

IAF Advisors
Energy Market Outlook
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Price Action: Prices surged 23.9 cents higher (7.2%) to \$3.566 on a 25.1 cent range.

Price Outlook: The market did establish a new high as supportive weather forecasts and yet another larger than expected withdrawal supported the market. Considering the weekly close, a new high is expected next week as a print of just \$3.58 will be required to establish a new weekly high. However, with Martin Luther King Holiday and the ever changing weather forecasts, the market may quickly give back the recent advance. The recent storage changes have been considered quite bullish on a temperature adjusted basis. However, normal temperatures are near the coldest of the season and begin to slowly climb in the near term. After mid-February, normal temperatures begin to climb very rapidly and a 200 BCF withdrawal has never been recorded after the middle of February. Thus, the likelihood of extended cold begins to diminish rapidly in the coming weeks. The liquidation of speculative net length ended as net length was increased for the first time since late November, when prices were near \$4. The net length is well below those levels and continued buying could easily support further price advances. Momentum is clearly positive. Total open interest also rose to 4.62 million contracts as of January 15.

Weekly Storage: US working gas storage fell 148 BCF for the week ending January 11. Current inventory levels of 3,168 BCF now fall 122 BCF (3.7%) below last year while surpassing the 5 year average by 311 BCF (10.9%).

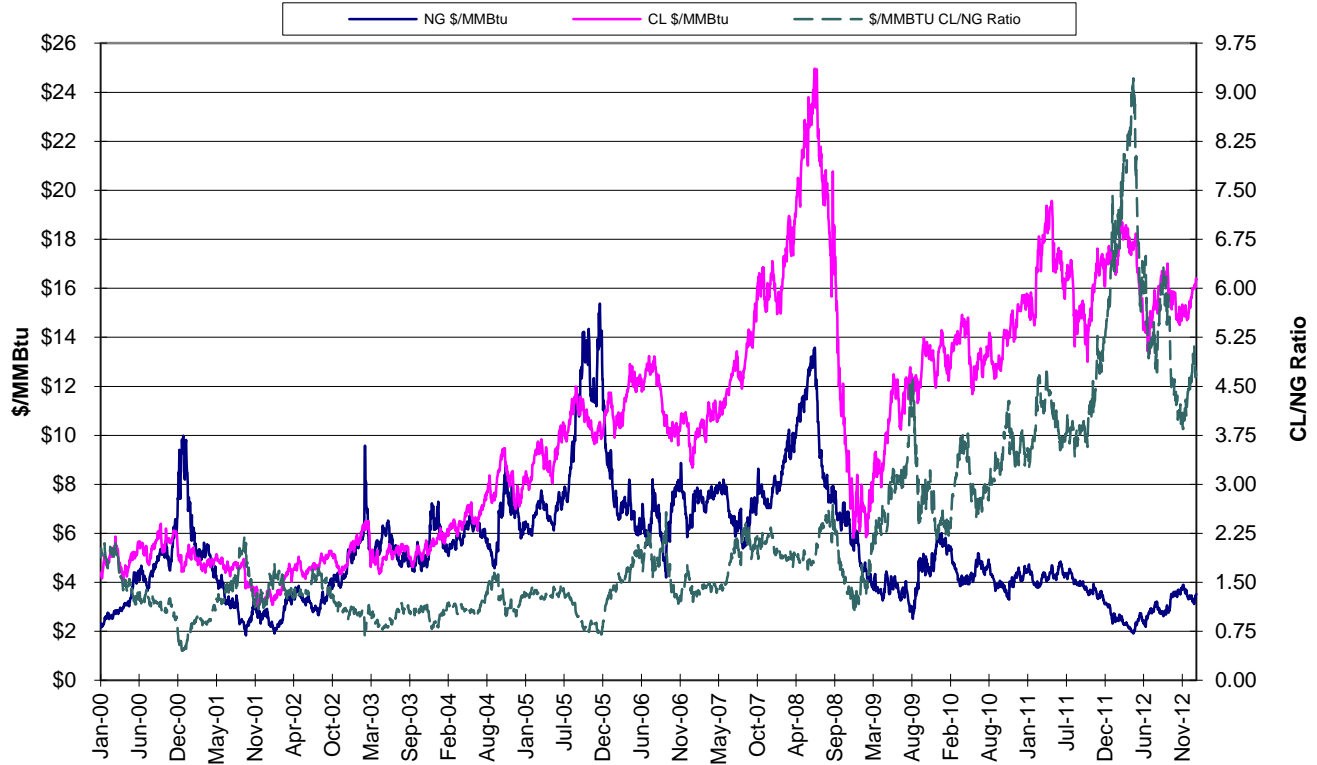
Storage Outlook: The cooler temperatures highlight the non-linear nature of demand as well as introduce another temperature related phenomenon. There were reports of freeze offs at numerous locations that reduced supply. As on-shore production increases, especially in liquids rich areas, temperature related supply concerns will increase and supply drops due to cold weather impacts will affect the market.

Supply Trends: Total supply fell 0.7 BCF/D to 67.4 BCF/D. US production and Canadian imports fell. LNG imports and Mexican exports were unchanged. The US Baker Hughes rig count fell 12 to 1,749 with both oil and natural gas activity down on the week. Canadian activity rose again and thus the total North American rig count rose 58 to 2,350, which now trails last year by 312. The higher efficiency US horizontal rig count rose 8 and at 1,127 falls 56 behind last year.

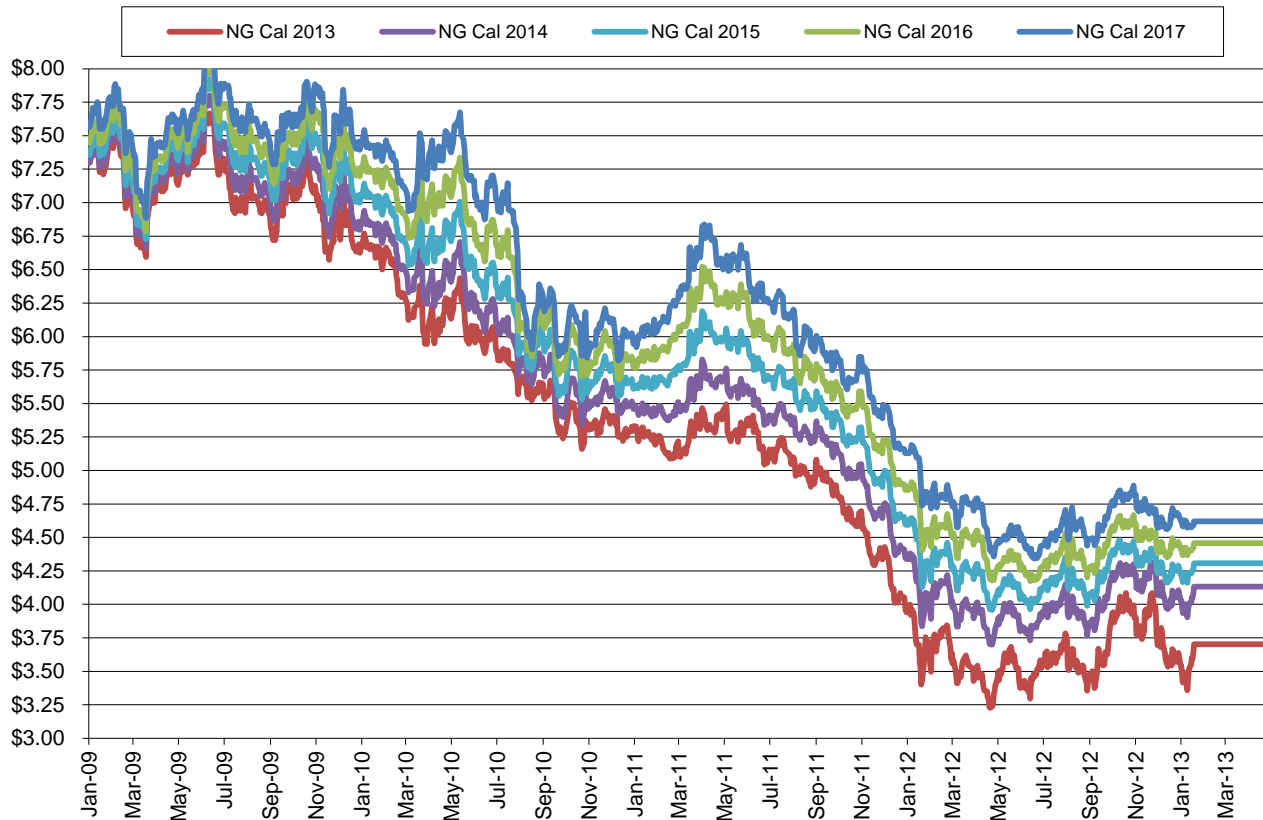
Demand Trends: Total demand plummeted 15.0 BCF/D to 82.8 BCF/D. Demand was lower across all sectors. Electricity demand fell 2,327 gigawatt-hrs to 75,737, which trails last year by 2,028 (2.6%) and the 5 year average by 6,089 (7.4%). The three most recent storage withdrawals were considered bullish on a temperature adjusted basis and are deemed supportive. A developing bearish factor relates to recent power demand indications. After the decidedly bullish storage changes over the last 3 weeks, power burn data is beginning to indicate coal facilities are regaining market share. If that situation proves true, a more bearish outlook will again be taken.

Other Factors: The S&P 500 continued to advance and is coming close to all-time highs. Seasonally adjusted jobless data was supportive while US manufacturing data remains disappointing.

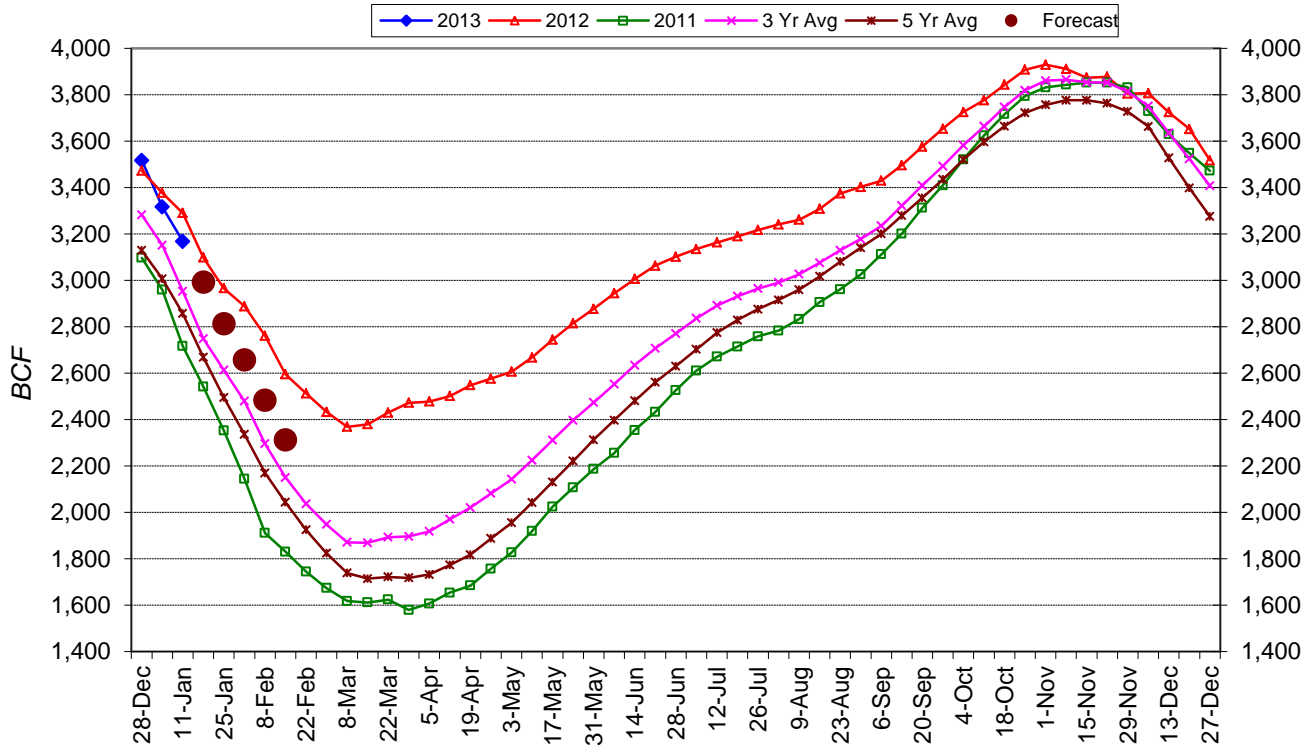
\$/MMBtu Ratio of NYMEX CL and NG



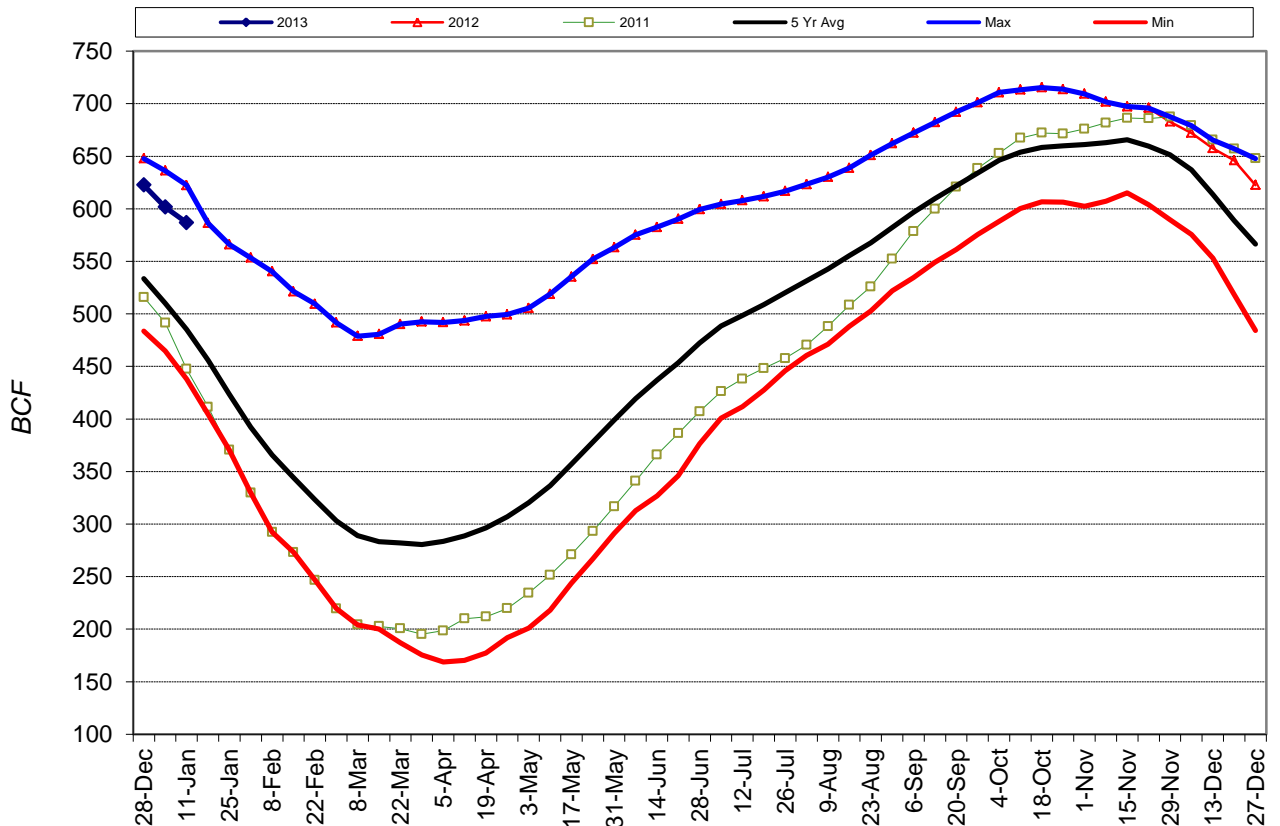
NYMEX Calendar Strips



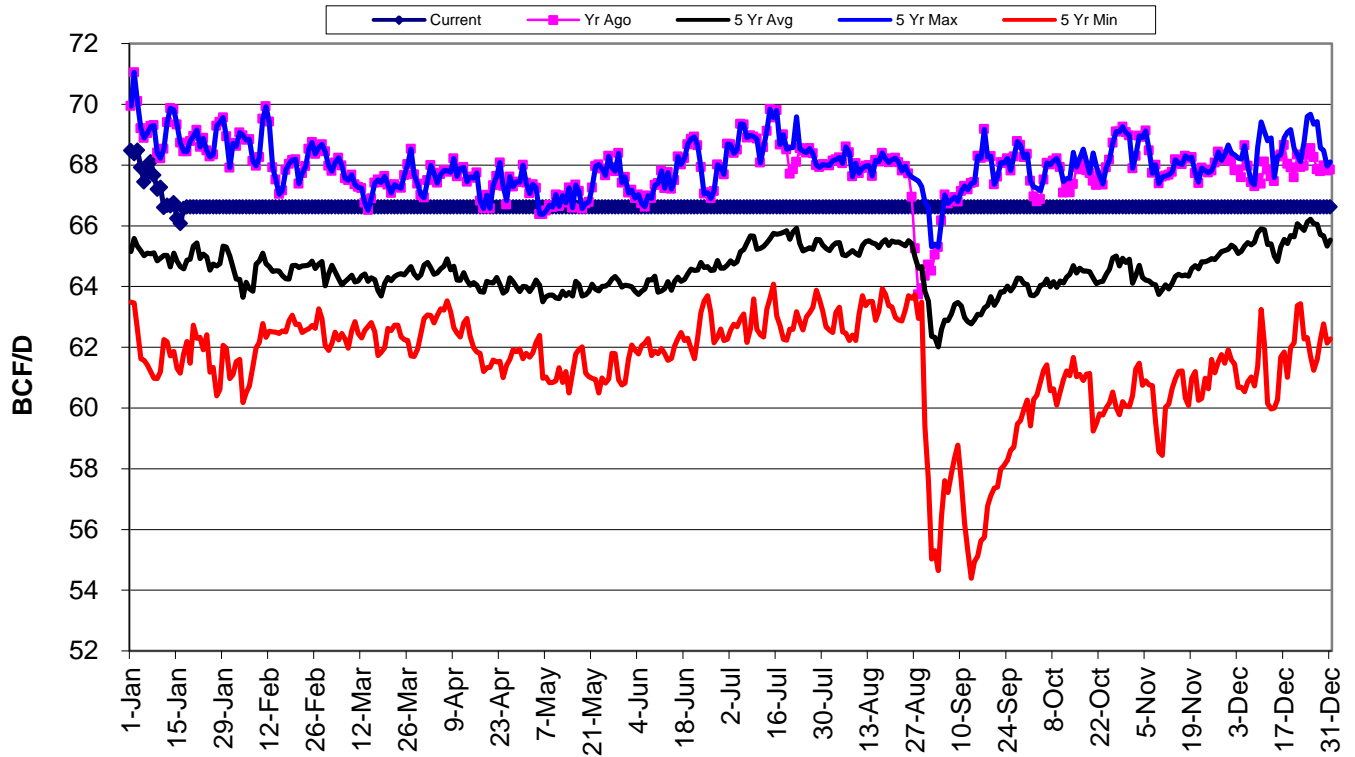
US Working Gas Storage - Source - EIA



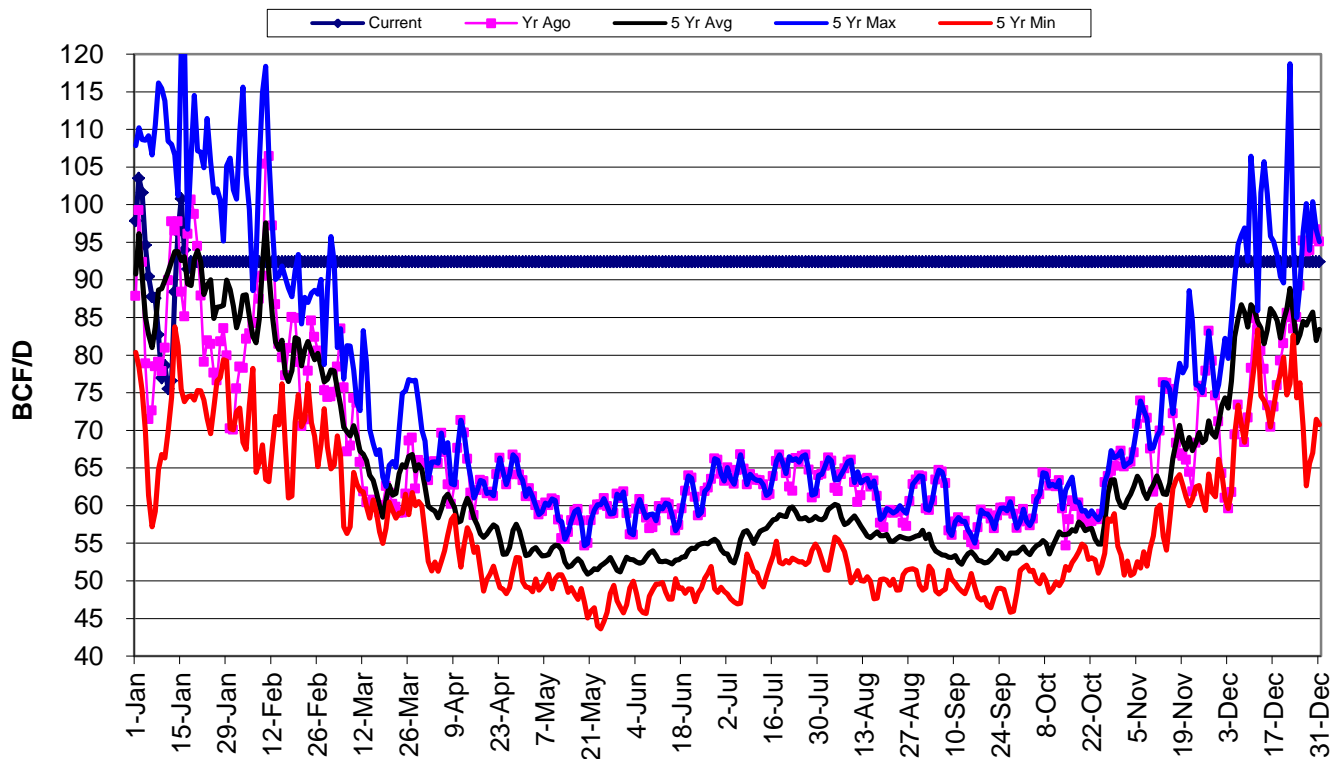
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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