

IAF Advisors
Energy Market Outlook
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Price Action: Prices plummeted basis the now prompt January contract with prices falling 47.3 cents (2.9%) to \$3.561 on a 45.8 cent range.

Price Outlook: Weather forecasts for very moderate temperatures in early December were the driver for the softness as concerns about heating related demand drove the market. While a repeat of the incredible warmth last year is unlikely to be repeated, none-the-less, mild temperatures are still bearish. Also, on a calendar basis, combined with the most recent 15 day forecast, approximately 30% of the winter has now passed. Thus, as each day passes without significant cold, a bullish surprise is less likely. Despite a November that was the coldest since 2002, inventories remain near seasonal records and the forecast for a mild early December will likely keep the storage level a bearish factor for a while longer. Considering the weak close, a new low next week of \$3.545 is likely. A very dramatic reduction in the net speculative long position left net length at the lowest level since late September. Further liquidation may continue to lead prices even lower with a possible net short position developing if price weakness and moderate temperatures persist. Total open interest across the complex stood at just 4.82 million contracts as of November 27.

Weekly Storage: US working gas storage rose 4 BCF for the week ending November 23. Current inventory levels of 3,877 BCF now rise 26 BCF (0.5%) above last year while surpassing the 5 year average by 189 BCF (4.4%).

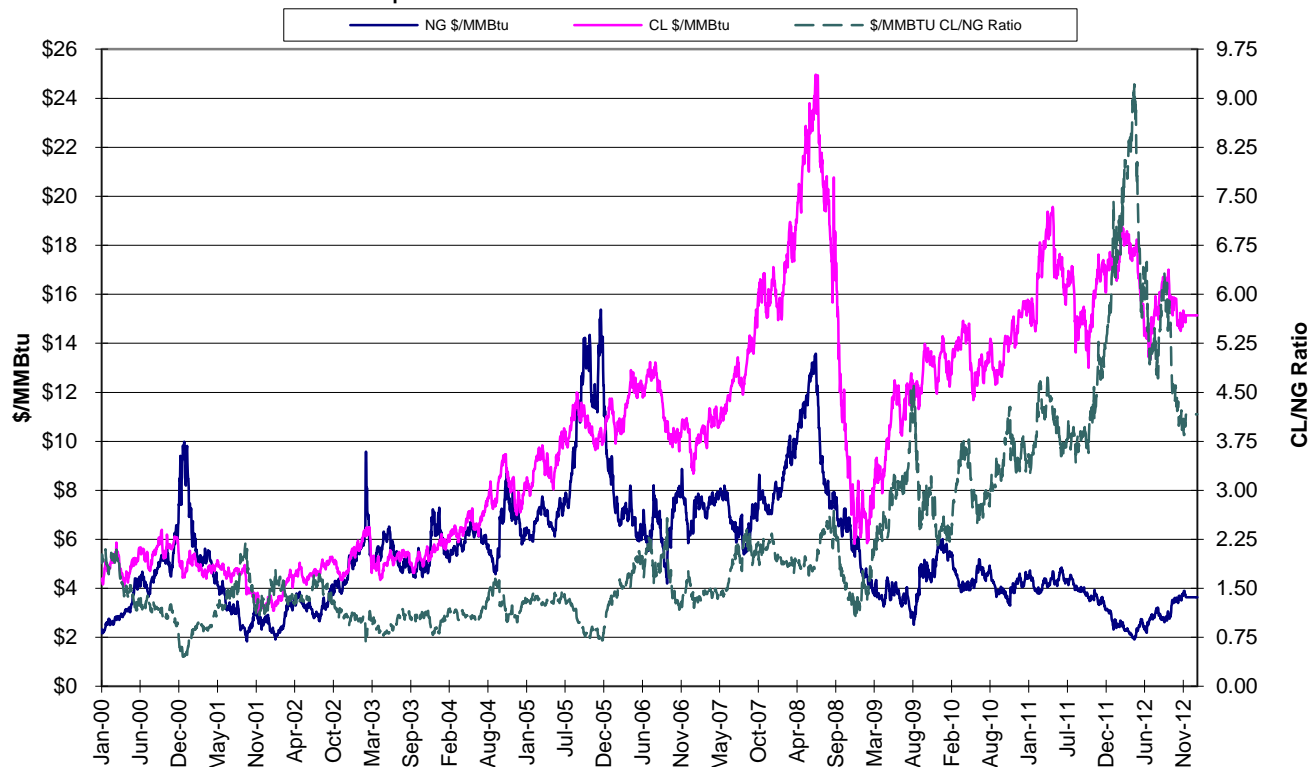
Storage Outlook: The surprising build was only one of a few this season that exceeded either last year or the 5 year average. The result of mild temperatures and a significant holiday effect, the build also more importantly supplied further evidence that natural gas is losing market share back to coal. This is clearly a longer term more bearish factor.

Supply Trends: Total supply rose 0.2 BCF/D to 67.9 BCF/D. Higher US production equally matched lower Canadian imports with decreased Mexican exports adding to the total supply. The US Baker Hughes rig count fell 6 to 1,811 as both oil and natural gas reported a drop in activity. However, Canadian activity picked up enough to lift the total North American rig count 6 to 2,210, which now trails last year by 267. The higher efficiency US horizontal rig count fell 4 and at 1,110 falls 46 behind last year.

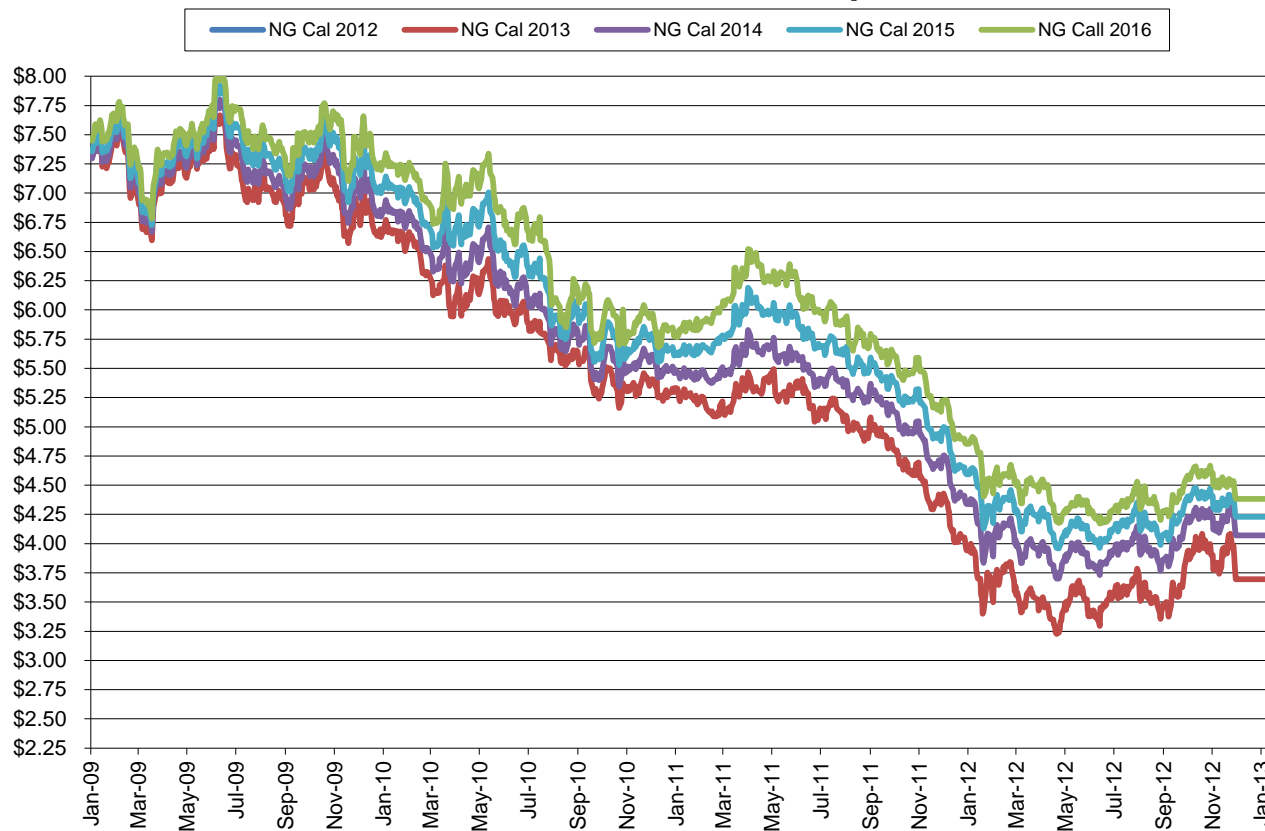
Demand Trends: Total demand fell 4.8 BCF/D to 65.1 BCF/D. Demand fell in all sectors driven by moderate temperatures and the Holiday. Electricity demand fell 2,444 gigawatt-hrs to 69,080, which trails last year by 286 (0.4%) and the 5 year average by 2,884 (4.0%). There continues to be evidence of a drop in temperature adjusted power demand, a quite bearish factor.

Other Factors: The S&P 500 index rose slightly with housing price data offsetting still high unemployment claims.

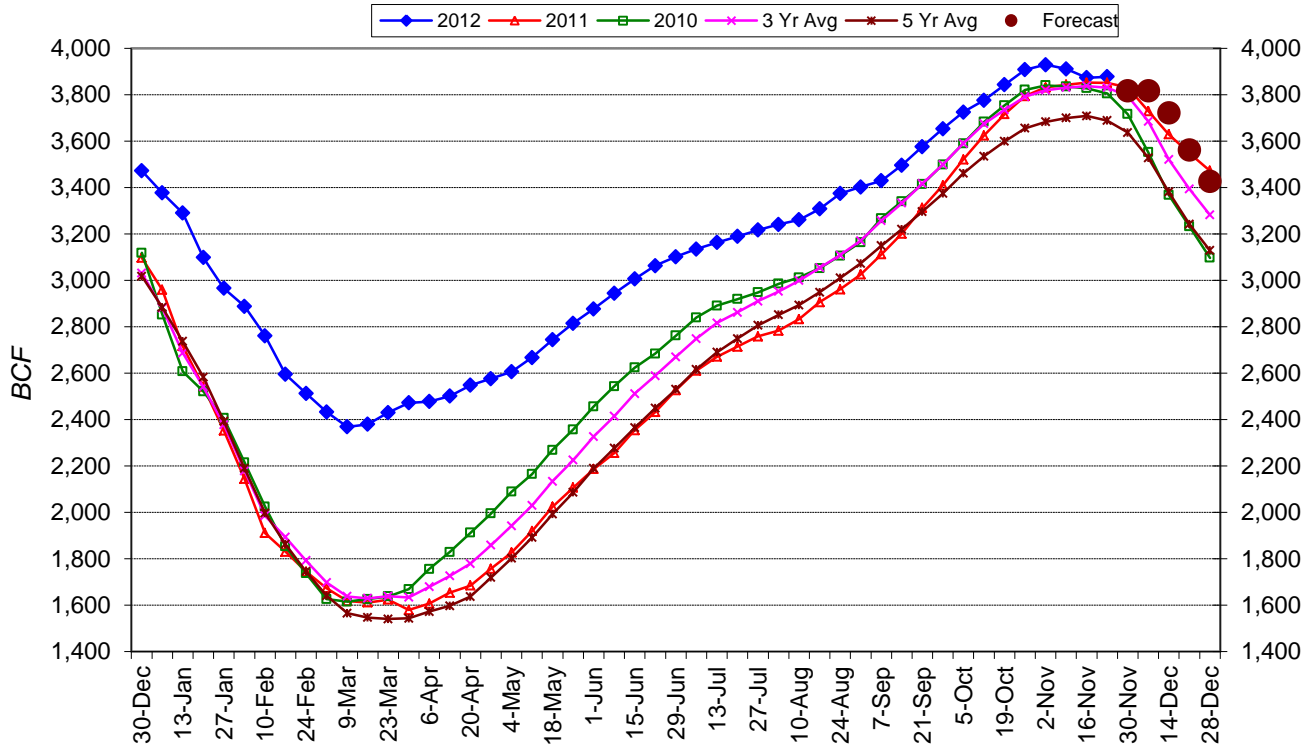
\$/MMBtu Ratio of NYMEX CL and NG



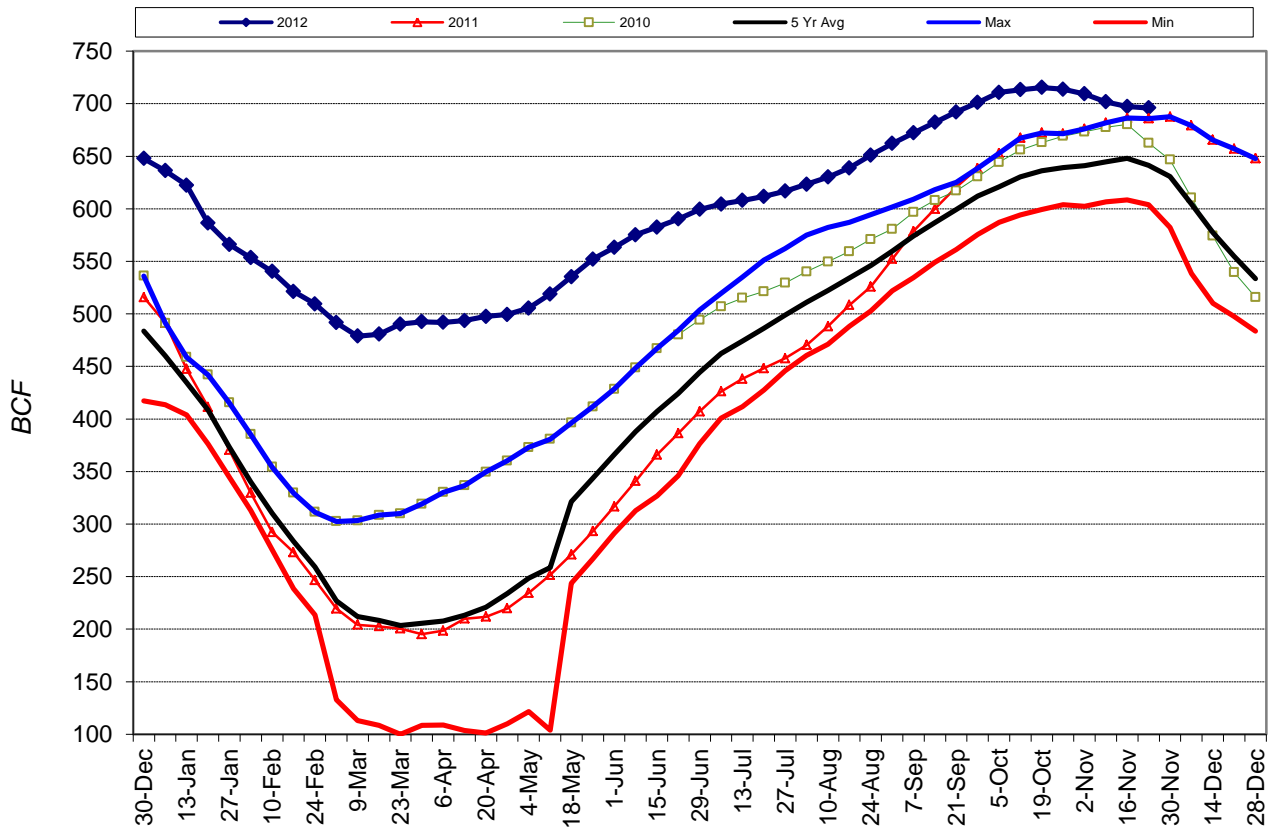
NYMEX Calendar Strips



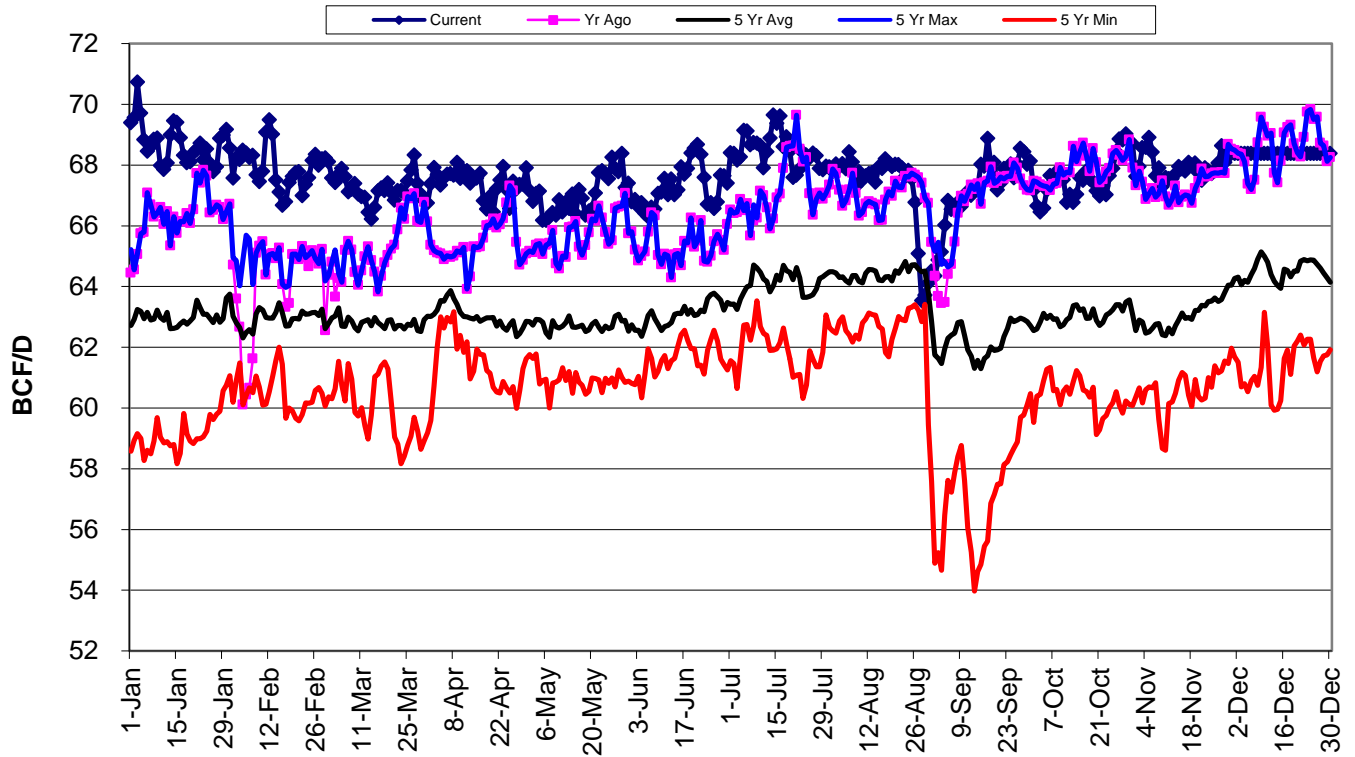
US Working Gas Storage - Source - EIA



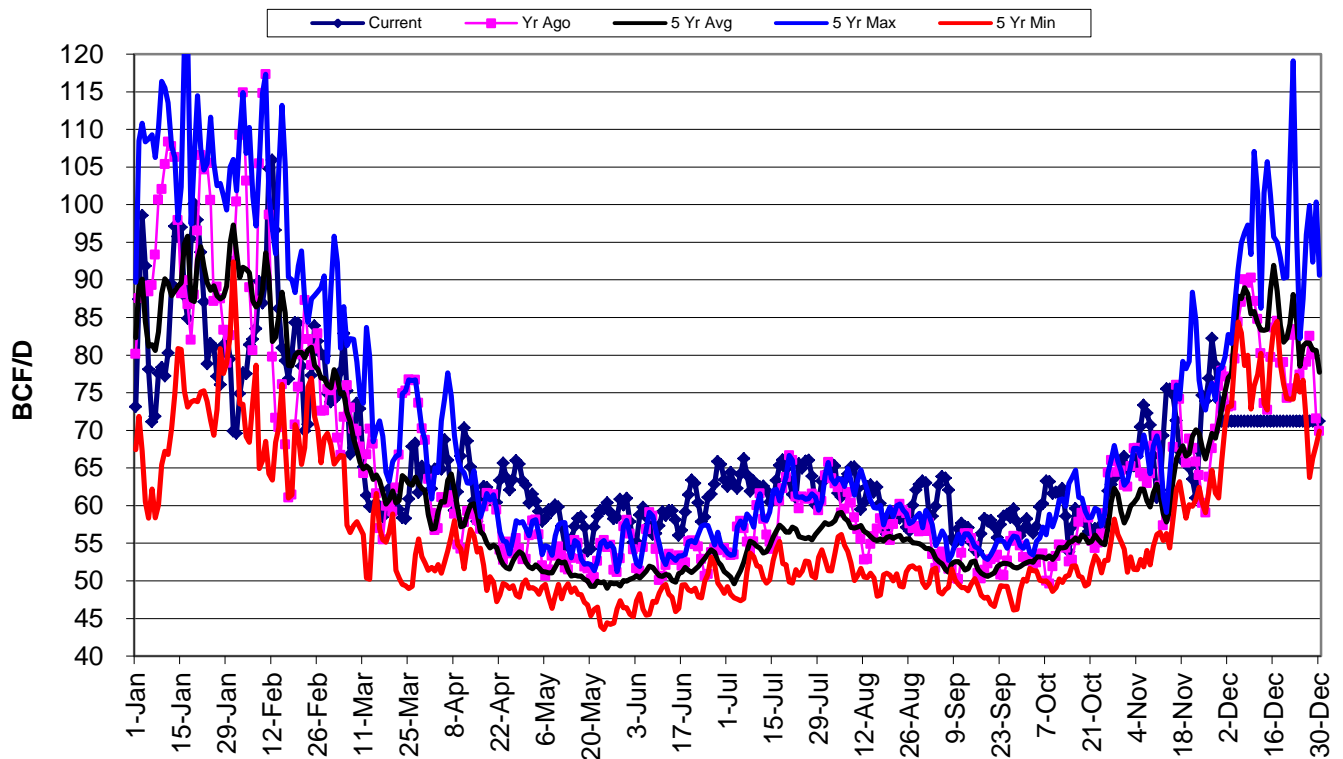
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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