

IAF Advisors
Energy Market Outlook
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Price Action: Prices reversed course and fell 25.6 cents (5.8%) to \$4.152 on a 33.5 cent range.

Price Outlook: The market could not establish a new high and 2008 remains the only time the market has risen more than 9 weeks in a row. However, as its' history, natural gas did not have an inside week and instead plummeted enough to actually establish a new low instead. The historical volatility of natural gas is amazing with the front month contract experiencing more weeks where both a new high and low is recorded rather than weeks where neither is witnessed. Still, with what is considered low injections and a daunting storage deficit, a new low is not expected and a new high will require a significant surge. Thus while unlikely, this week actually is considered a prime candidate for a rare inside week. It remains our opinion that this market will remain well supported until a path to 3,800 BCF by November is in view. Considering recent weather forecasts, our expectation is that does not occur until later in May. Thus, prices are likely to remain well supported until that time. However, the market remains in the same situation as recent weeks with speculative net length increasing again, for the nearly unbelievable 15th consecutive week and establishing yet another new speculative net long record. While in a completely different pricing environment than 2008, it seems many are discounting the effects of temperatures and missing underlying fundamental shifts. High injections that precipitate liquidation could result in a significant price drop.

Weekly Storage: US working gas storage rose 30 BCF for the week ending April 19. Current inventory levels of 1,734 BCF now fall 814 BCF (31.9%) below last year and 84 BCF (4.6%) behind the 5 year average.

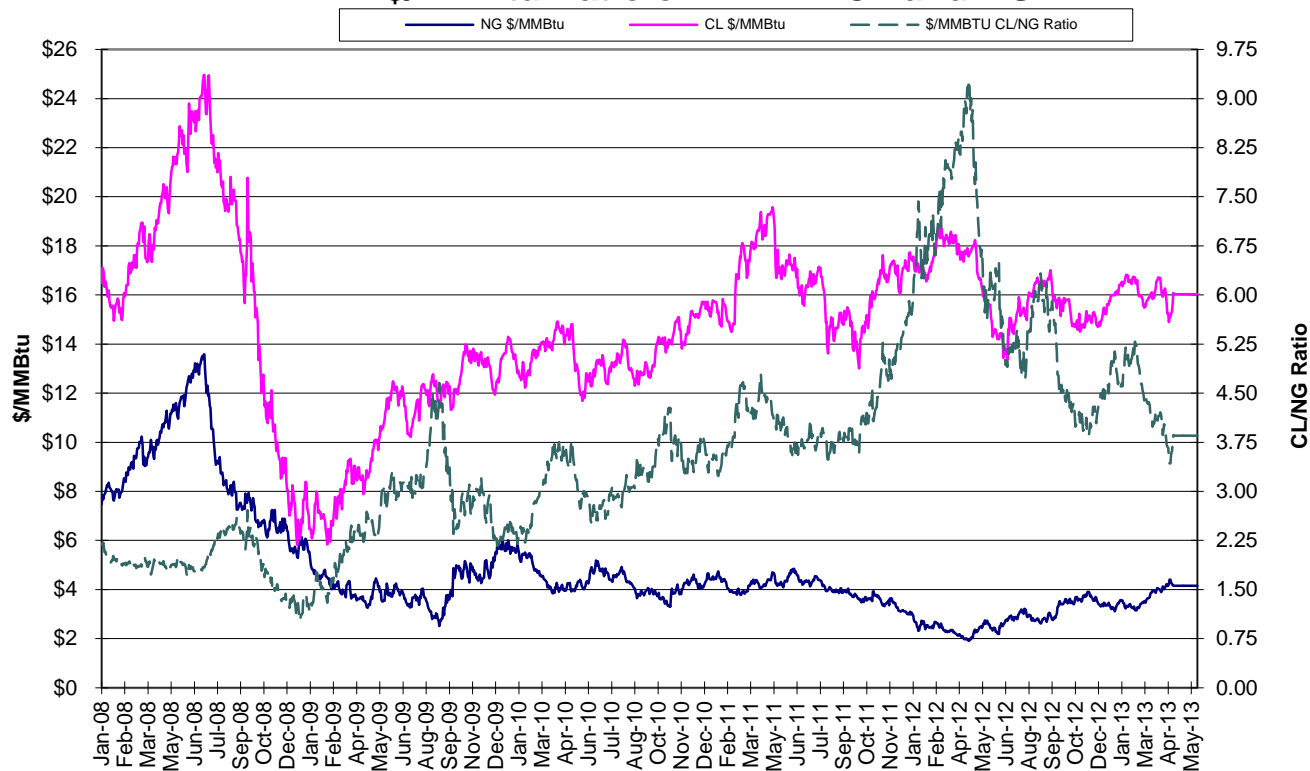
Storage Outlook: Although storage injections continued, the pace of injections remains slow due to late season cold. An item of note regards the influence of 2012 on historical averages. Because of the extreme 2012 storage levels, the rolling 5 year average is distorted. The 5 year average on 4/20/2011 was just 1,637 BCF and thus the current inventory level would actually exceed that historical average. While fully aware of market perception, an objective review is also warranted.

Supply Trends: Total supply rose 1.0 BCF/D to 68.6 BCF/D. Higher US production and Canadian imports along with lower Mexican exports contributed to the increase. The US Baker Hughes rig count fell 4 to 1,754 as oil activity rose and natural gas fell. Canadian activity also fell 4. Thus the total North American rig count decreased by 8 to 1,876, which now trails last year by 203. The higher efficiency US horizontal rig count fell 13 and at 1,084 falls 55 behind last year.

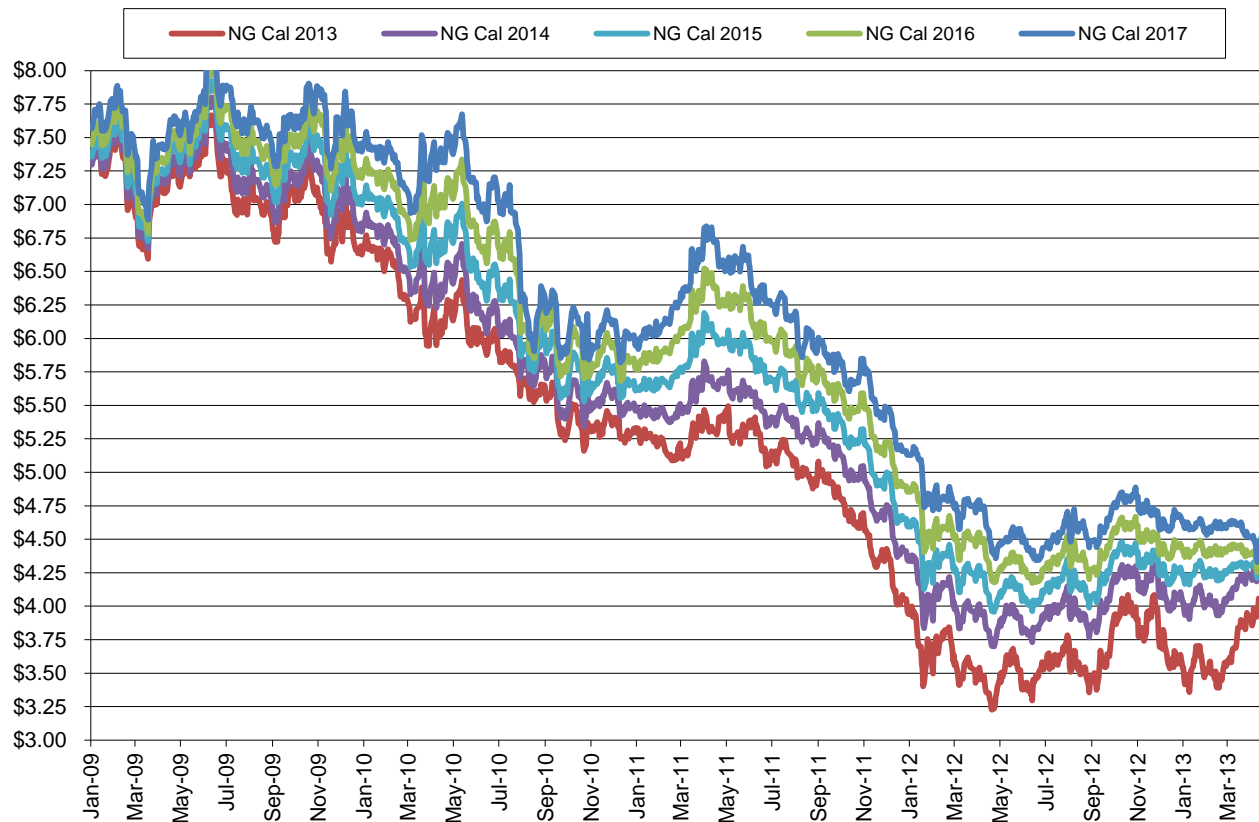
Demand Trends: Total demand rose 0.8 BCF/D to 62.7 BCF/D. The power sector recorded an increase with R&C slightly lower. Electricity demand rose 879 gigawatt-hrs to 69,712, which exceeds last year by 1,146 (1.7%) and the 5 year average by 1,395 (2.0%). While there is increasing evidence of temperature adjusted demand loss in the power sector, below normal temperatures are keeping overall demand levels above normal.

Other Factors: The S&P 500 rose despite economic data that in general remains very disappointing.

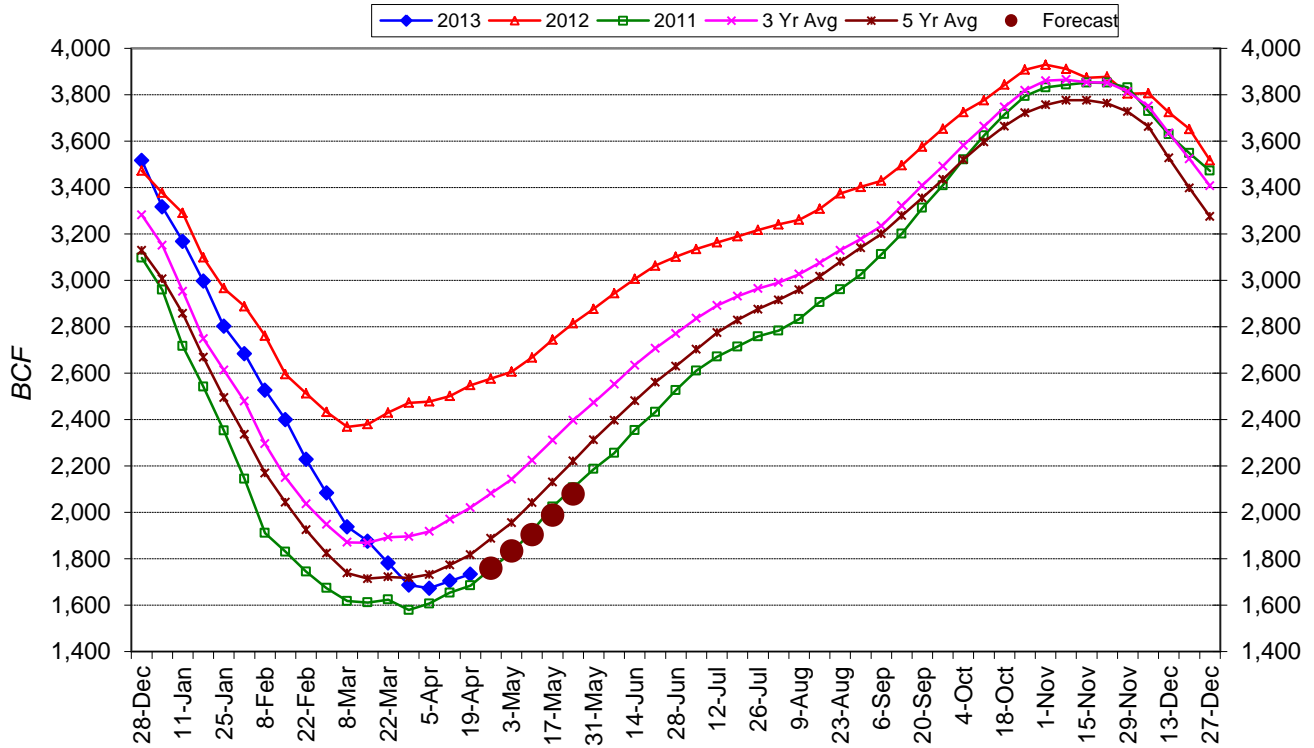
\$/MMBtu Ratio of NYMEX CL and NG



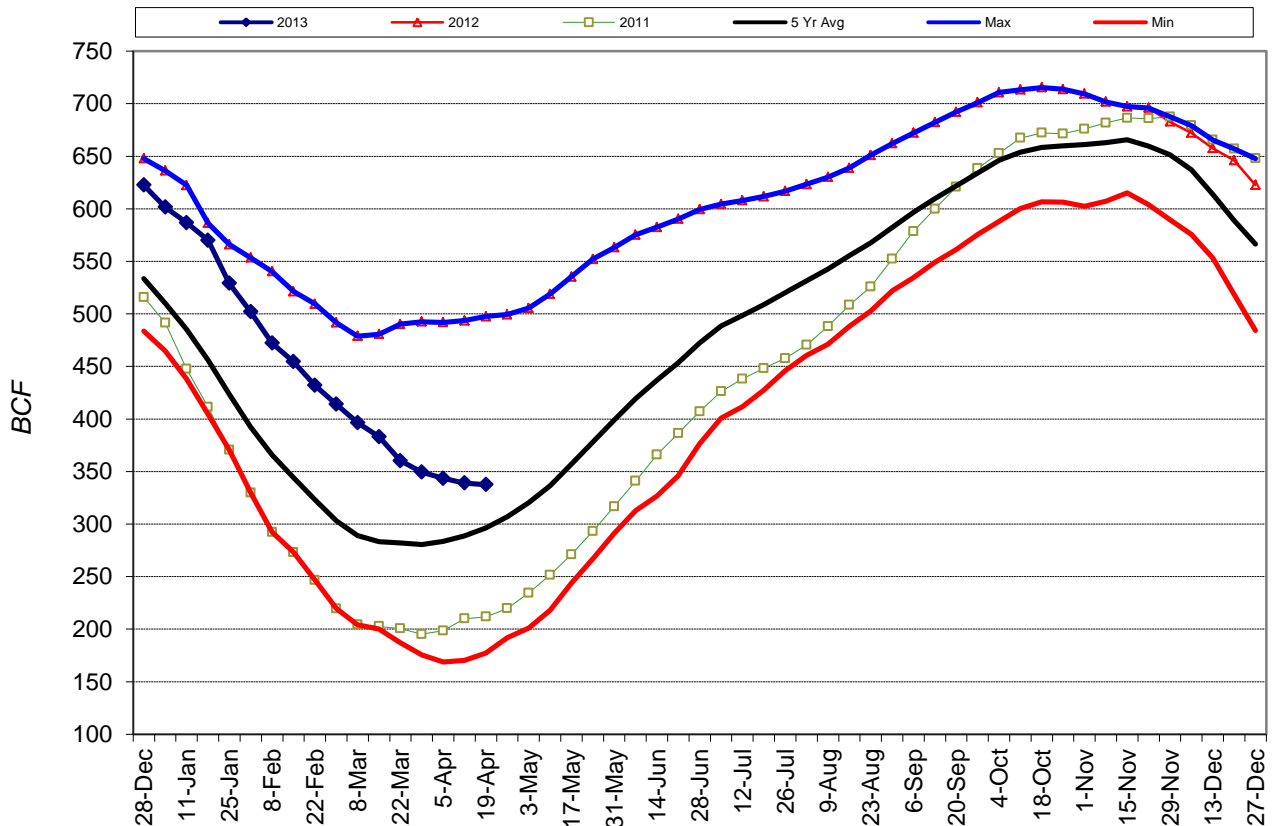
NYMEX Calendar Strips



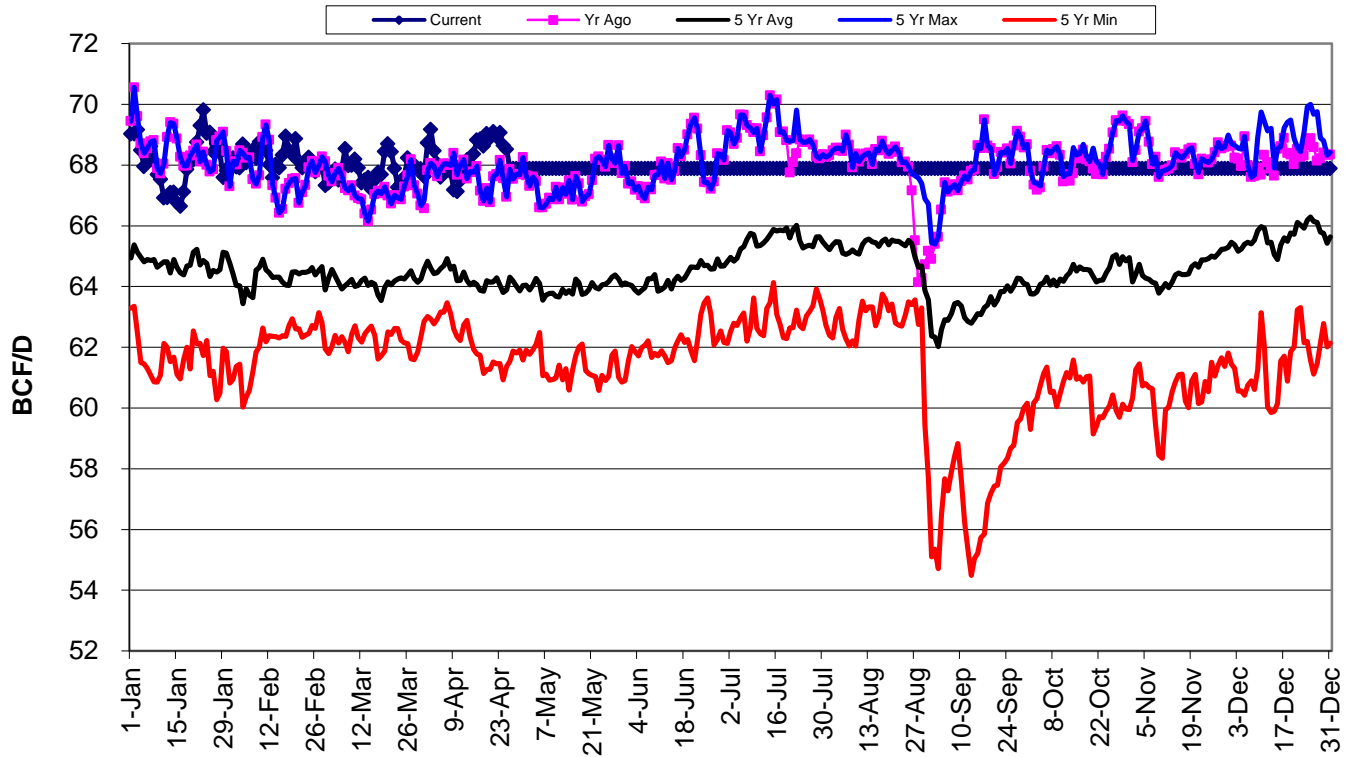
US Working Gas Storage - Source - EIA



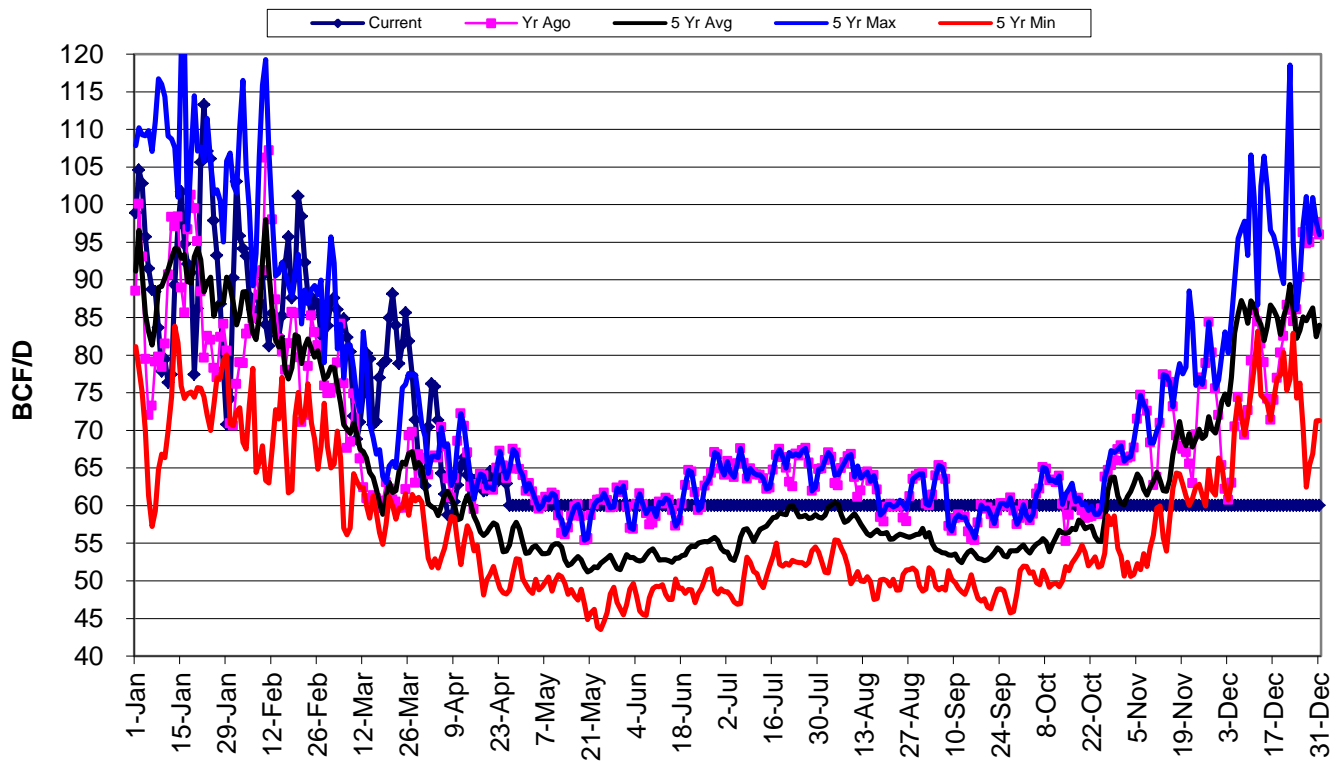
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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