

IAF Advisors  
Energy Market Outlook  
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**Price Action:** The market was little changed with prices rising just 1.8 cents (0.5%) to \$3.469 on an 18.7 cent range.

**Price Outlook:** The market staged an incredibly rare 2nd consecutive inside week, one in which neither a new high or low is made. Since 2000, there have only been 4 instances of two consecutive inside weeks and there have never been 3 consecutive inside weeks in a row. With low liquidity, volatility could be high. But at the same time, with only 4 trading days and weather forecasts that have been flip-flopping, this may very well be the circumstance to create a 3rd consecutive inside week. However, considering the weekly close of \$3.469 and the weekly high of just \$3.487, a new high is considered the most likely outcome. Weather forecasts have turned much colder in the near term while the back of the forecast looks for warmer temperatures. This is in stark contrast to late November and early December when the 11-15 day forecast looked for cooler temps while the actual temps were well above normal. Snow cover has increased tremendously and this will help to keep temperatures on the cooler side. This is a bullish factor heading into the peak demand period.

**Weekly Storage:** US working gas storage fell 72 BCF for the week ending December 21. Current inventory levels of 3,652 BCF now rise 104 BCF (2.9%) above last year while surpassing the 5 year average by 410 BCF (12.7%).

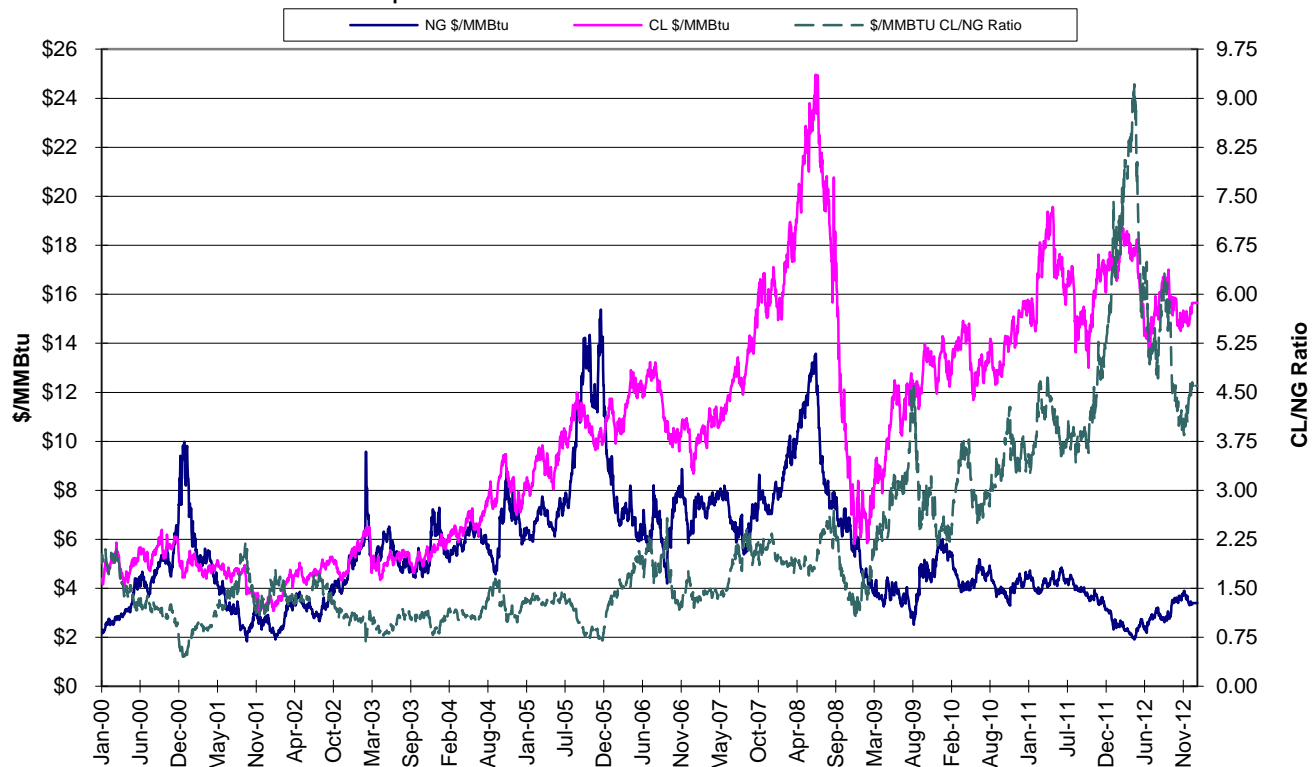
**Storage Outlook:** The percentage increase over the 5 year average is the largest since August 10 and the absolute surplus is the largest since July 27. The extreme warmth of early December was primarily responsible for this situation. However, with actual temperatures now turning cooler, Mother Nature may finally be given the bulls a break. Storage should fall below year ago levels in early January.

**Supply Trends:** Total supply rose 0.6 BCF/D to 68.3 BCF/D. Higher US production was responsible for the uptick with Canadian and LNG imports unchanged. Mexican exports were slightly higher. The US Baker Hughes rig count fell 11 to 1,763 as another drop in oil activity more than eclipsed a rise in natural gas. Canadian activity plummeted, a normal seasonal occurrence, and thus the total North American rig count fell 191 to 1,967, which now trails last year by 261. The higher efficiency US horizontal rig count rose 6 and at 1,111 falls 56 behind last year.

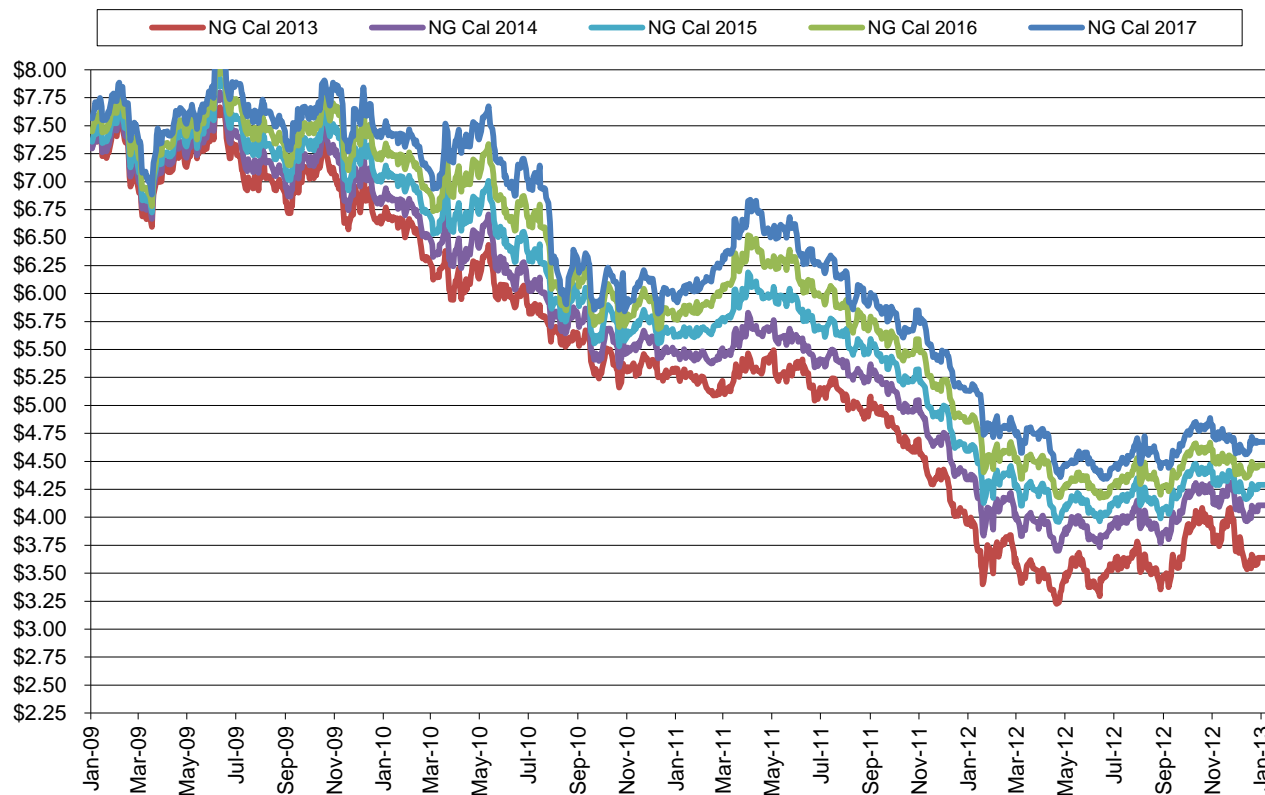
**Demand Trends:** Total demand fell 0.9 BCF/D to 76.5 BCF/D. Demand was slightly lower in all sectors. Electricity demand fell 704 gigawatt-hrs to 76,060, which trails last year by 110 (0.1%) and the 5 year average by 3,725 (4.7%). With what is now considered a much more balanced temperature adjusted supply/demand balance, the weather forecasts take on increasing importance.

**Other Factors:** The S&P 500 index fell as a budget deal remains elusive.

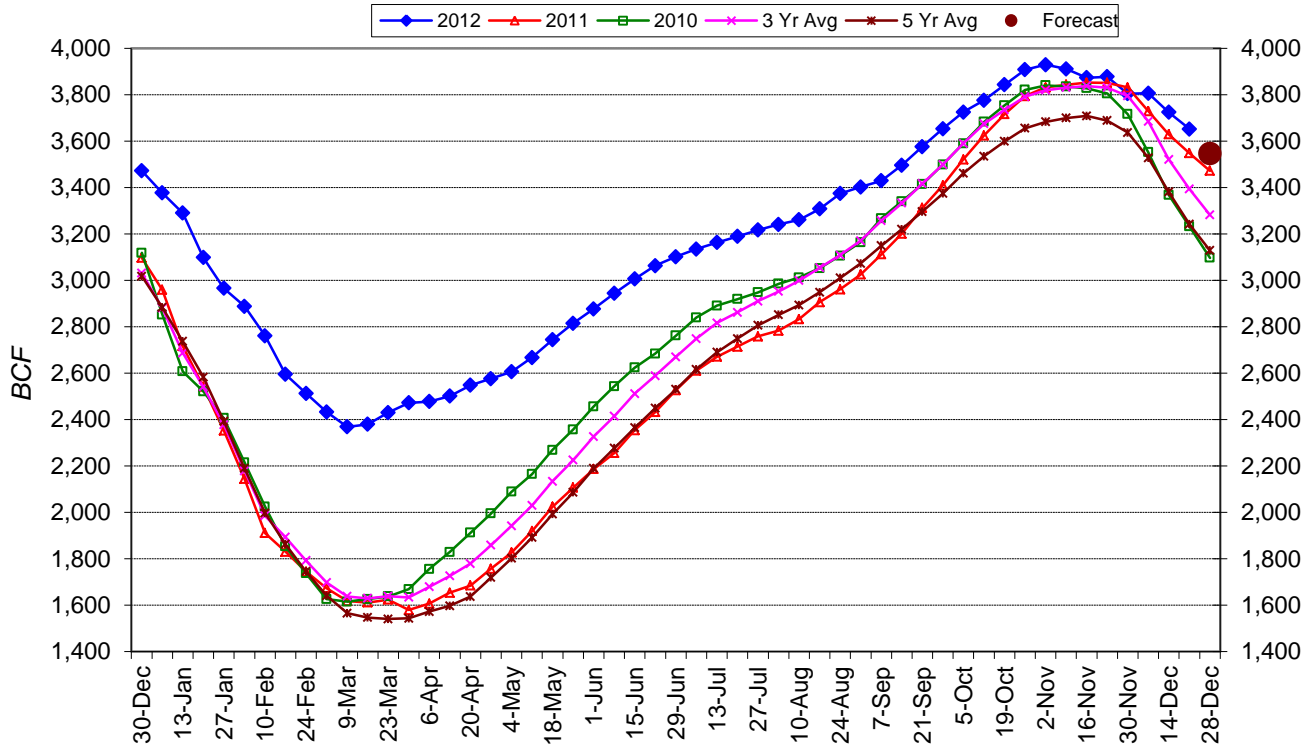
## \$/MMBtu Ratio of NYMEX CL and NG



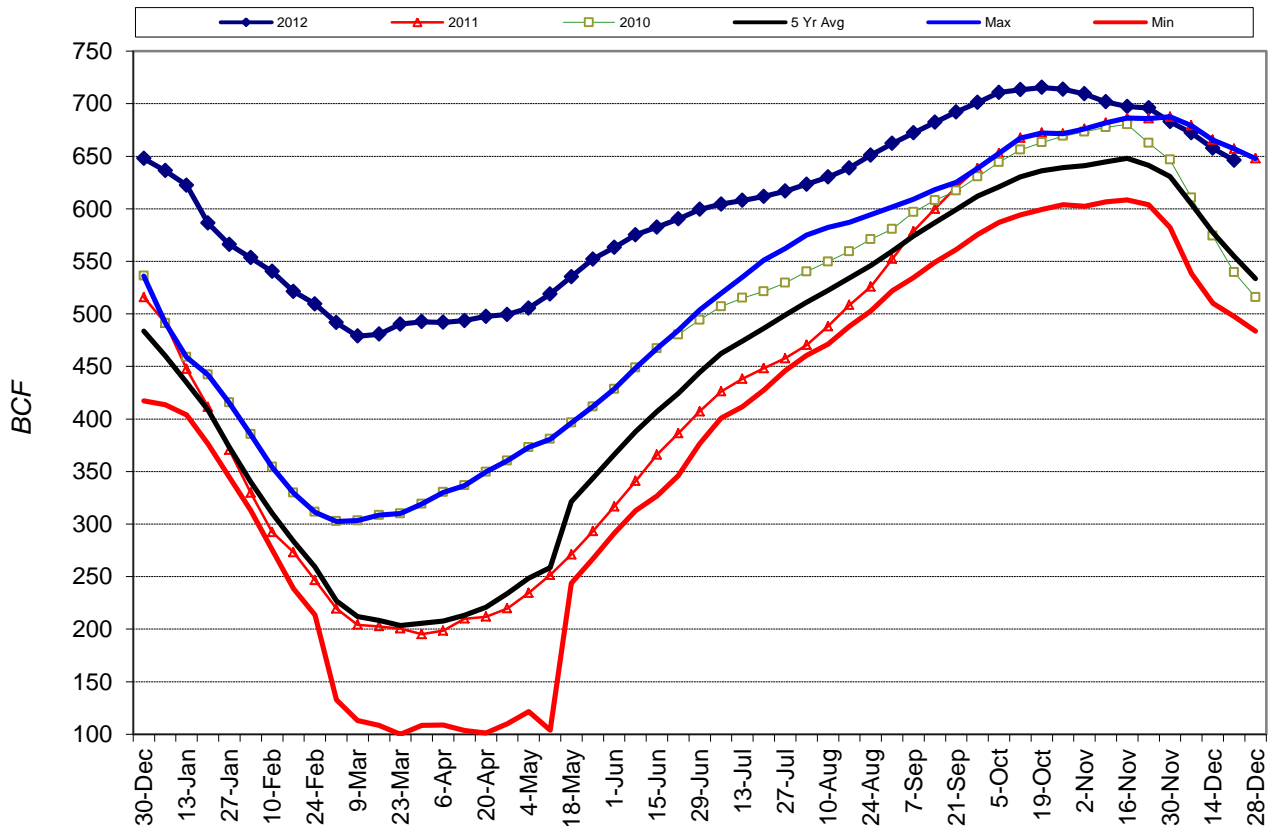
## NYMEX Calendar Strips



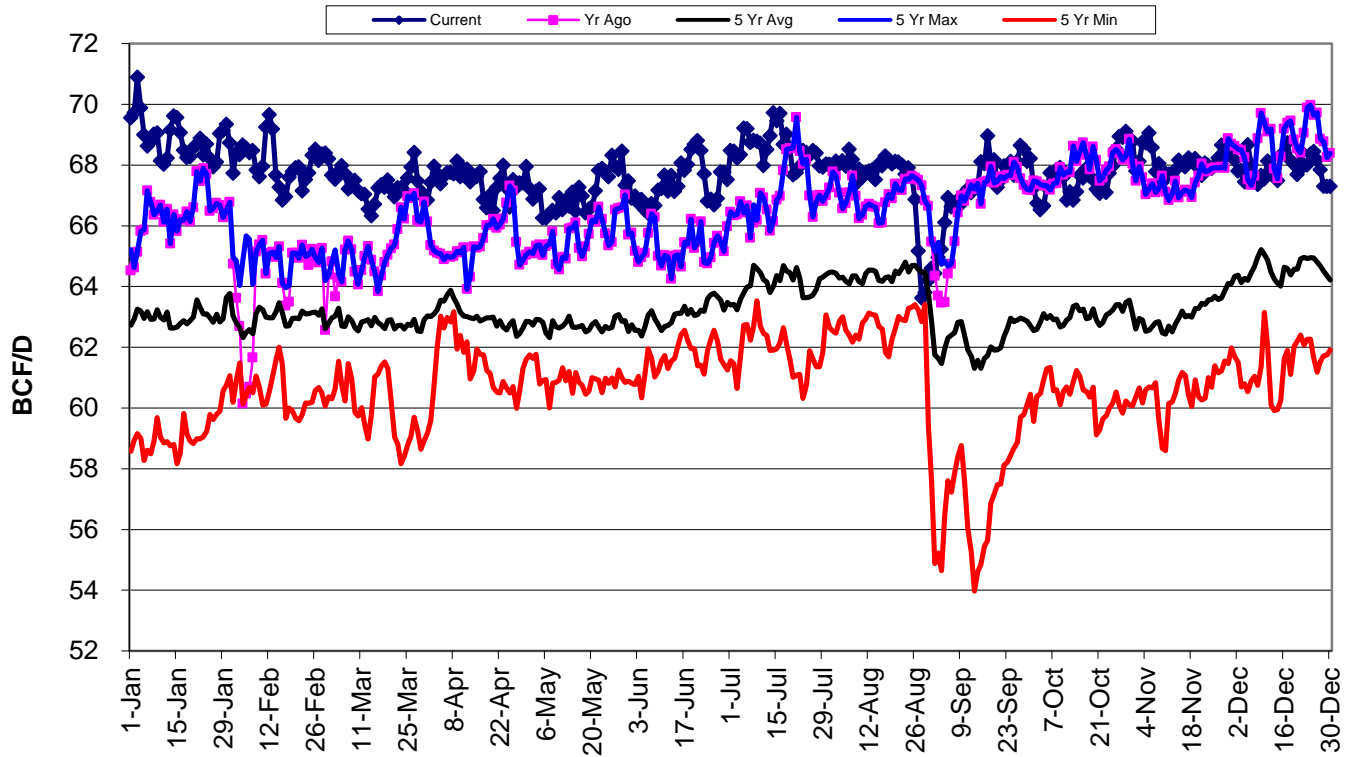
## US Working Gas Storage - Source - EIA



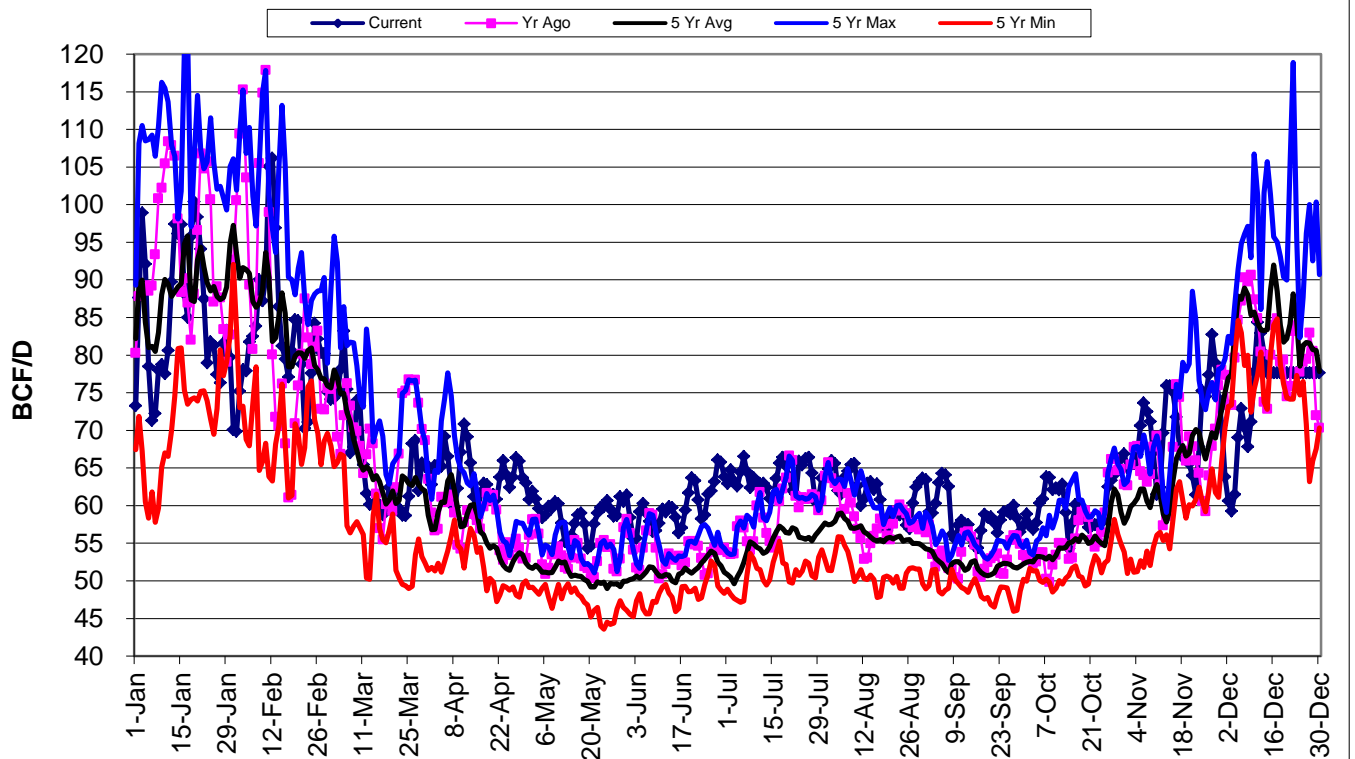
## Canadian Working Gas Storage - Enerdata



## Total US Supply



## Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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