

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
December 24, 2012

Price Action: The market staged a nice rally with prices rising 13.7 cents (4.1%) to \$3.451 on a 23.1 cent range.

Price Outlook: While a new low was considered likely this week, weather forecasts indicated some moderation in the early December extreme warmth and the market staged a rather rare inside week. Since 2000, only 55 weeks have failed to establish a new low or high. In fact, while this evaluation uses a generic contract price that admittedly results in some skewed representations during an expiration week, there have been 73 weeks that have established both a new high and low in the same week, exhibiting the historically high natural gas volatility. Weather forecasts have turned much colder and the bulk of the heating season is still to come. A cold January and February could easily overcome the very bearish start to the winter of 2012/13. The recent price drop has also alleviated what had become a bearish temperature adjusted supply/demand situation in light of still incredibly high storage levels. The outlook is now much more balanced to end the year and Mother Nature will remain the primary driver in the next few weeks.

Weekly Storage: US working gas storage fell 82 BCF for the week ending December 14. Current inventory levels of 3,724 BCF now rise 95 BCF (2.6%) above last year while surpassing the 5 year average by 343 BCF (10.2%).

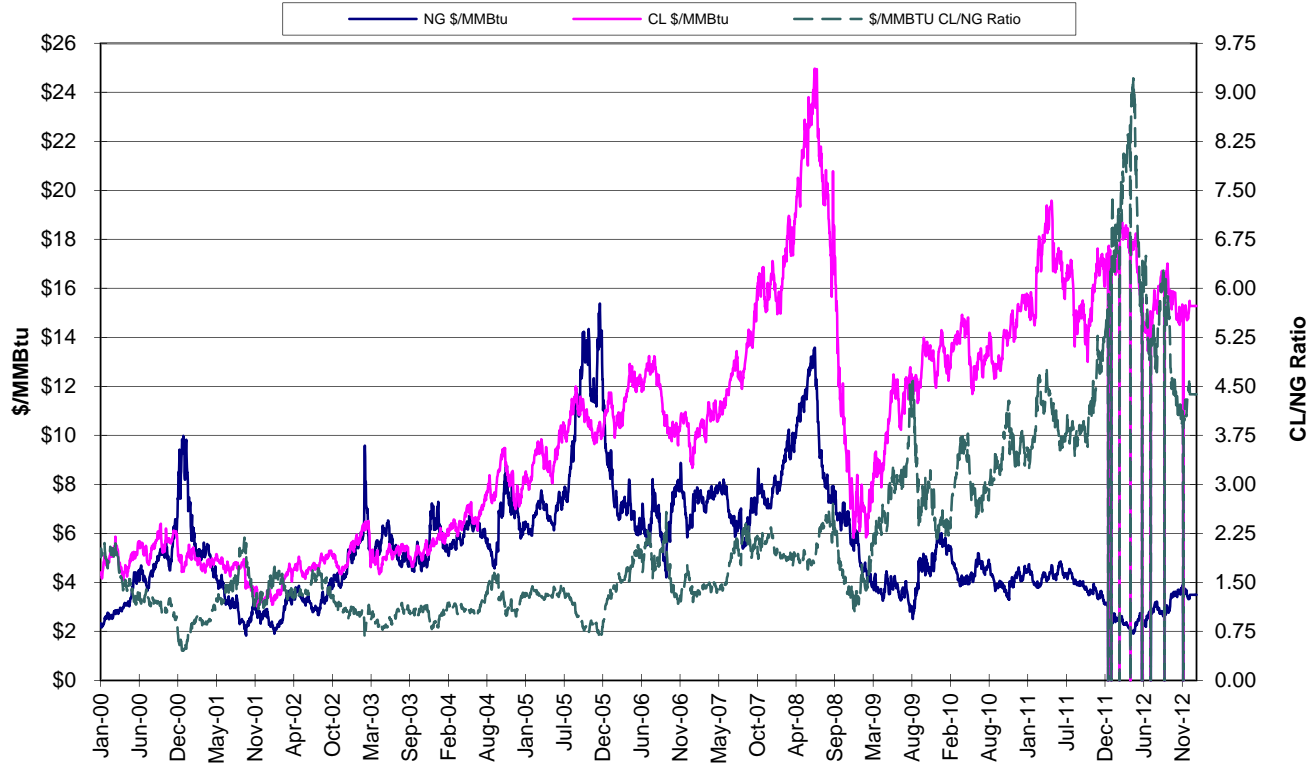
Storage Outlook: After slipping to a surplus of just 165 BCF for the week ending 11/16, the incredible recent warmth has seen that surplus again surge. After peaking at an impressive 928 BCF on March 30, even this recent increase still results in an amazing reduction in less than a year. However, the significant changes in the historical relationships do highlight both the influence of Mother Nature and the market's ability to adjust via demand responses.

Supply Trends: Total supply fell 0.2 BCF/D to 67.7 BCF/D. Lower US production offset an uptick in Canadian imports. LNG imports were unchanged with Mexican exports slightly higher. The US Baker Hughes rig count fell 25 to 1,774 as a rather significant drop in oil activity more than eclipsed a rise in natural gas. Canadian activity saw a drop as well and thus the total North American rig count fell 59 to 2,158, which now trails last year by 256. The higher efficiency US horizontal rig count was unchanged and at 1,105 falls 67 behind last year.

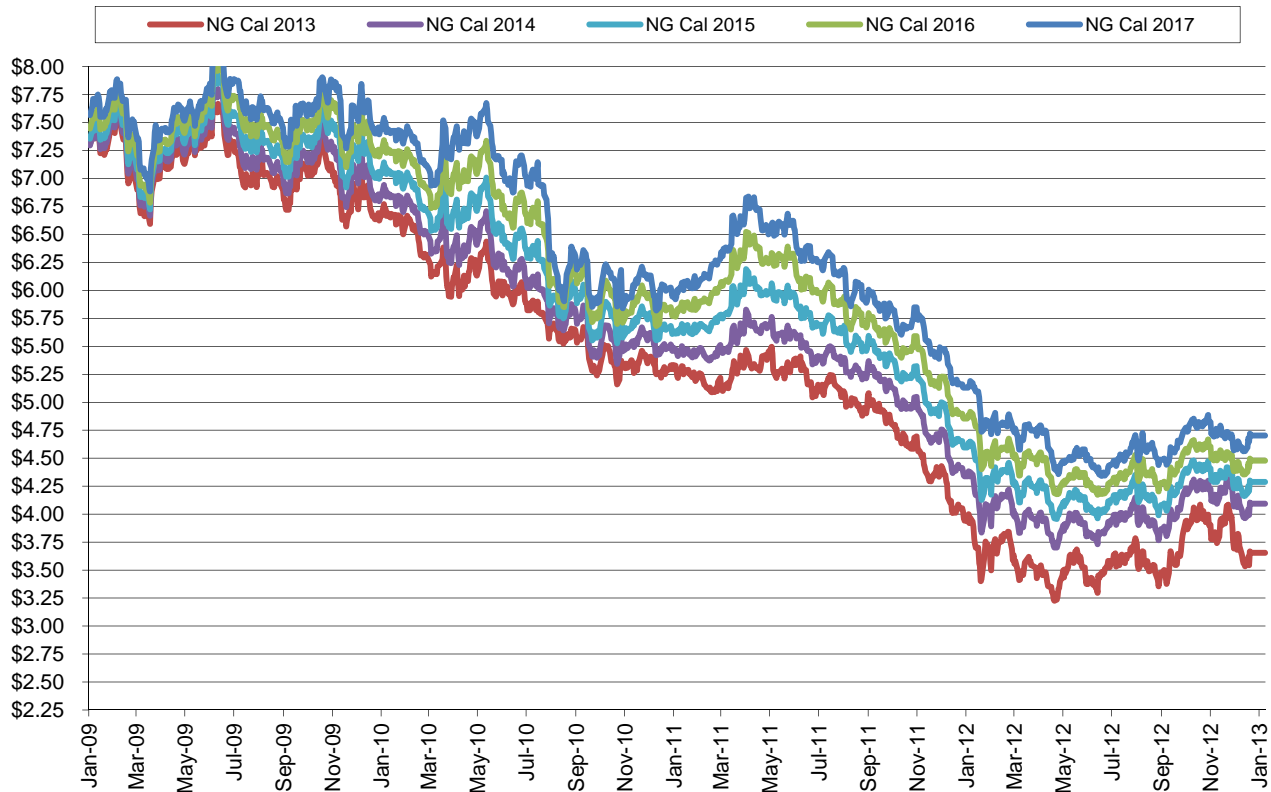
Demand Trends: Total demand soared 12.0 BCF/D to 77.3 BCF/D. Demand rose in all sectors driven by the return of more seasonal temperatures. Electricity demand rose 5,251 gigawatt-hrs to 76,764, which trails last year by 1,257 (1.6%) and the 5 year average by 4,536 (5.6%). With what is now considered a much more balanced temperature adjusted supply/demand balance, the weather forecasts take on increasing importance.

Other Factors: The S&P 500 index rose on the week, but ended on a down note as a budget deal remains elusive.

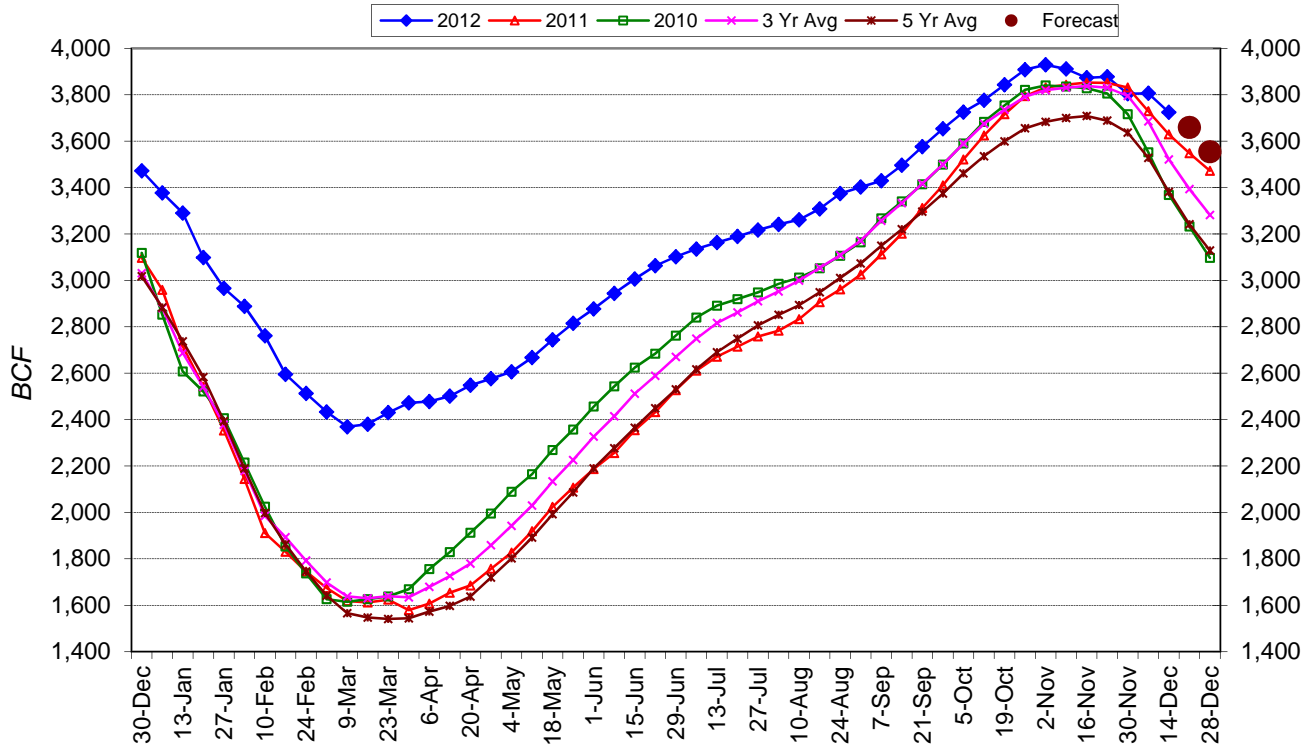
\$/MMBtu Ratio of NYMEX CL and NG



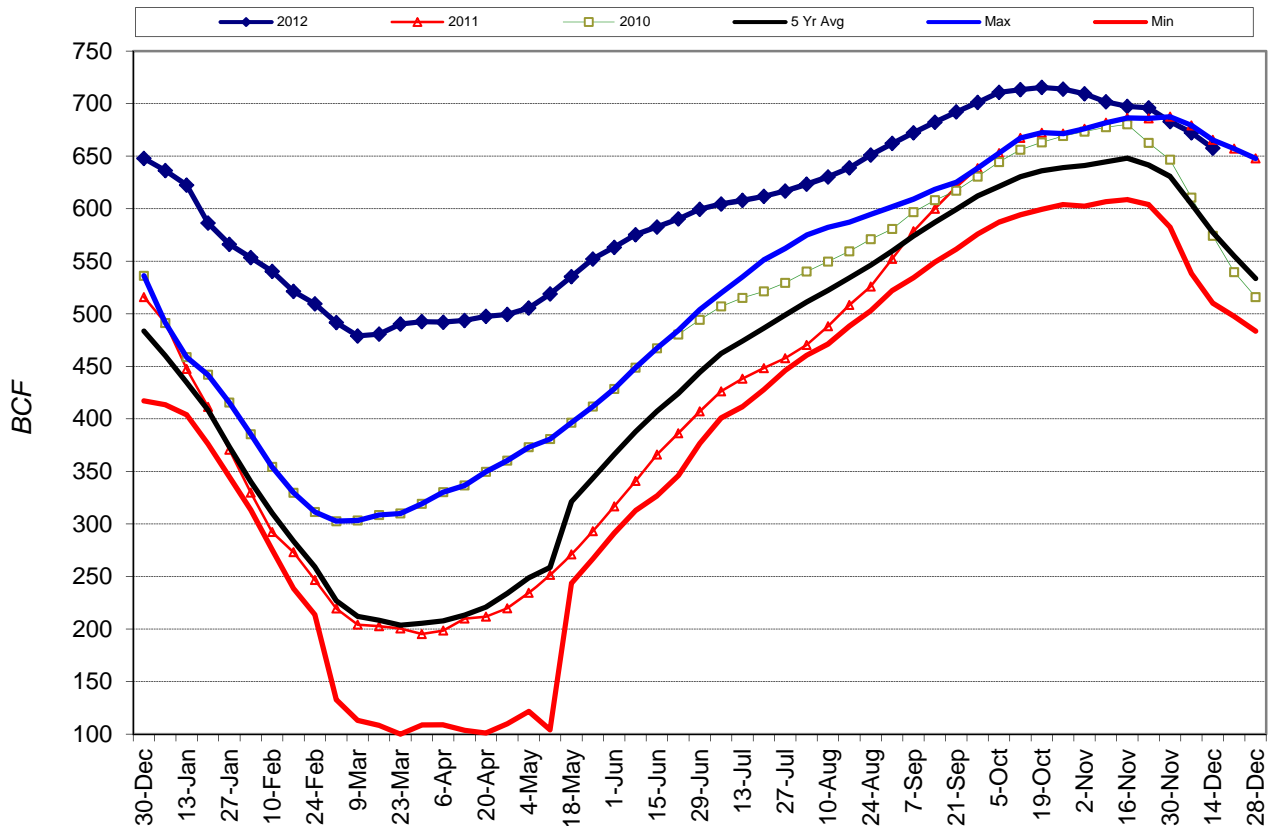
NYMEX Calendar Strips



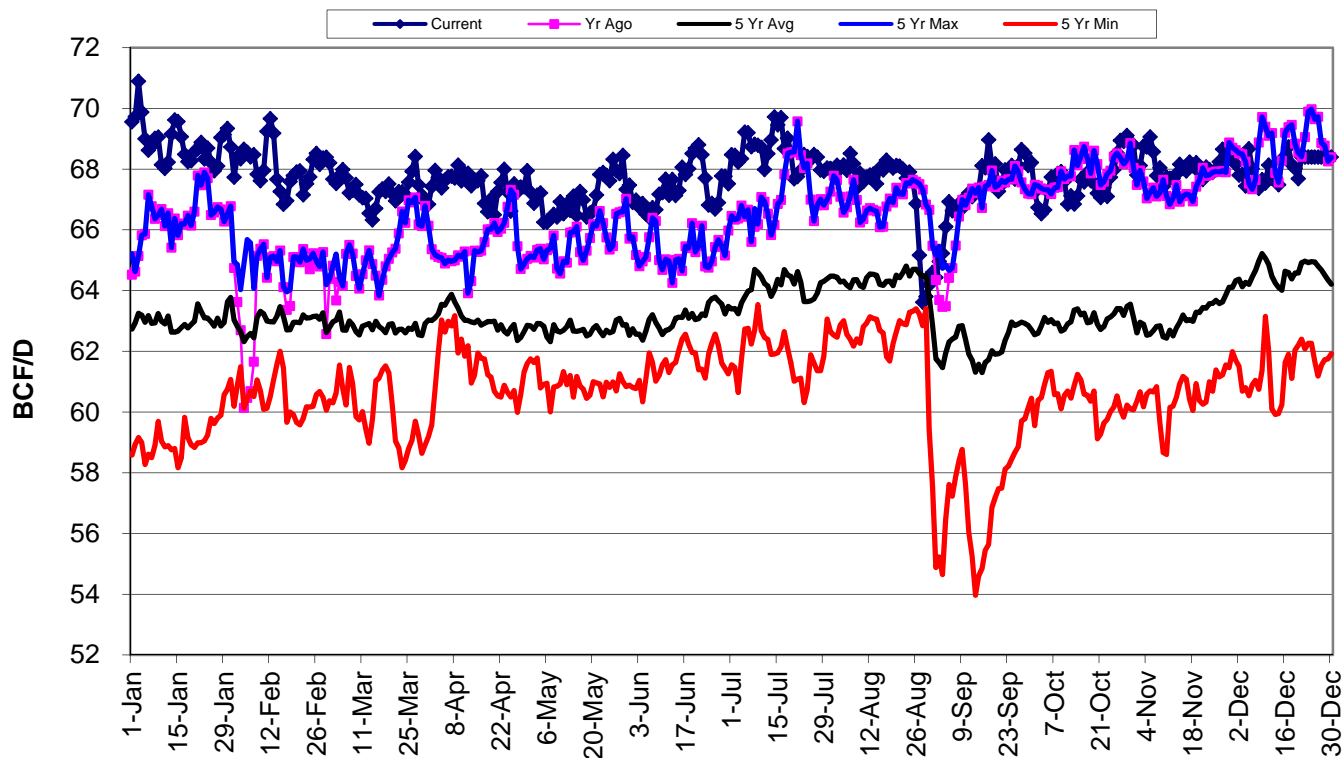
US Working Gas Storage - Source - EIA



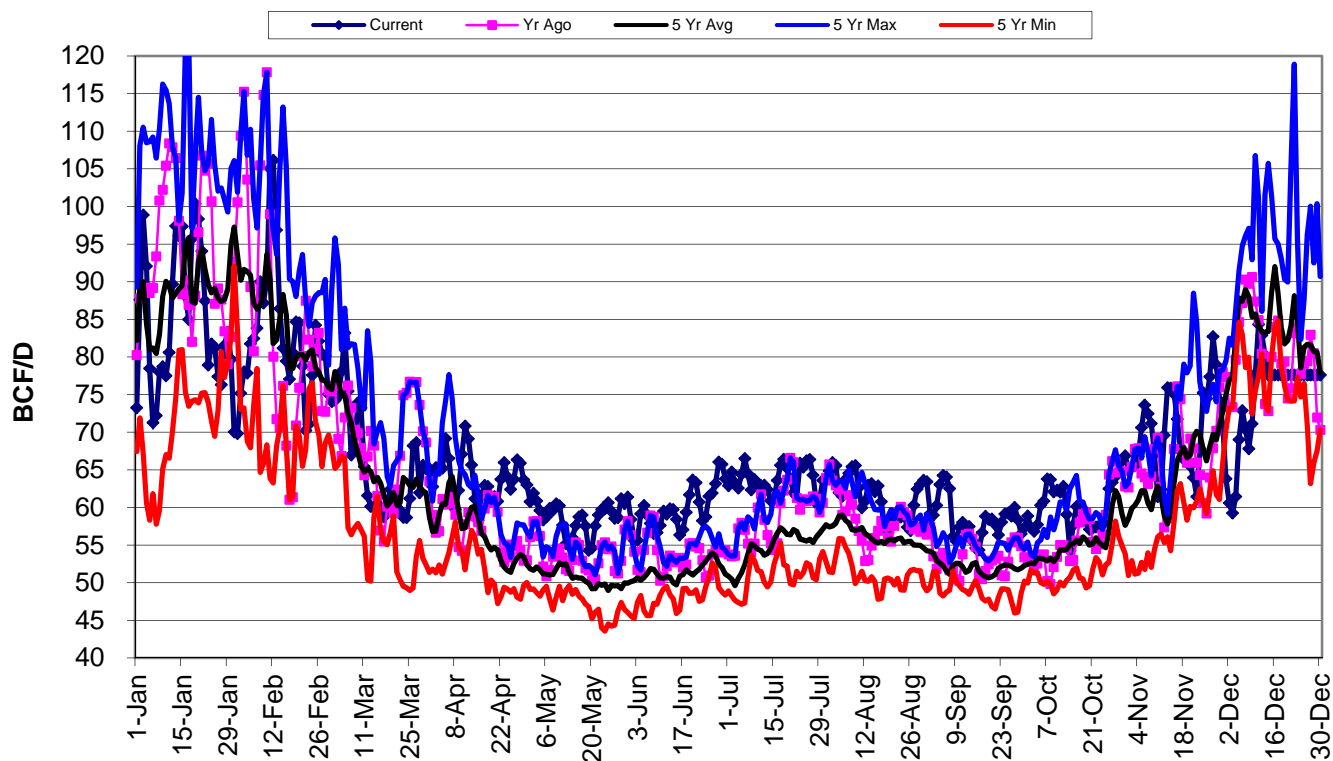
Canadian Working Gas Storage - Enerdata



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.