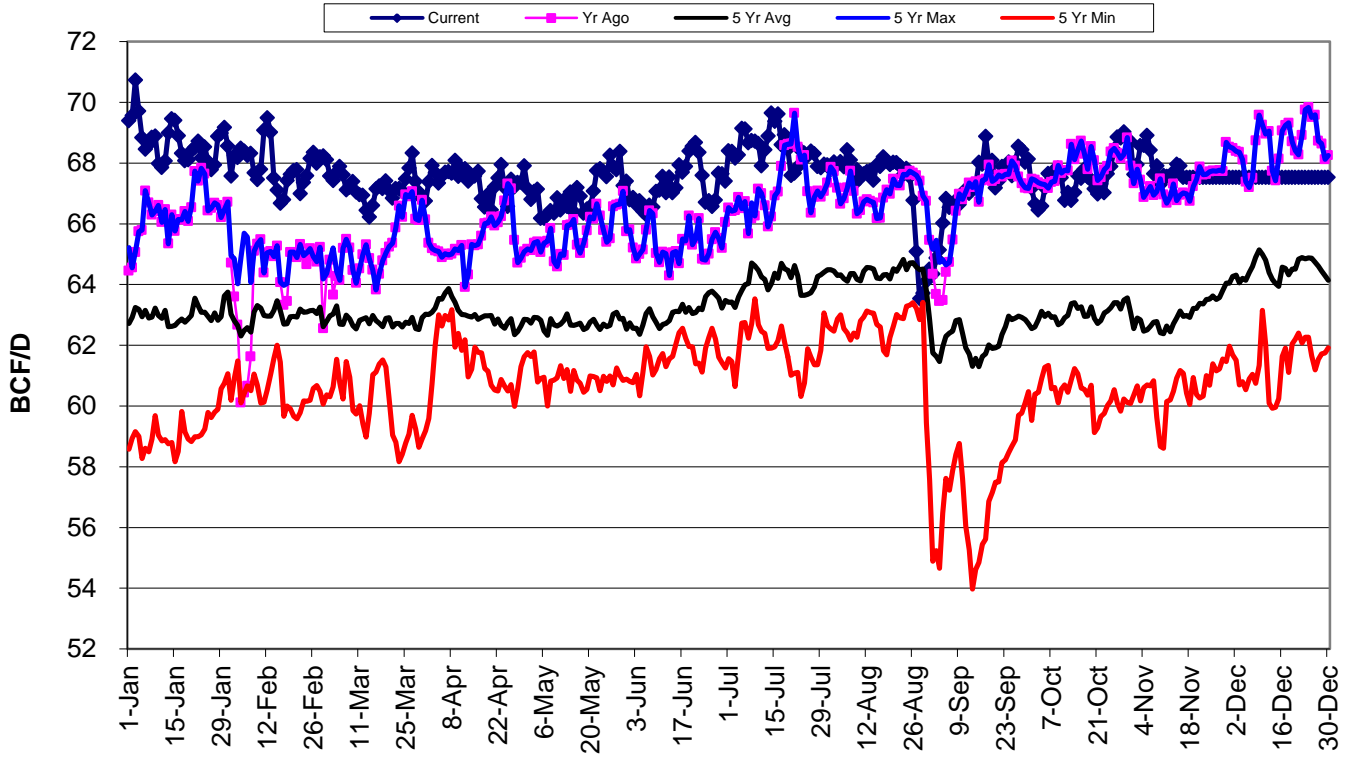
### US Working Gas Storage - Source - EIA



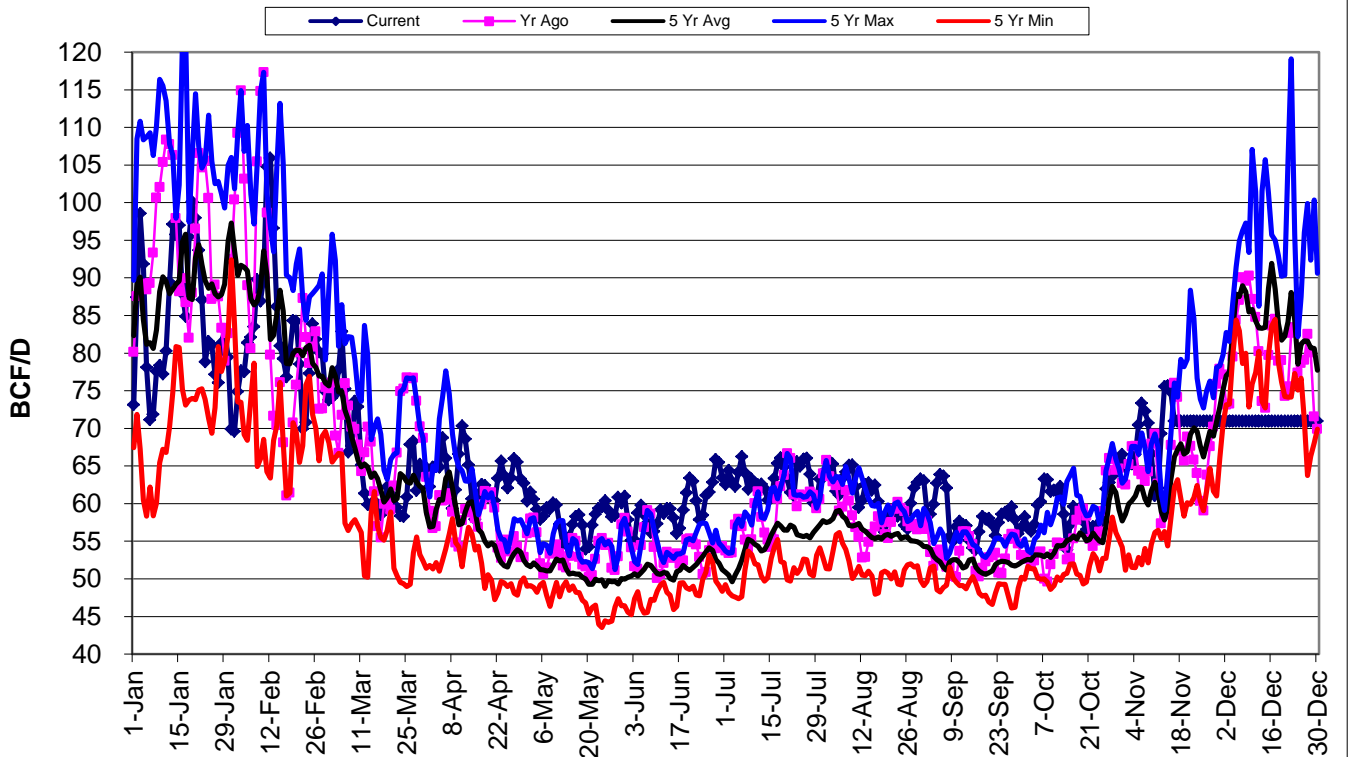
### Canadian Working Gas Storage - Enerdata



### Total US Supply



### Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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