

IAF Advisors
Energy Market Outlook
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Price Action: Prices inched 4 cents higher (1.2%) to \$3.327 on a 26.5 cent range.

Price Outlook: The market did remain within the expanded price range, considering the overnight activity of the previous week. Thus, 3 of the last 4 weeks were inside weeks. This has only happened one other time since 2000, in September 2010. Considering the price level, a new high is the most likely path with a print of just \$3.353 required to establish a new high. While weather forecasts remain the main driver, that influence will likely begin to wane. The peak of heating season is rapidly approaching and quite frankly the continuation of bullish temperatures can have less of an impact compared to the same situation in November or December. The distribution of likely March end of storage levels is constricting and it remains on a somewhat bearish track. Unless temperatures remain below normal, prices are likely to remain defensive with advances somewhat subdued. The liquidation of speculative net length continued unabated, but still at a pace well below that of early December. Total open interest did rebound to 4.57 million contracts as of January 8. There is clearly room for funds to add length if the recent price momentum is maintained.

Weekly Storage: US working gas storage fell 201 BCF for the week ending January 4. Current inventory levels of 3,316 BCF now fall 61 BCF (1.8%) below last year while surpassing the 5 year average by 309 BCF (10.3%).

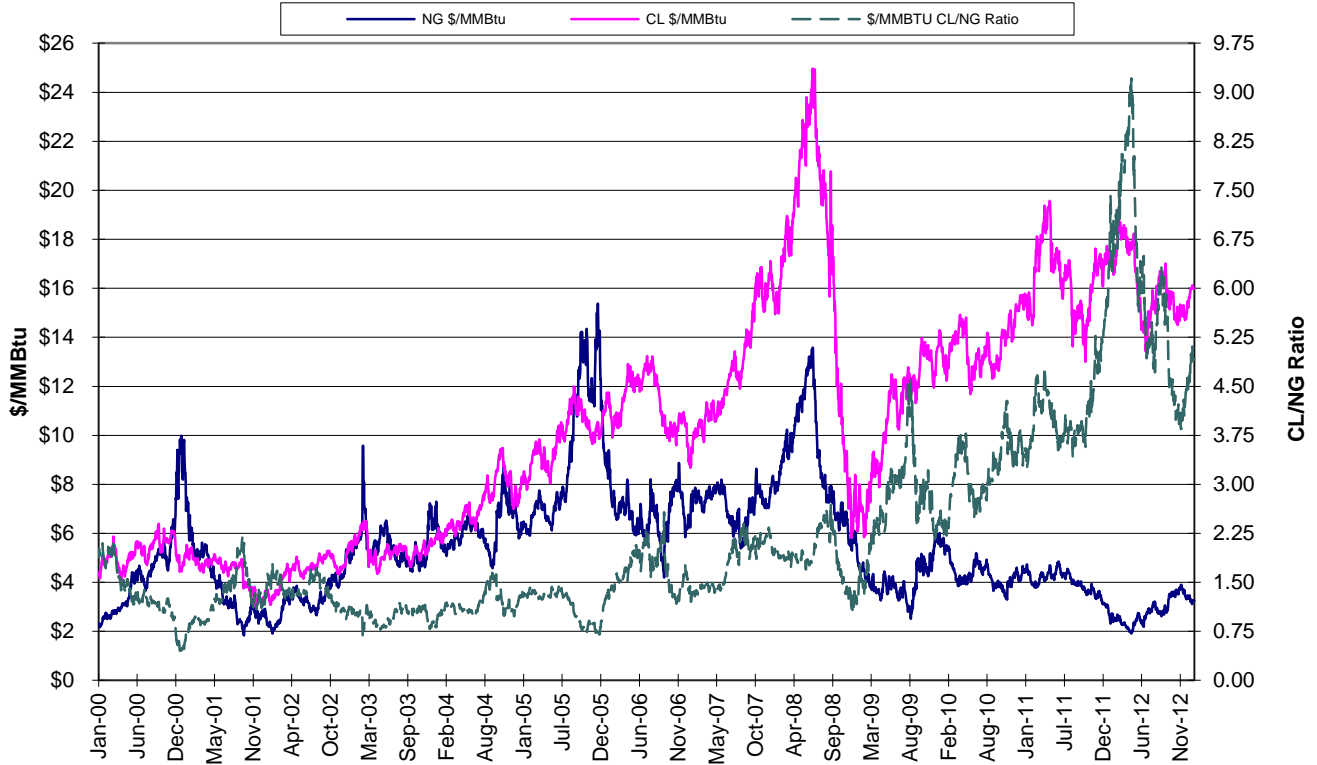
Storage Outlook: The cooler temperatures were again clearly responsible for the larger than expected draw with the reference week the coldest since January 14, 2011. The draw that week was an impressive 243 BCF, the 8th largest weekly draw on record. Since late 1993, there have been 31 weekly withdrawals of 200 bcf or more, with the largest withdrawal of 274 BCF recorded on January 25, 2008. However, with nearly half the winter now passed, the end of March forecasts remain rather bearish. Considering recent weather forecasts, the recent 201 BCF withdrawal may be the largest of the season.

Supply Trends: Total supply was unchanged at 68.5 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 1,761 as a rise in oil activity offset a drop in natural gas with the very small miscellaneous category falling 1. Canadian activity surged and thus the total North American rig count rose 273 to 2,292, which now trails last year by 306. **The higher efficiency US horizontal rig count rose 7 and at 1,119 falls 42 behind last year.**

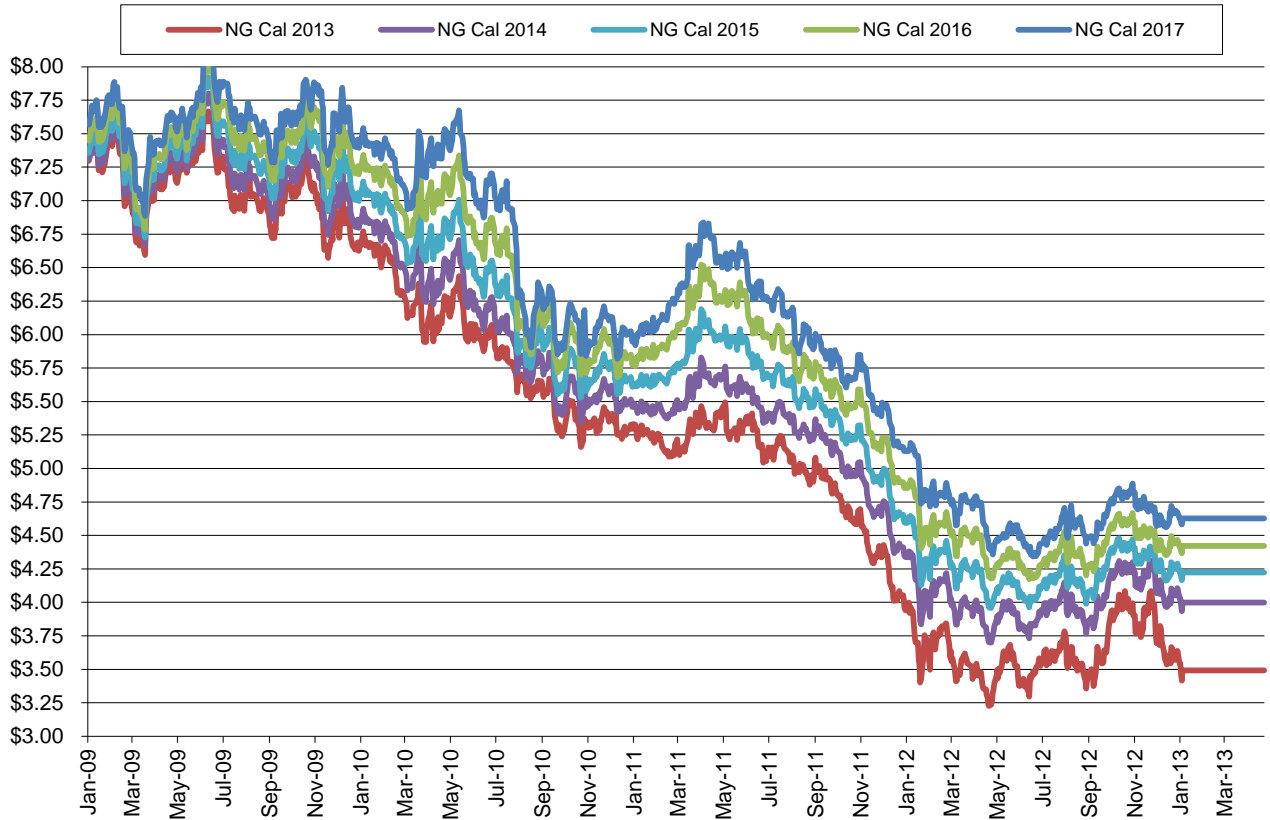
Demand Trends: Total demand soared 8.4 BCF/D to 97.8 BCF/D. Demand was again higher across all sectors and easily the strongest of the season. Electricity demand rose 2,536 gigawatt-hrs to 78,064, which exceeds last year by 839 (1.1%) and the 5 year average by 263 (0.3%). **The two most recent storage withdrawals were considered bullish on a temperature adjusted basis and are deemed supportive.**

Other Factors: The S&P 500 continued to advance despite a drop in consumer confidence and jobless claims that remain mired near 370,000. Chinese economic data was considered supportive with a surge in exports.

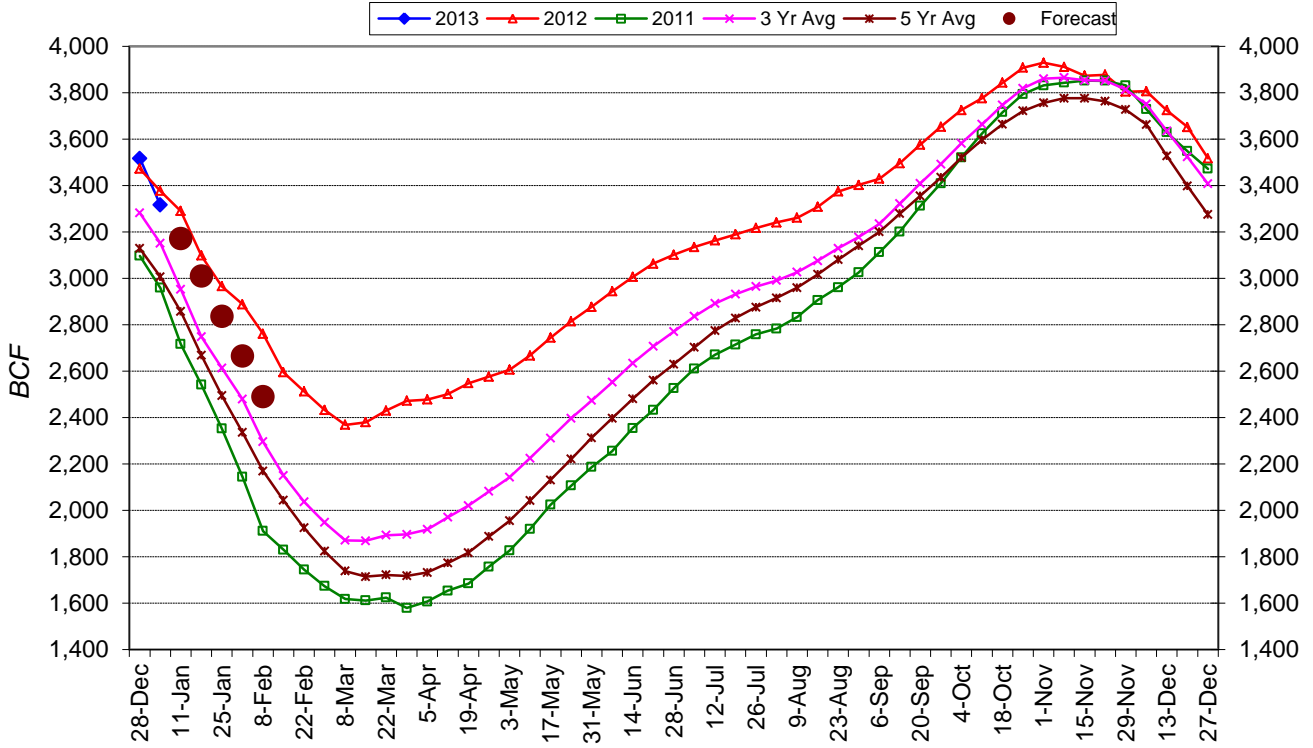
\$/MMBtu Ratio of NYMEX CL and NG



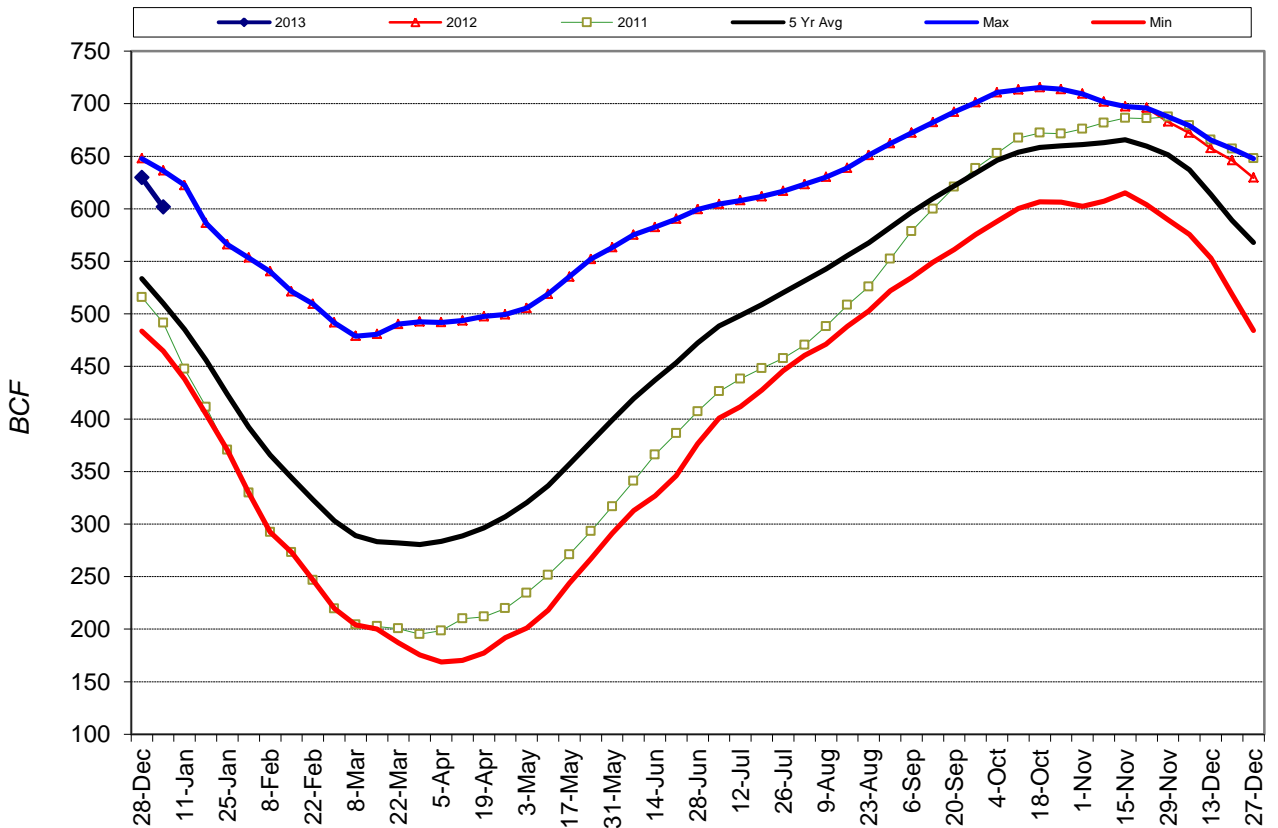
NYMEX Calendar Strips



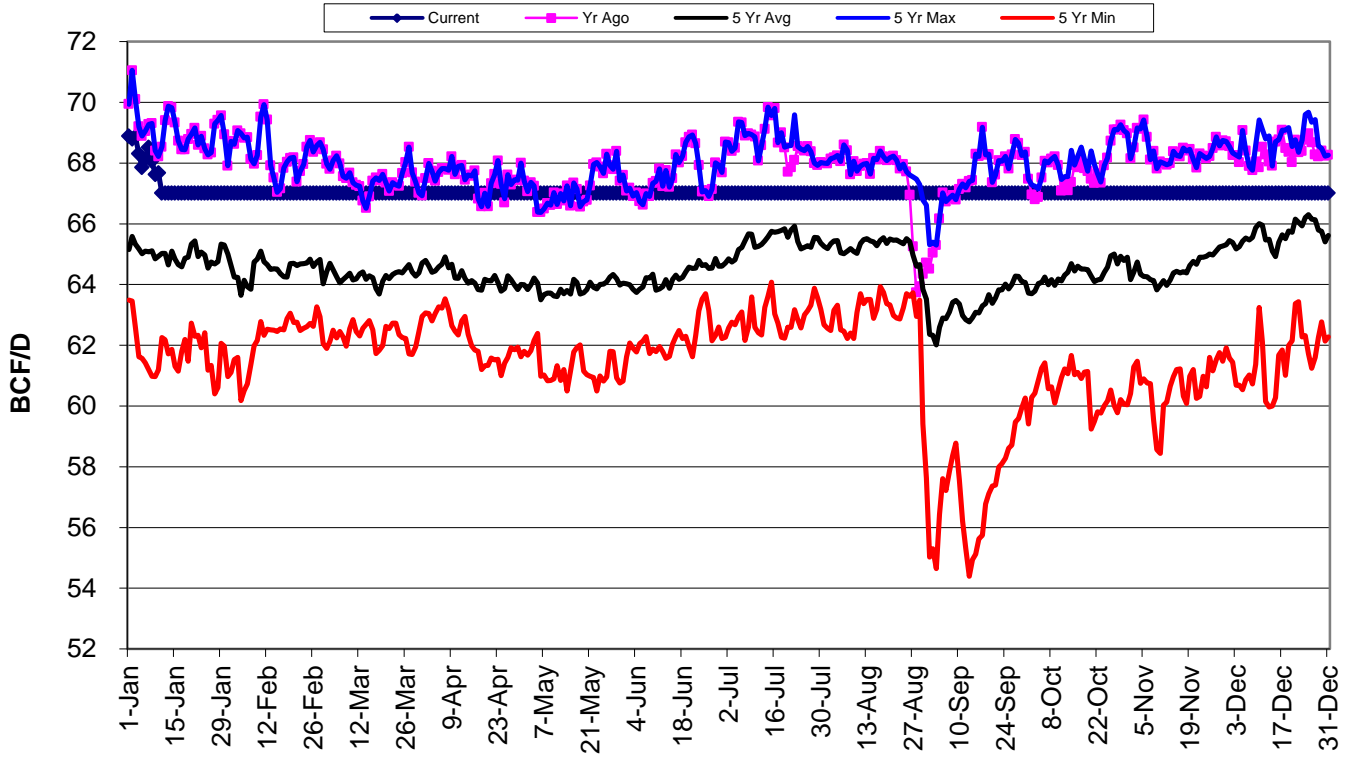
US Working Gas Storage - Source - EIA



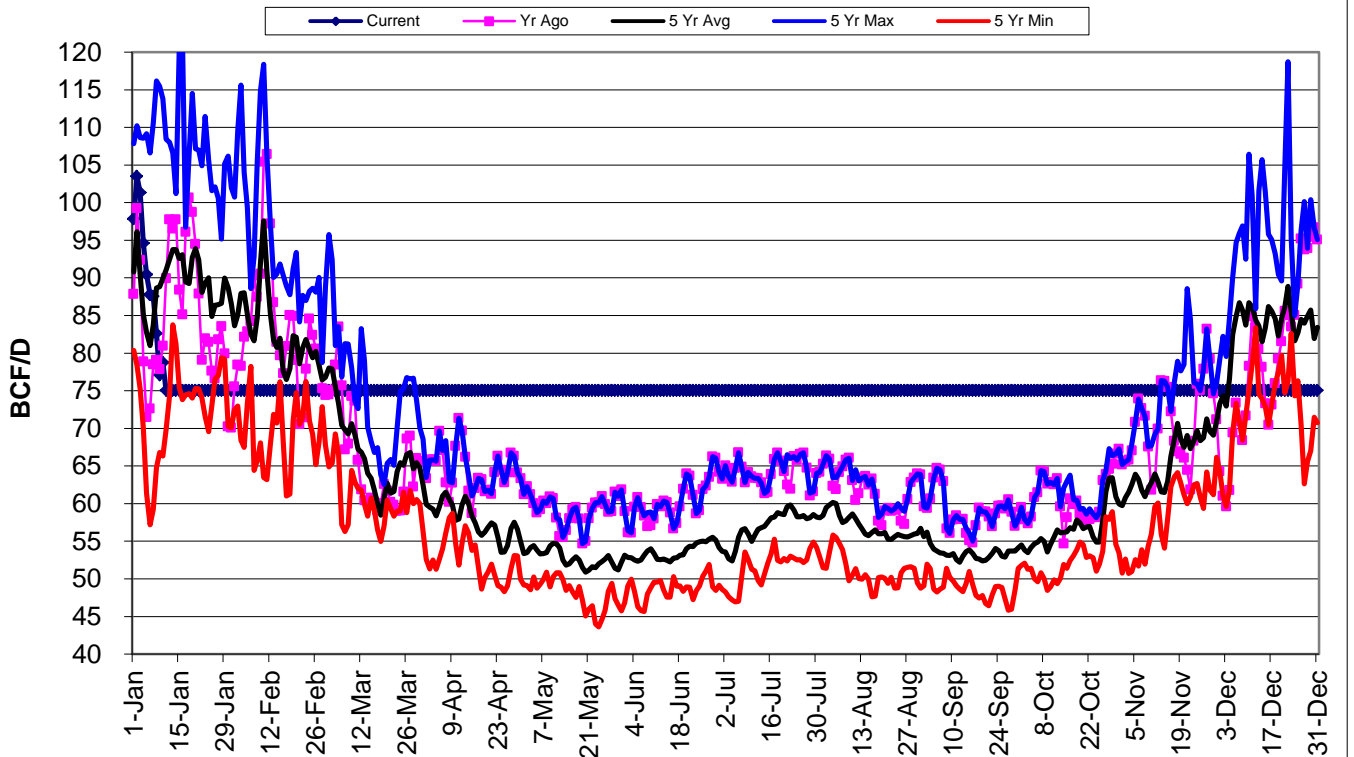
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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