

IAF Advisors
Energy Market Outlook
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Price Action: The market was slightly weaker as prices fell 2.9 cents (0.9%) to \$3.272 on a 20.3 cent range.

Price Outlook: The market did not establish a new low for in the week, as was our bias. Instead, prices rallied on increasingly colder weather forecasts and established a new weekly high. However, after a smaller than expected withdrawal and realizations of the absolute demand levels emanating from the weather forecasts, prices fell and a new low next week is expected. The rise in speculative net length continued with the 4th consecutive weekly increase. The net length is now obviously even closer to the late 2012 levels and continued buying could easily support prices. Total open interest rose to 4.69 million contracts as of February 5 and open interest across the petroleum complex is also surging. However, with the end of the winter rapidly approaching, liquidation of the recently accumulated length may instead precipitate weakness.

Weekly Storage: US working gas storage fell 118 BCF for the week ending February 1. Current inventory levels of 2,684 BCF now fall 204 BCF (7.1%) below last year while surpassing the 5 year average by 348 BCF (14.9%).

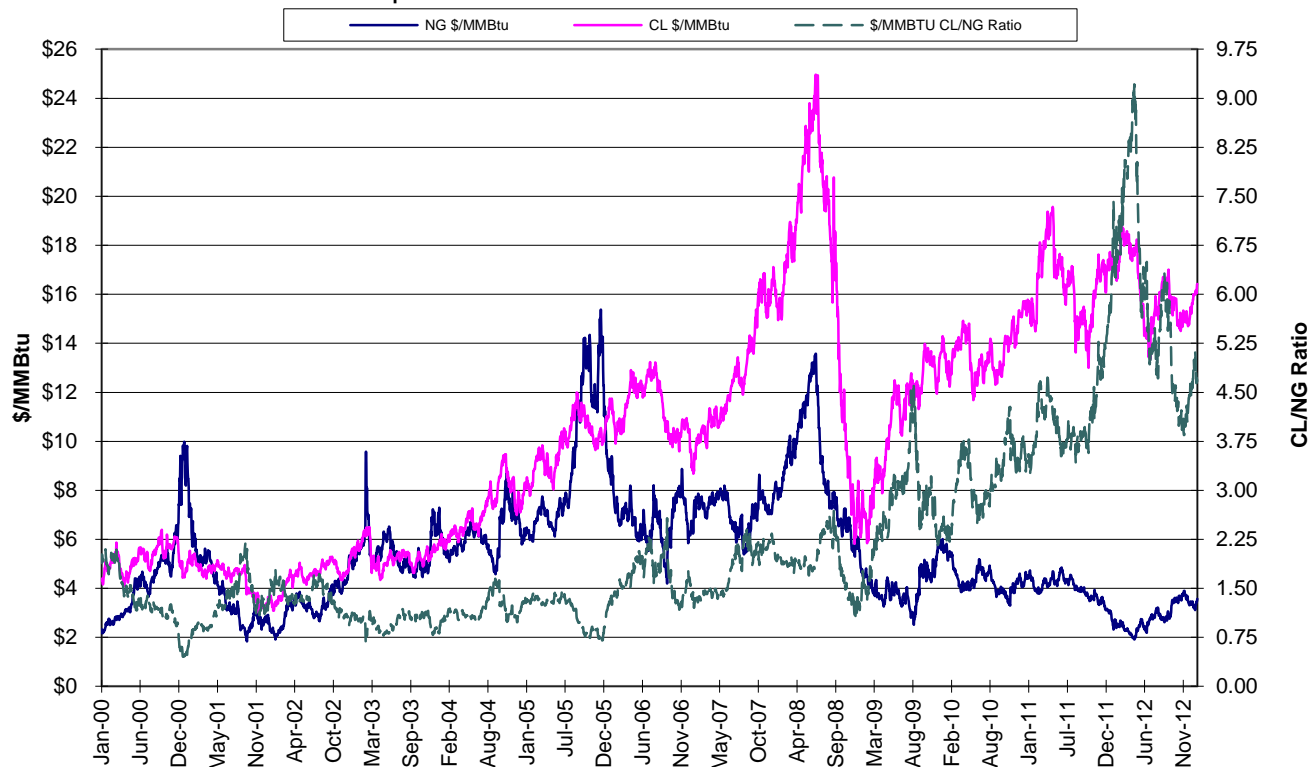
Storage Outlook: As will likely be the case in many of the remaining weeks of the 2012/13 withdrawal season, the weekly storage changes are likely to be bearish compared to last year while bullish to the historical averages. This situation simply reflects the incredible warmth witnessed last year.

Supply Trends: Total supply fell 0.6 BCF/D to 67.6 BCF/D. US production rose while Canadian and LNG imports fell. Mexican exports were little changed. The US Baker Hughes rig count fell 5 to 1,759 as both oil and natural gas activity fell. Canadian activity rose again and thus the total North American rig count increased by 1 to 2,390, which now trails last year by 308. The higher efficiency US horizontal rig count rose 7 and at 1,143 falls 28 behind last year. Production levels are rising after dropping in January.

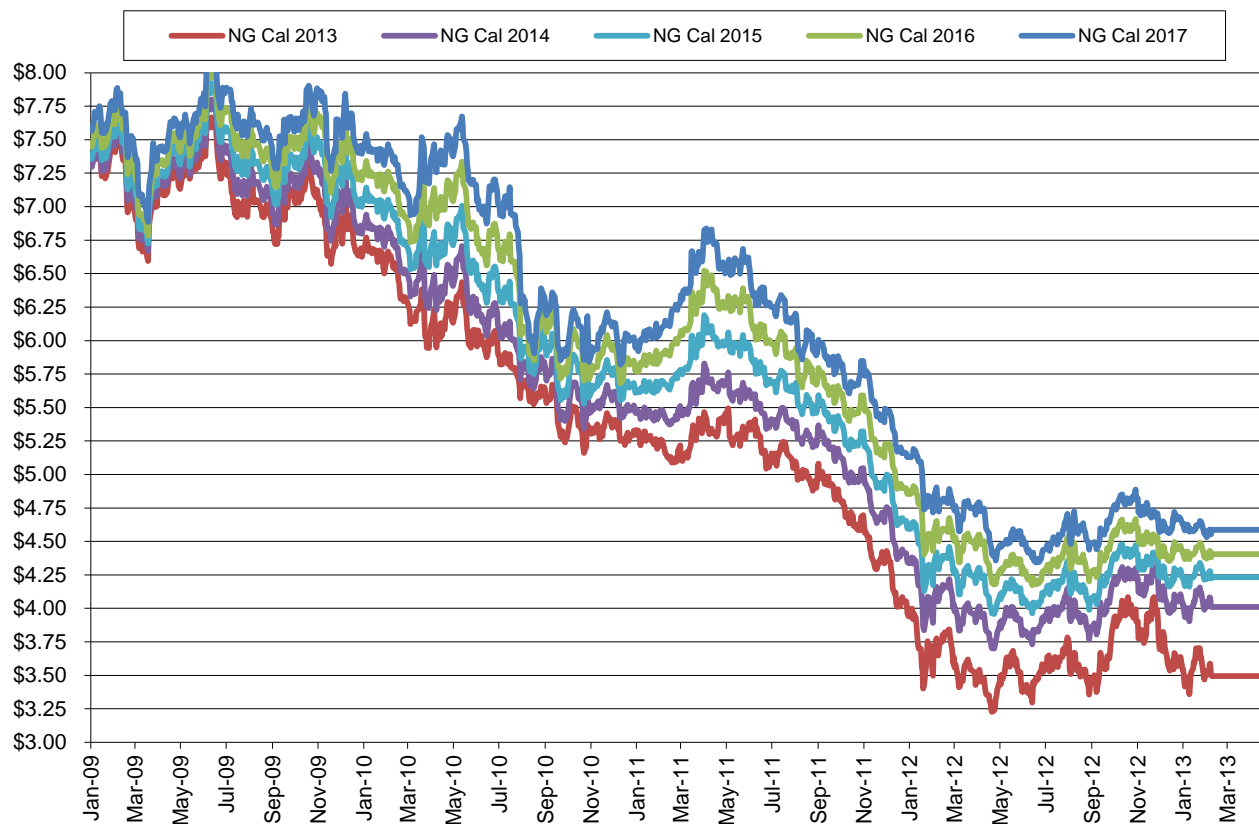
Demand Trends: Total demand collapsed 13.8 BCF/D to 84.3 BCF/D. All demand sectors were lower. Electricity demand fell 4,311 gigawatt-hrs to 76,374, which exceeds last year by 4,457 (6.6%) and trails the 5 year average by 3,043 (3.8%). Power burn on a temperature adjusted has taken a more bearish turn.

Other Factors: The S&P 500 continued to advance with equities up every week to begin 2013.

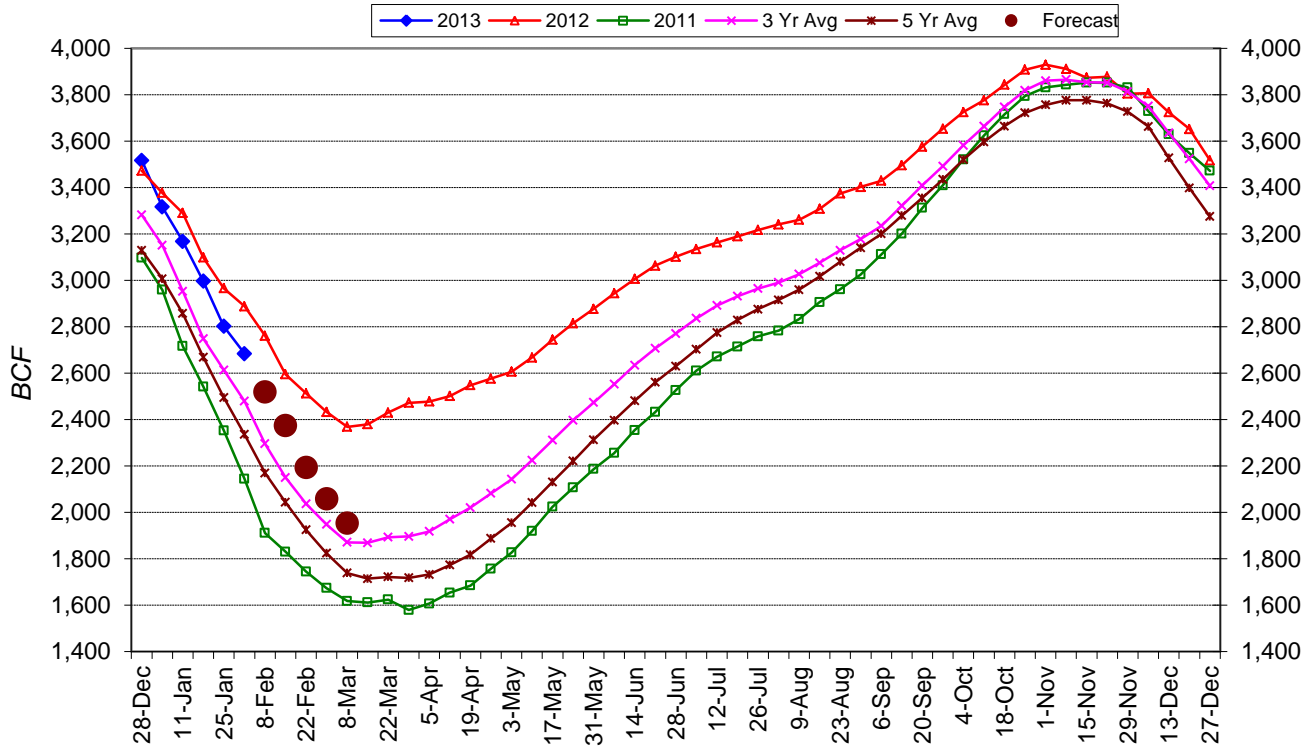
\$/MMBtu Ratio of NYMEX CL and NG



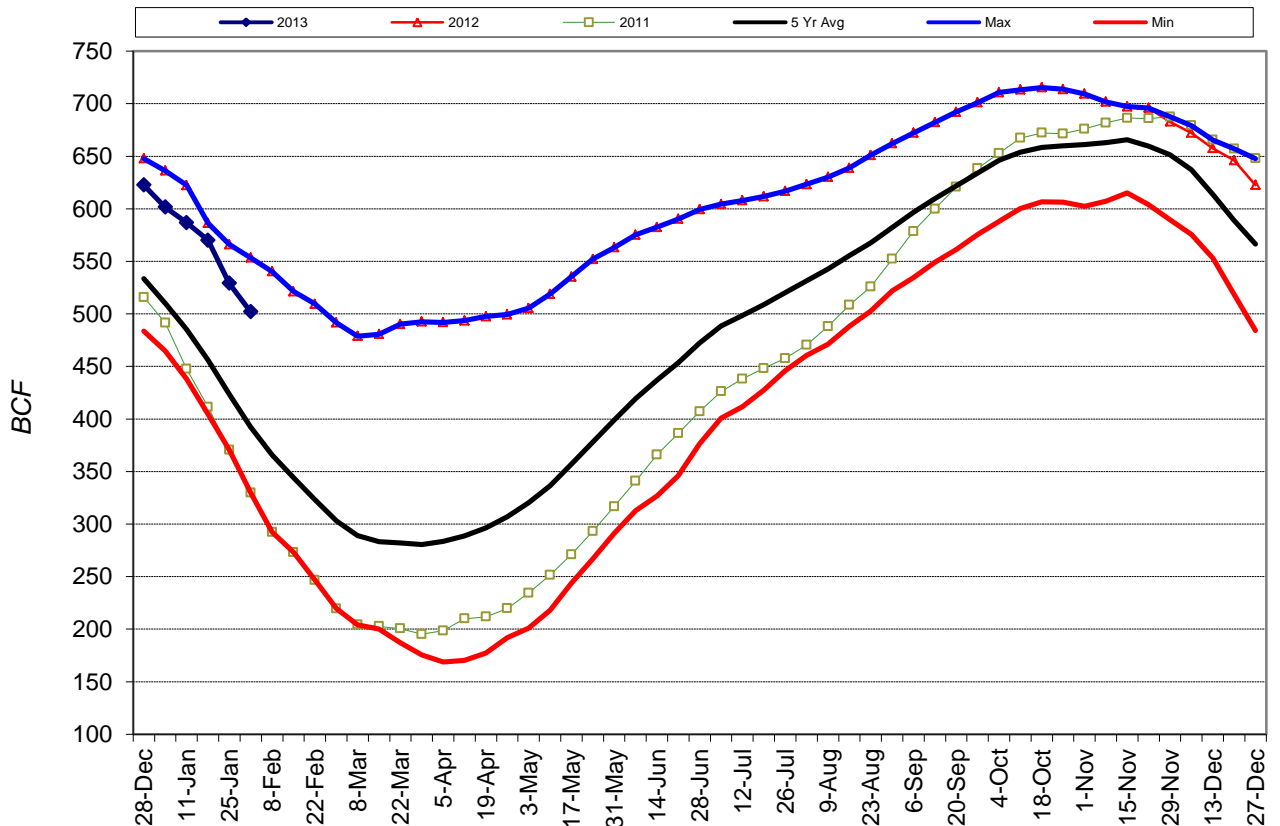
NYMEX Calendar Strips



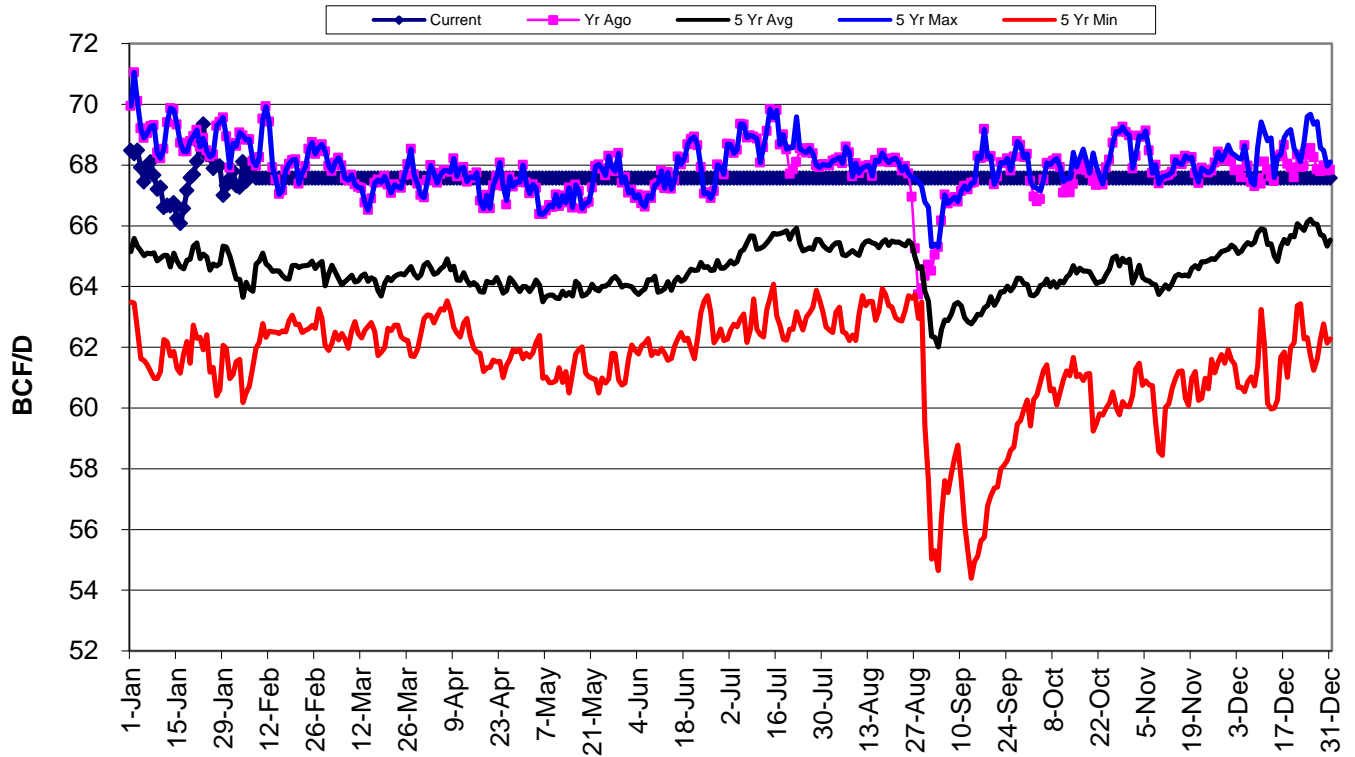
US Working Gas Storage - Source - EIA



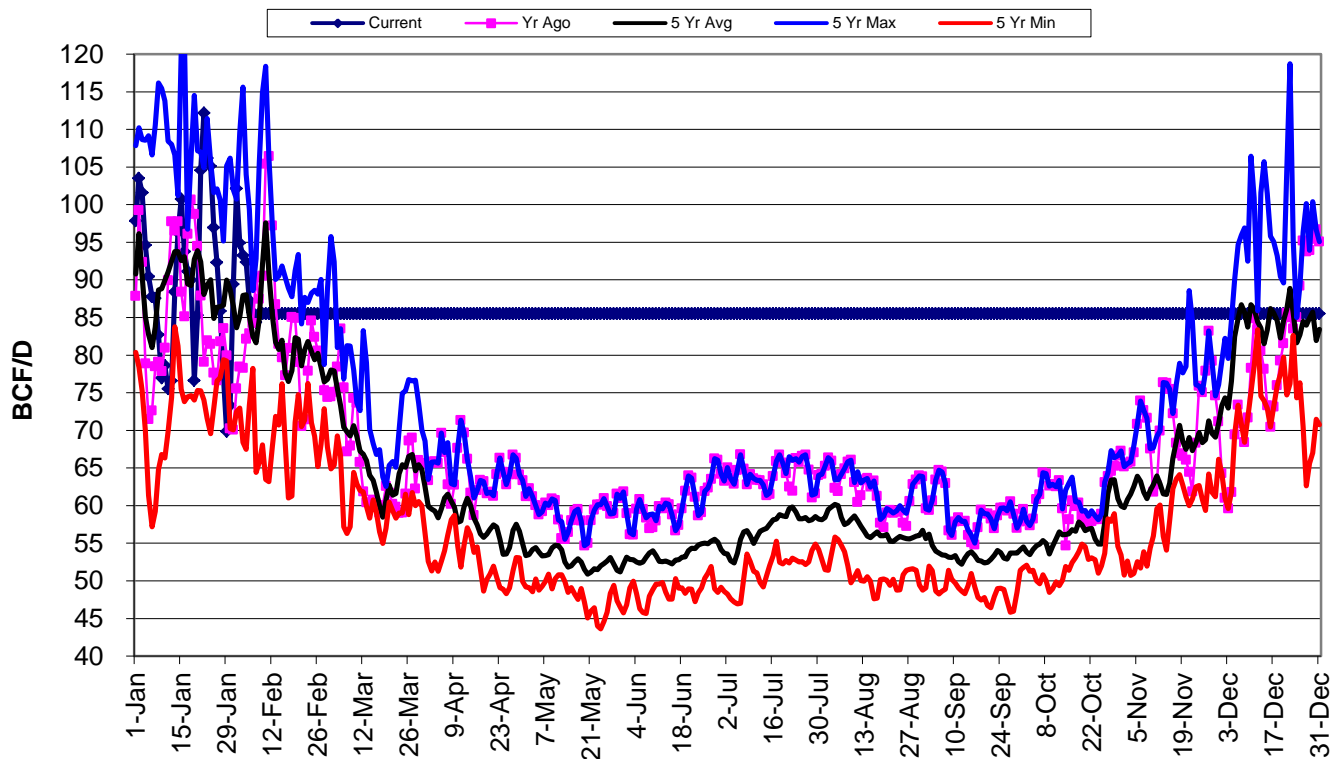
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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