

IAF Advisors  
Energy Market Outlook  
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**Price Action:** Despite a late week rally, prices fell 18.2 cents (5.2%) to \$3.287 on a 43.1 cent range.

**Price Outlook:** In contrast to expectations, the market could not forge a new high. However, the market did not establish a 3rd consecutive inside, which would have been the first instance of three consecutive inside weeks since 2000. Rather warming weather forecasts led the market lower to set a new low for the week. Looking forward, if weather forecasts continue to moderate, the most likely path seems lower. However, we use all prices to establish these benchmarks. In an overnight session this week, a “flash crash” occurred that briefly dropped prices all the way to \$3.05. A situation to drop prices that low is not expected and with the expanded range from last week, an inside week is projected considering the unusual overnight price activity. Weather forecasts remain the main driver and as has been the case all winter, the 11-15 day forecast was been quite volatile with colder, then warmer, then back colder again outlooks. For the next couple of weeks, these forecasts will likely still be the main price driver. However, the peak demand period is quickly approaching and unless inventory levels begin to drop more substantially, the reality of still very high storage levels is expected to lead the market lower. The liquidation of speculative net length continued at a slightly faster pace than last week, but well below the pace of early December. Total open interest plummeted to just 4.47 million contracts as of January 1. This is the lowest total open interest since September 27, 2011.

**Weekly Storage:** US working gas storage fell 135 BCF for the week ending December 28. Current inventory levels of 3,517 BCF now rise 45 BCF (1.3%) above last year while surpassing the 5 year average by 388 BCF (12.4%).

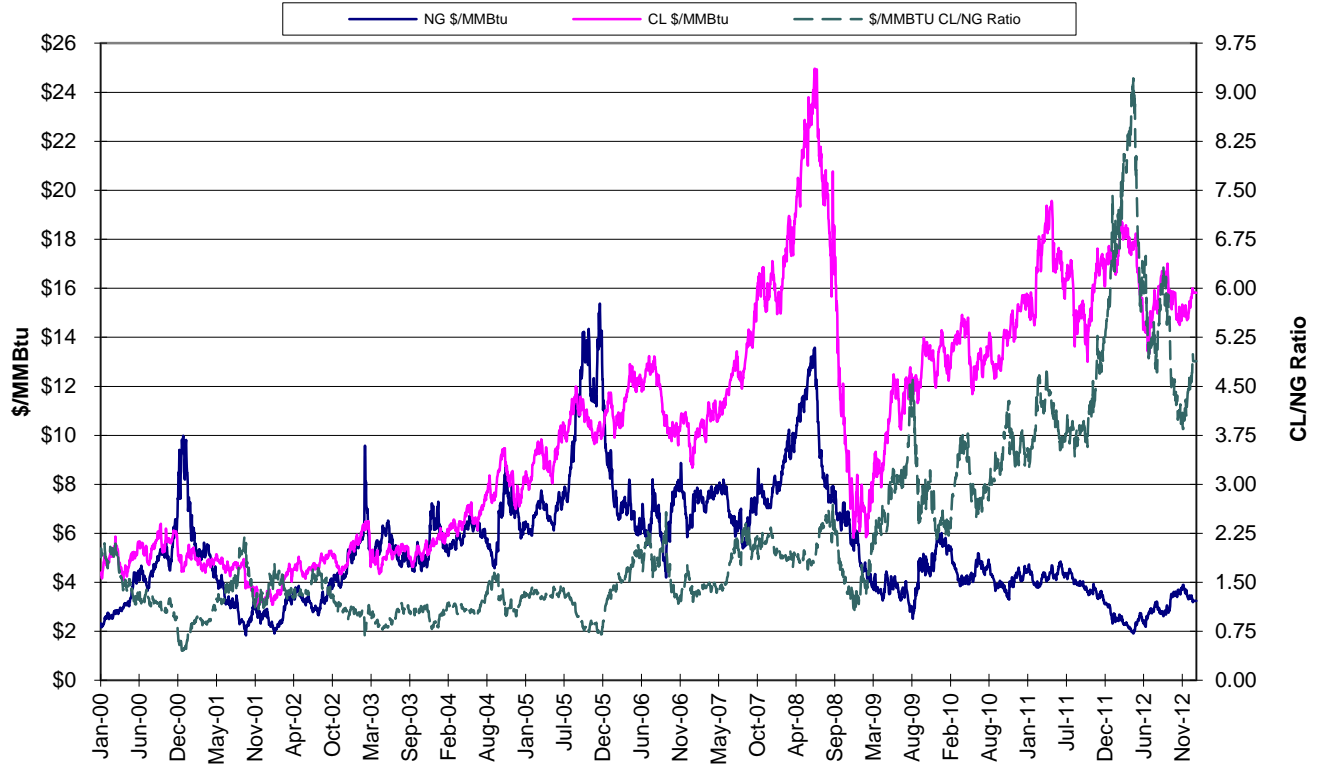
**Storage Outlook:** The cooler temperatures were clearly responsible for the larger than expected draw and the next withdrawal may approach 200 BCF. However, the moderating weather forecasts and climatic realities dictate this next withdrawal may well be the largest of the 2012/13 season. Thus, the possible bullish scenarios are diminishing unless weather related demand materializes rapidly.

**Supply Trends:** Total supply slipped 0.1 BCF/D to 68.1 BCF/D. US production fell while Canadian imports rose. LNG imports and Mexican exports were unchanged. The US Baker Hughes rig count fell 1 to 1,762 as yet another drop in oil activity eclipsed a rise in natural gas. Canadian activity rebounded and thus the total North American rig count rose 53 to 2,020, which now trails last year by 348. The higher efficiency US horizontal rig count rose 1 and at 1,112 falls 48 behind last year.

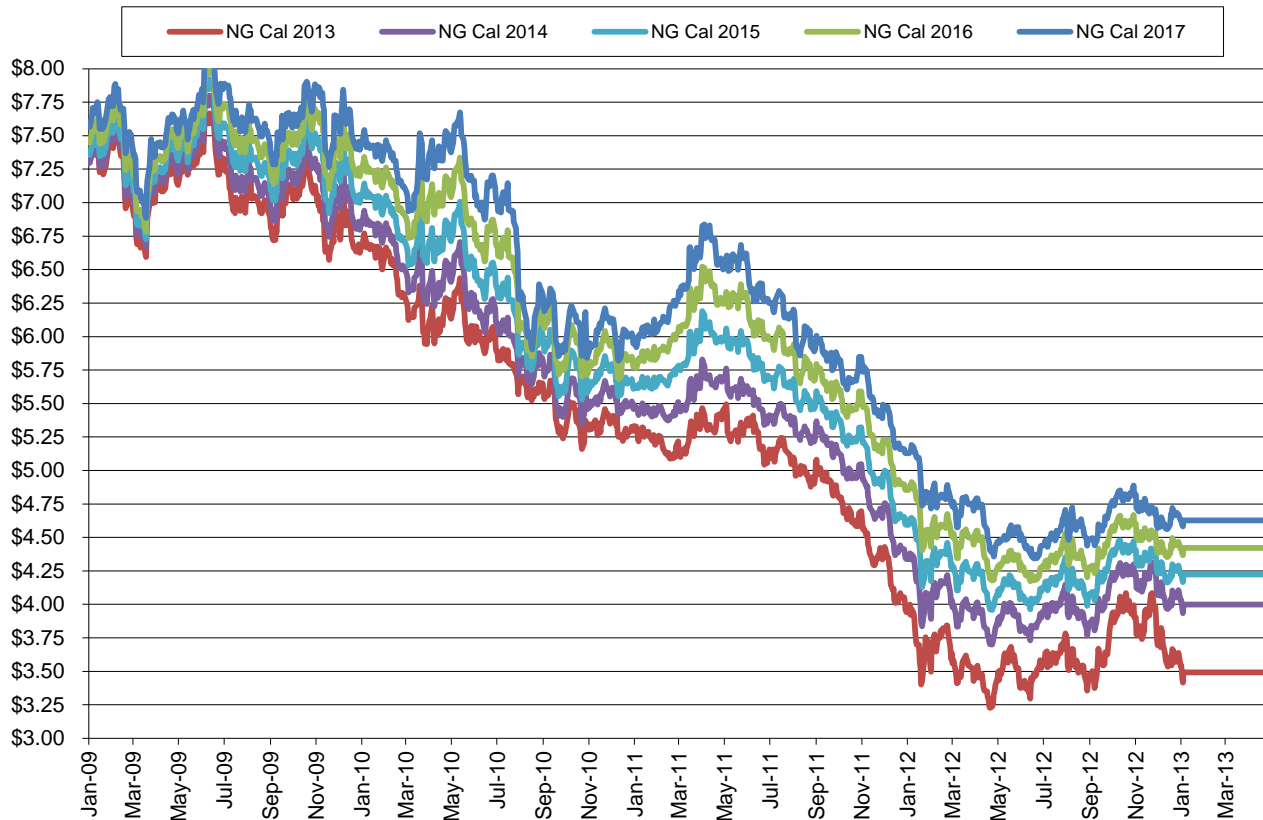
**Demand Trends:** Total demand soared 12.2 BCF/D to 88.7 BCF/D. Demand was higher across sectors and easily the strongest of the season. Electricity demand fell 532 gigawatt-hrs to 75,528, which exceeds last year by 2,687 (3.7%) while trailing the 5 year average by 1,178 (1.5%). With what is now considered a much more balanced temperature adjusted supply/demand balance, the weather forecasts take on increasing importance.

**Other Factors:** The S&P 500 rallied as a last minute budget deal temporarily averted fiscal cliff issues.

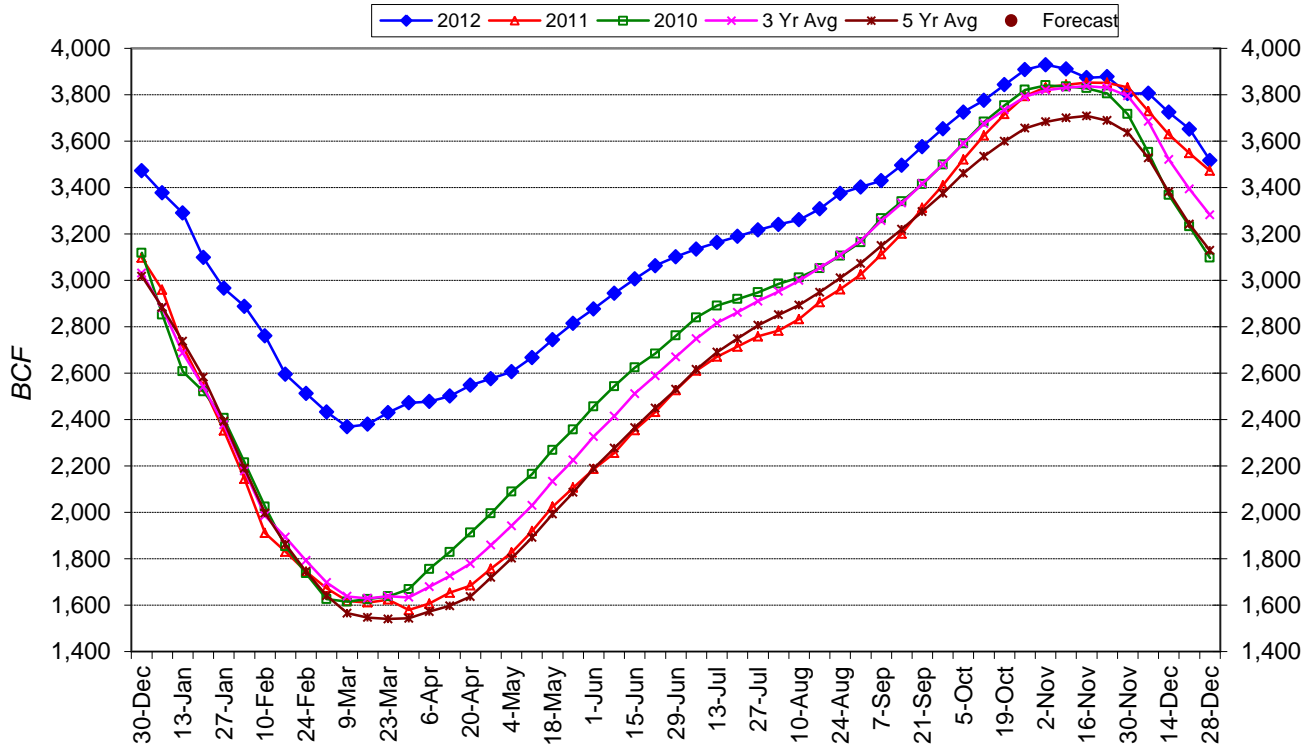
## \$/MMBtu Ratio of NYMEX CL and NG



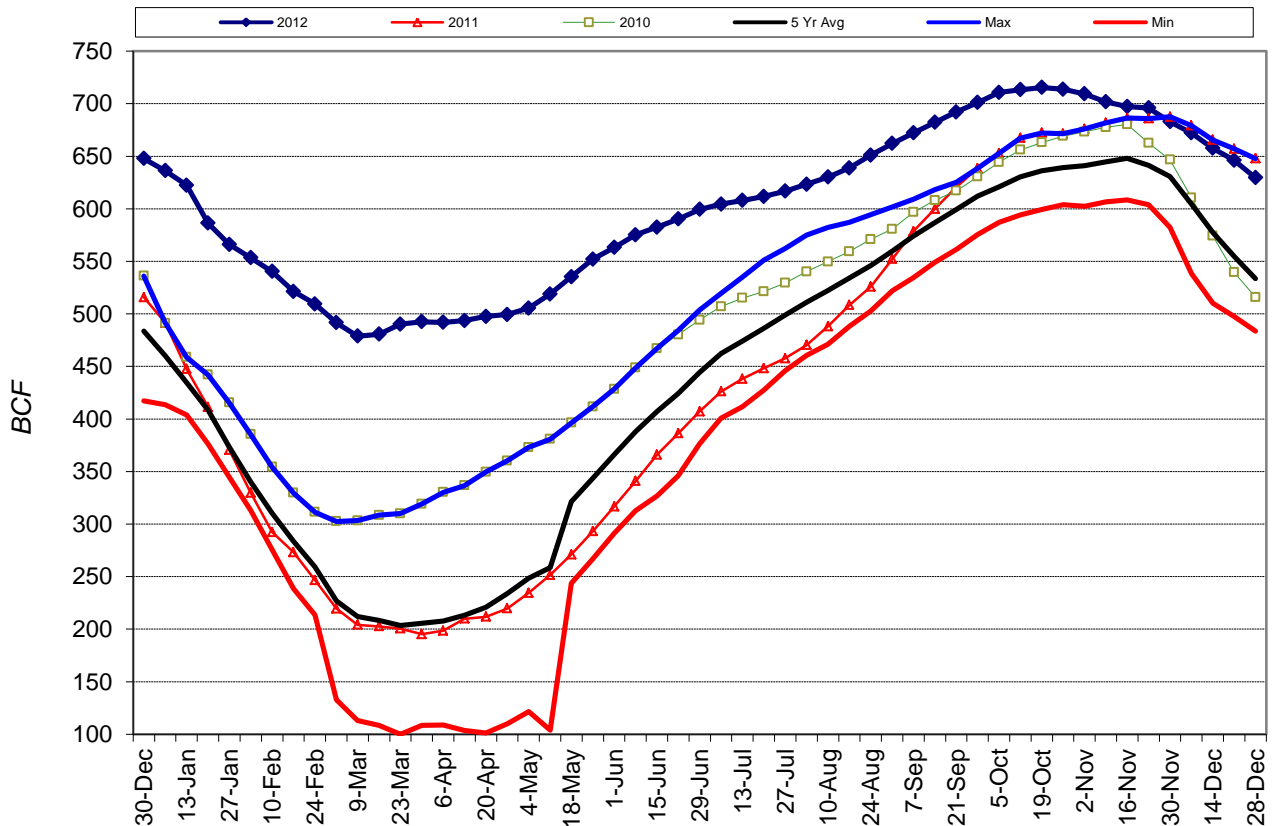
## NYMEX Calendar Strips



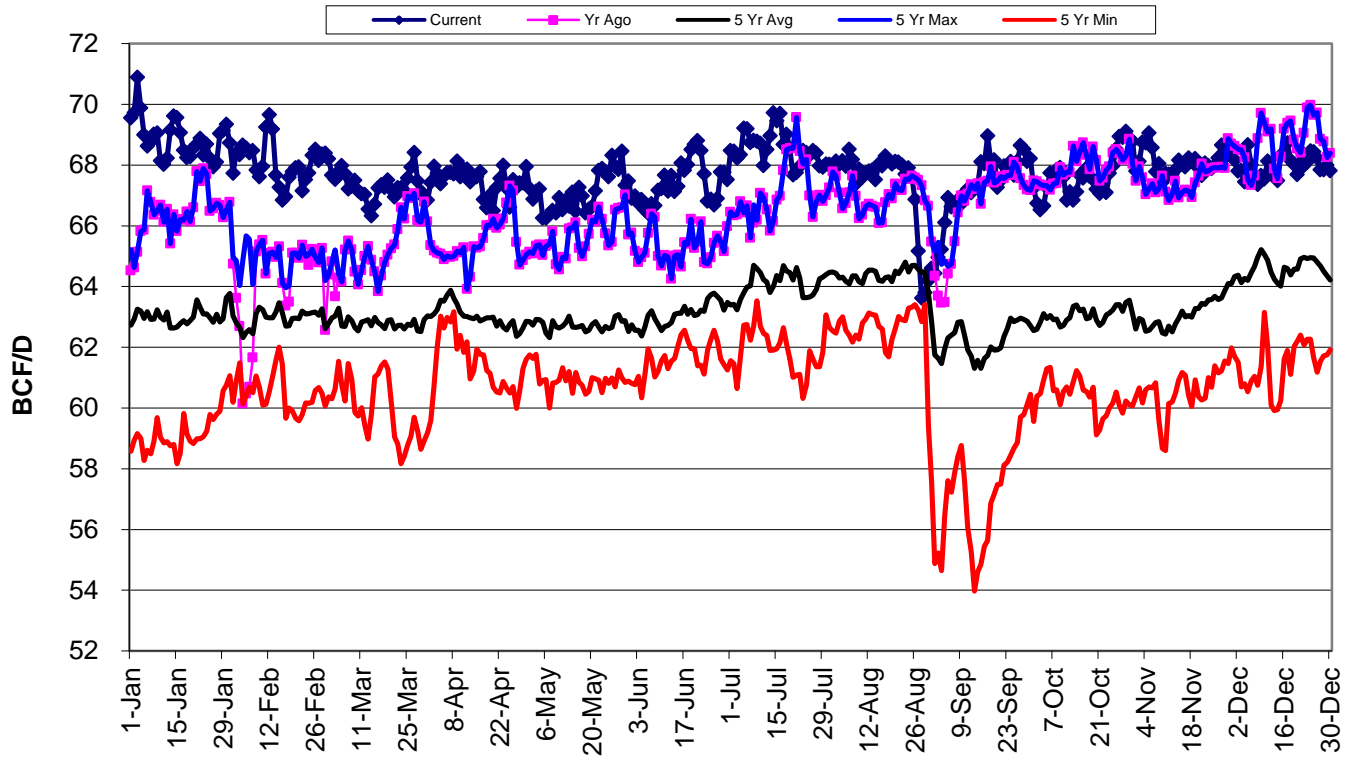
## US Working Gas Storage - Source - EIA



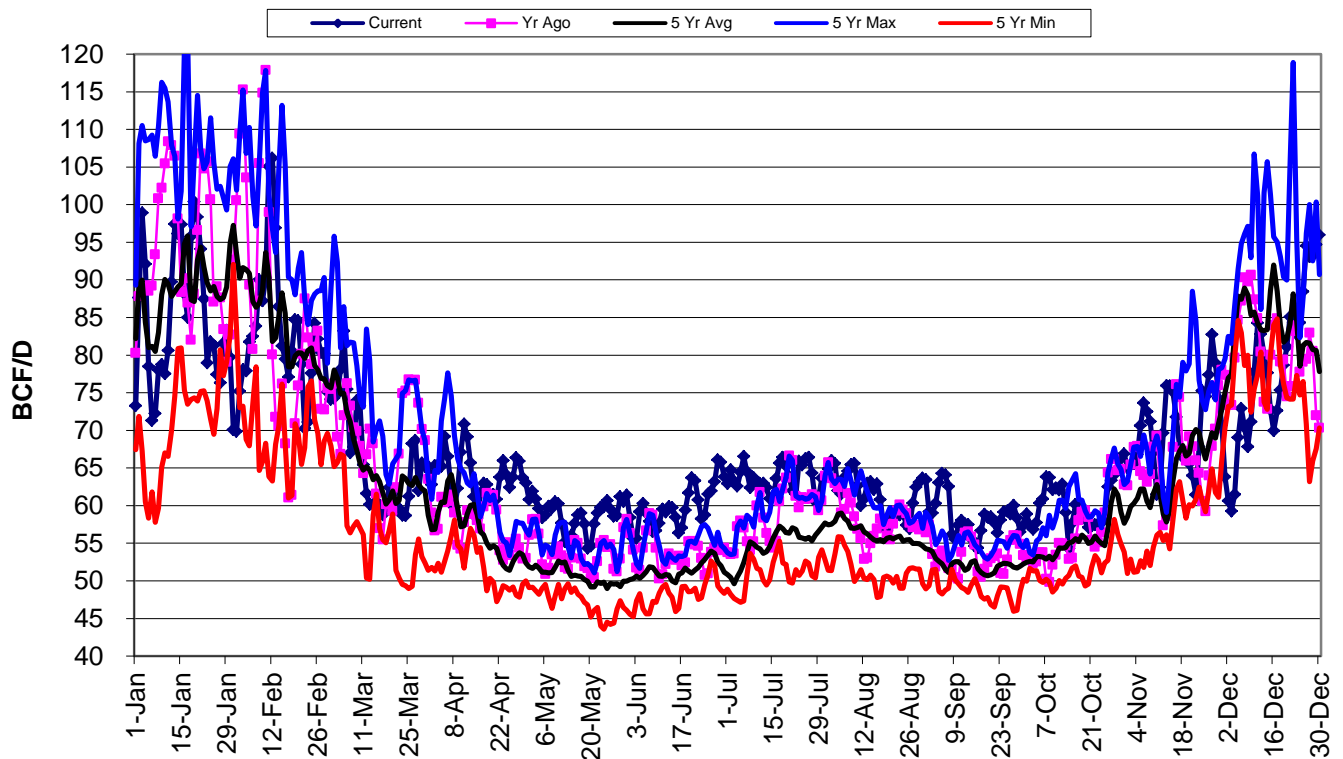
## Canadian Working Gas Storage - Enerdata



## Total US Supply



## Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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