

IAF Advisors
Energy Market Outlook
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Price Action: The market continued to advance and added 16.5 cents (5.0%) to \$3.456 on a 23.4 cent range.

Price Outlook: The market did establish a weekly high as expected. Looking forward, the last price of \$3.456 is nearly in the middle of the weekly range. Thus a forecast of either a new high or low is more difficult. However, as often noted, it is the natural gas market's historical case to not have inside weeks. While an inside week is possible and despite the bullish March storage comparisons, declining absolute demand levels and what will still be the 2nd highest storage level suggests an outlook for a new weekly low. The rise in speculative net length continued with an impressive 7th consecutive weekly increase. However, this week witnessed a huge surge in the position catapulting the net length past the level established last November. The momentum remains positive and with very bullish storage comparisons still to come in March, prices may likely remain supported. However, total open interest did fall to 4.72 million contracts as of February 26 and any liquidation of recent accumulated length poses some downside risk. Open interest across the petroleum complex remains elevated.

Weekly Storage: US working gas storage fell 171 BCF for the week ending February 22.

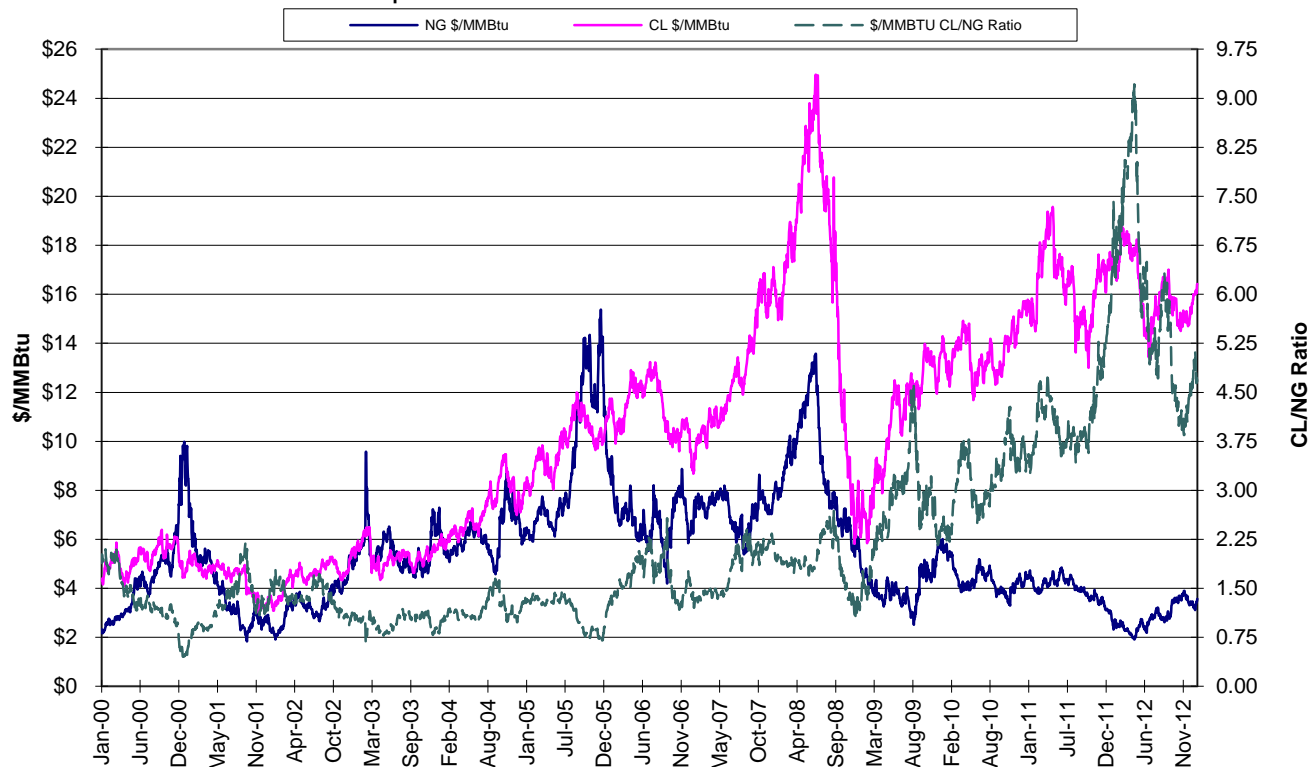
Storage Outlook: This week witnessed what will likely be a prominent March trend. Storage comparisons will likely be very bullish throughout the month and the yearly storage deficit is likely to exceed 600 BF by the end of March and surpass the 5 year average by less than 100 BCF. Those are bullish trends.

Supply Trends: Total supply was up 0.2 BCF/D at 68.4 BCF/D. A drop in US production was offset by higher Canadian imports with LNG imports and Mexican exports basically unchanged. The US Baker Hughes rig count fell 4 to 1,757 with increased oil activity not completely offsetting a drop in natural gas. Canadian activity fell and thus the total North American rig count decreased by 11 to 2,412, which now trails last year by 258. The higher efficiency US horizontal rig count rose 1 and at 1,141 falls 29 behind last year.

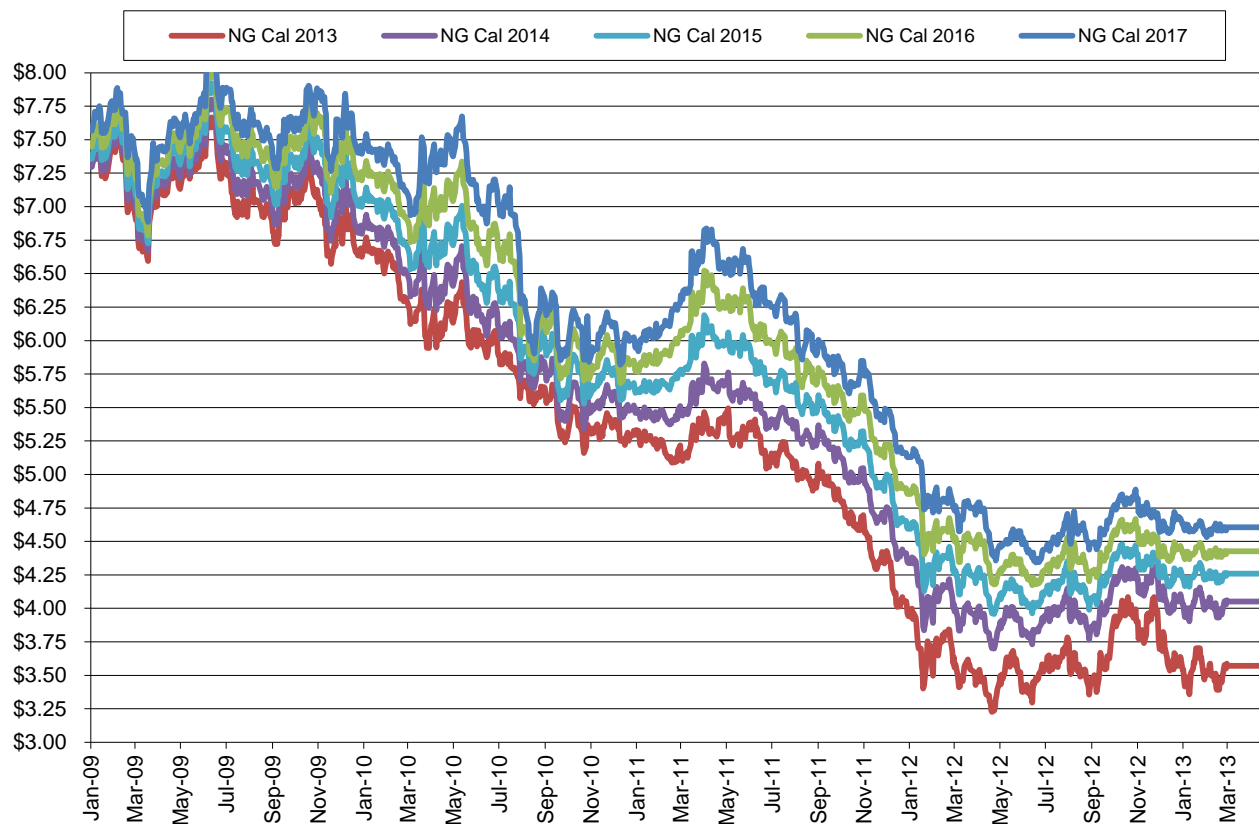
Demand Trends: Total demand soared 9.2 BCF/D to 93.6 BCF/D. All sectors recorded an increase. Electricity demand rose 1,519 gigawatt-hrs to 77,099, which exceeds last year by 4,927 (6.8%) and the 5 year average by 977 (1.3%). Total demand will begin to fall rapidly in coming weeks as temperatures climb with April demand projected to be well over 10 BCF/D less than March.

Other Factors: The S&P 500 fell for the first week in 2013, but the drop was marginal and the week ended on a strong note.

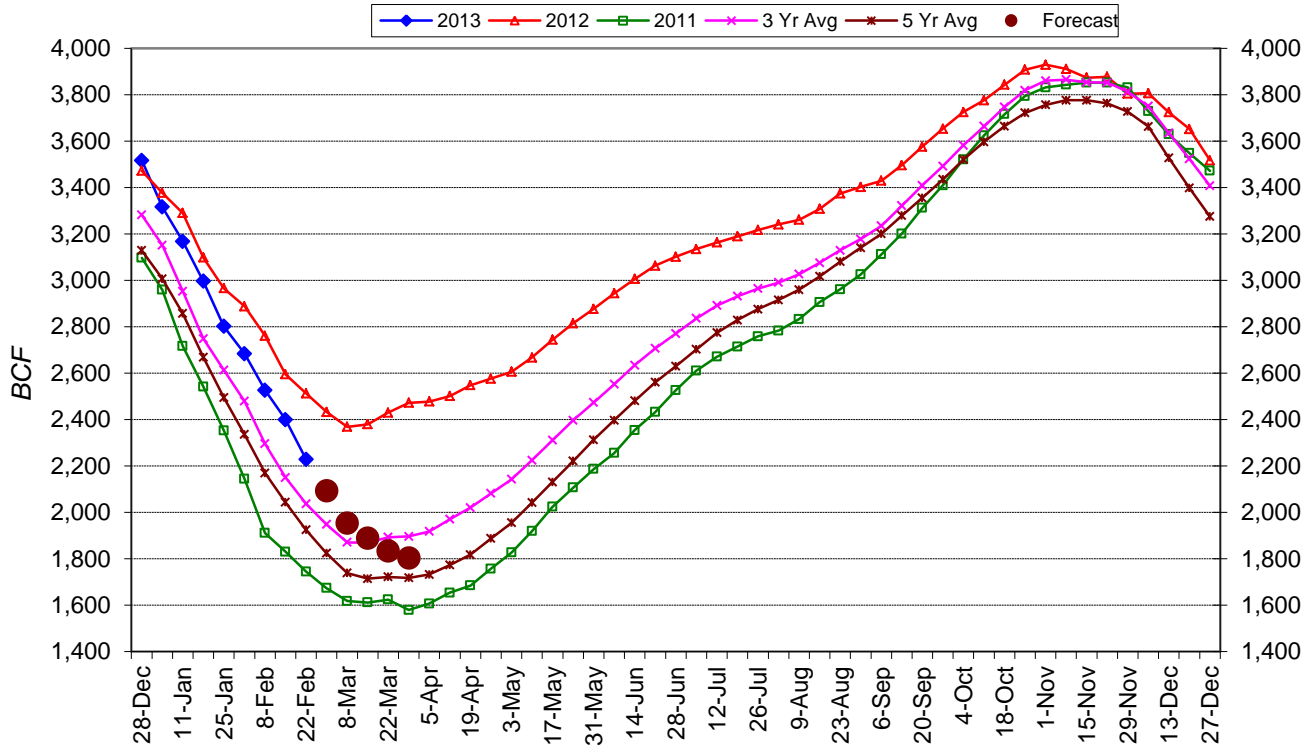
\$/MMBtu Ratio of NYMEX CL and NG



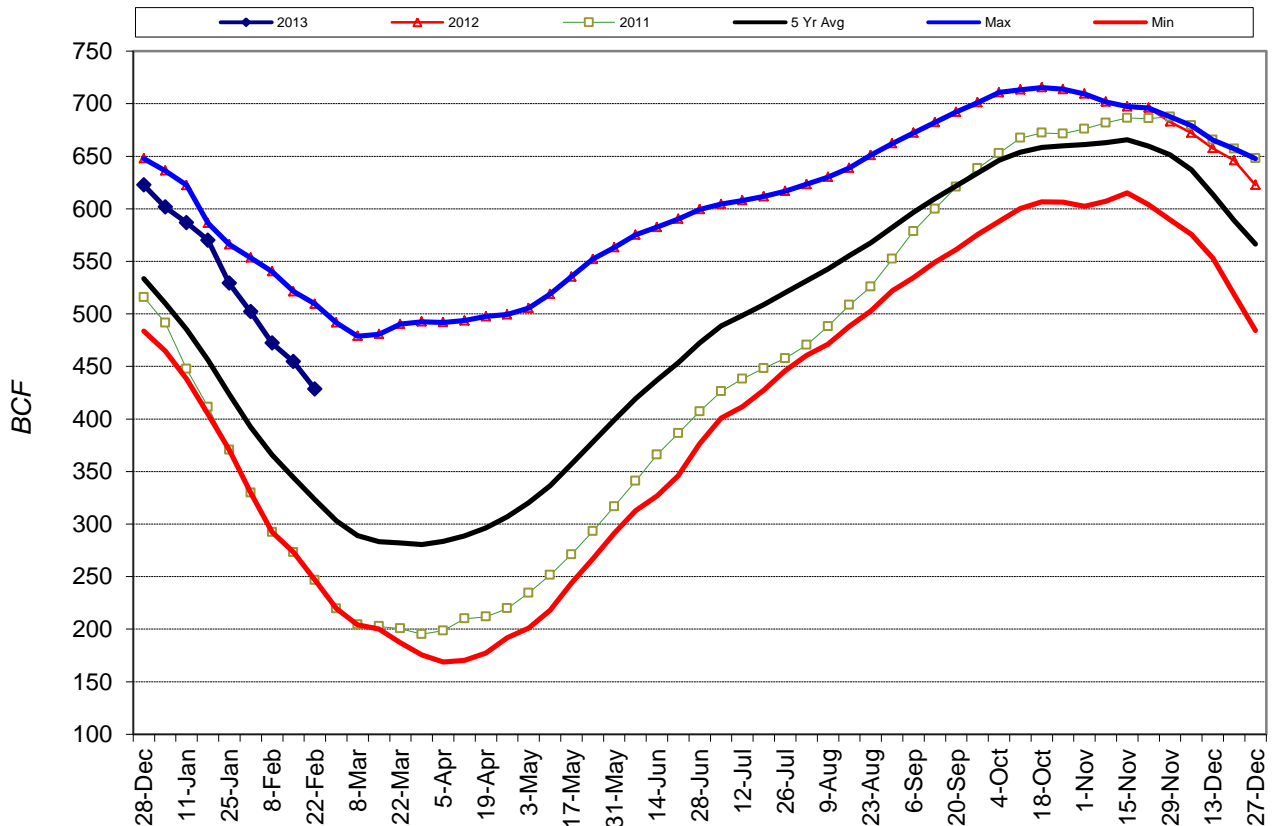
NYMEX Calendar Strips



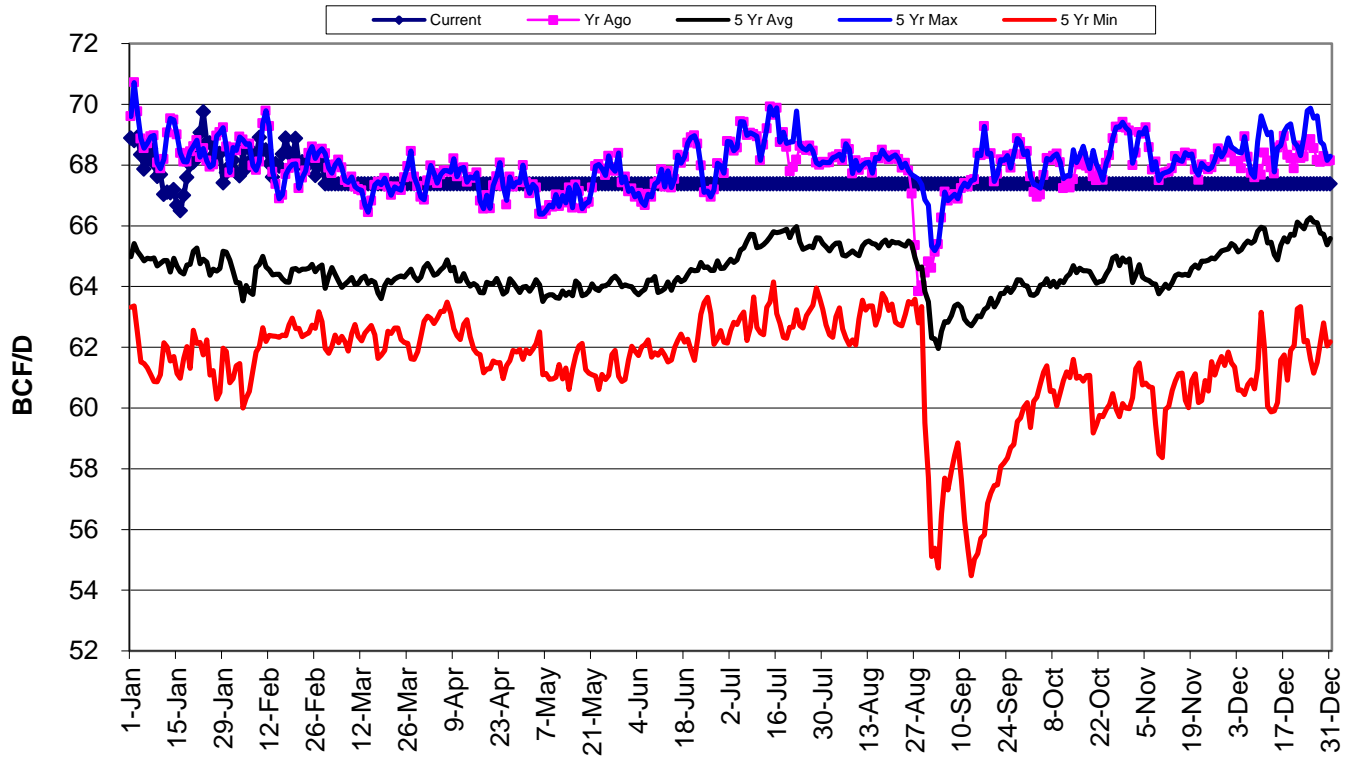
US Working Gas Storage - Source - EIA



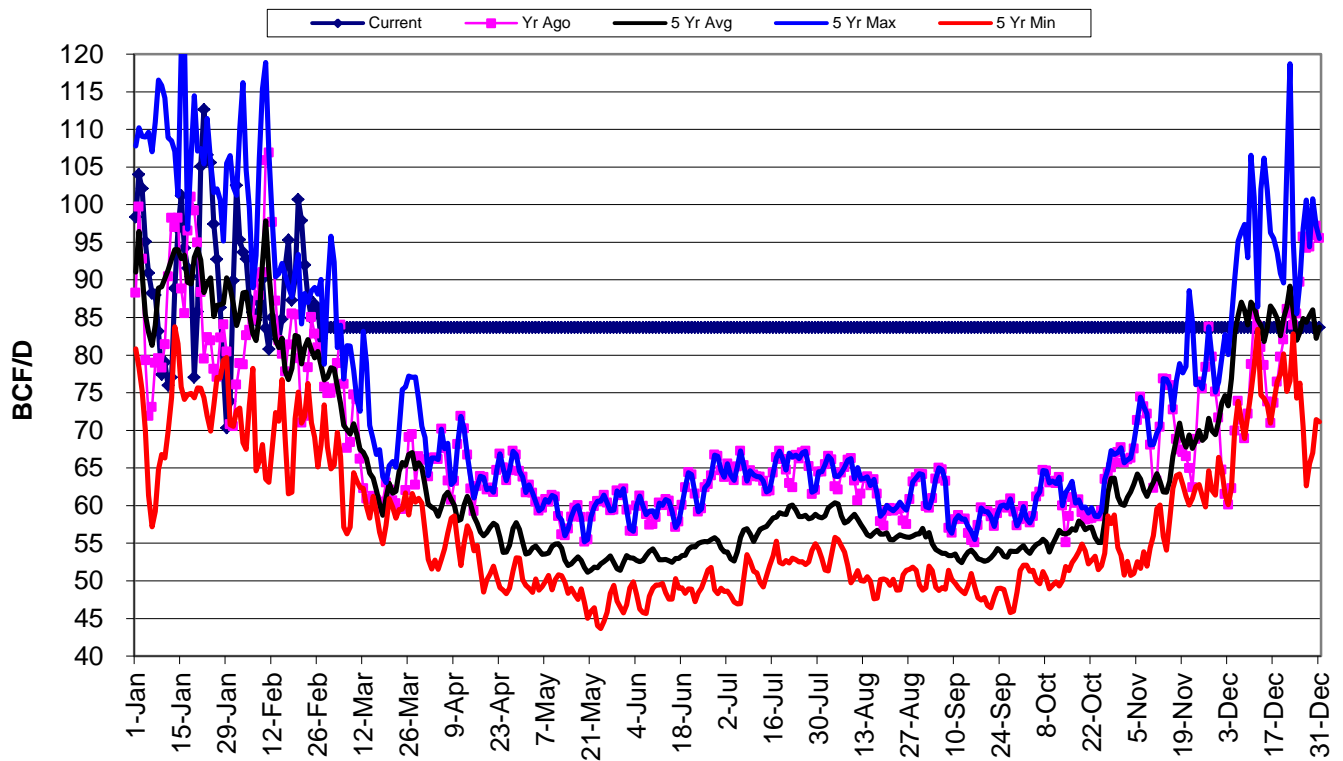
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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