

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
May 3, 2013

Price Action: Prices continued to fall with the market giving up another 11.1 cents (5.8%) to \$4.041 on a 46.7 cent range.

Price Outlook: Just to highlight the volatility, rather than record a rare inside week, prices rallied mid-week to establish a new high before plummeting to establish a new low. Considering the weekly close and rising injections, a new low is considered the more likely path. Almost 2/3rd of the time this market has seen 2 down weeks in a row, a 3rd is also established. The rise in speculative net length continued and has now reached a truly unbelievable 16 weeks. As a note, our calculation includes futures, options, swaps and ICE contracts and may vary, and likely does, from other industry reports considering futures only. Quite simply very large bets are being made as any new net long has to be met with a new short. Total open interest fell to 5.78 million as of April 30, which is still below the record open interest of 6.36 million and leaves the net long position as a percentage of open interest incredibly elevated. The increasing participation is expected to result in heightened volatility.

Weekly Storage: US working gas storage rose 43 BCF for the week ending April 26. Current inventory levels of 1,777 BCF now fall 799 BCF (31.0%) below last year and 111 BCF (5.9%) behind the 5 year average.

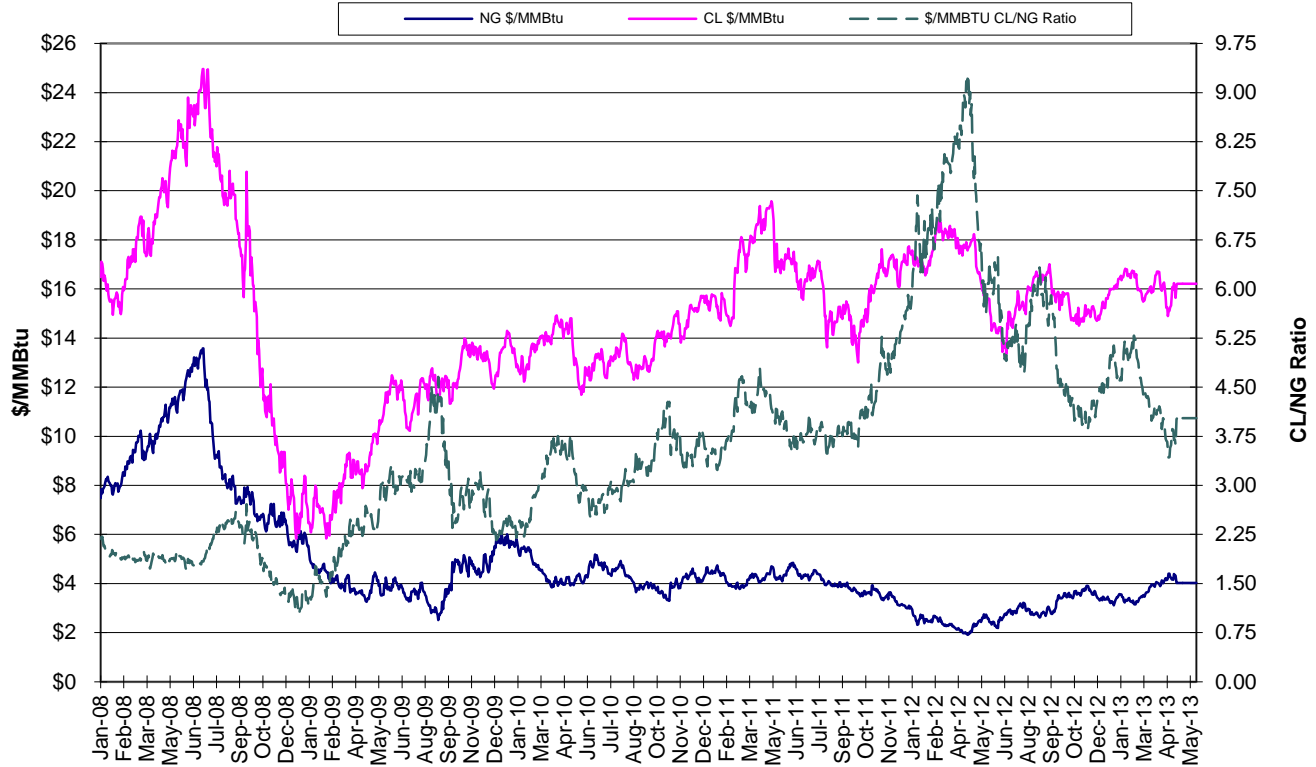
Storage Outlook: Injections appear on pace to nearly equal the 5 year average. If injections exactly matched the 5 year average, inventories would climb to just below 3,700 BCF. This would be deemed a bullish level and thus injections need to equal above the 5 year average to exert any significant downward price pressure.

Supply Trends: Total supply rose 0.2 BCF/D to 68.8 BCF/D. Higher US production offset slightly lower Canadian imports. Mexican exports were unchanged. The monthly EIA report was considered somewhat bearish with a sizable February production increase that was added to a January level that had also been revised higher. The US Baker Hughes rig count rose 10 to 1,764 as oil activity rose and natural gas fell. Canadian activity fell 1. Thus the total North American rig count increased by 9 to 1,885 which now trails last year by 211. The higher efficiency US horizontal rig count rose 8 and at 1,092 falls 66 behind last year.

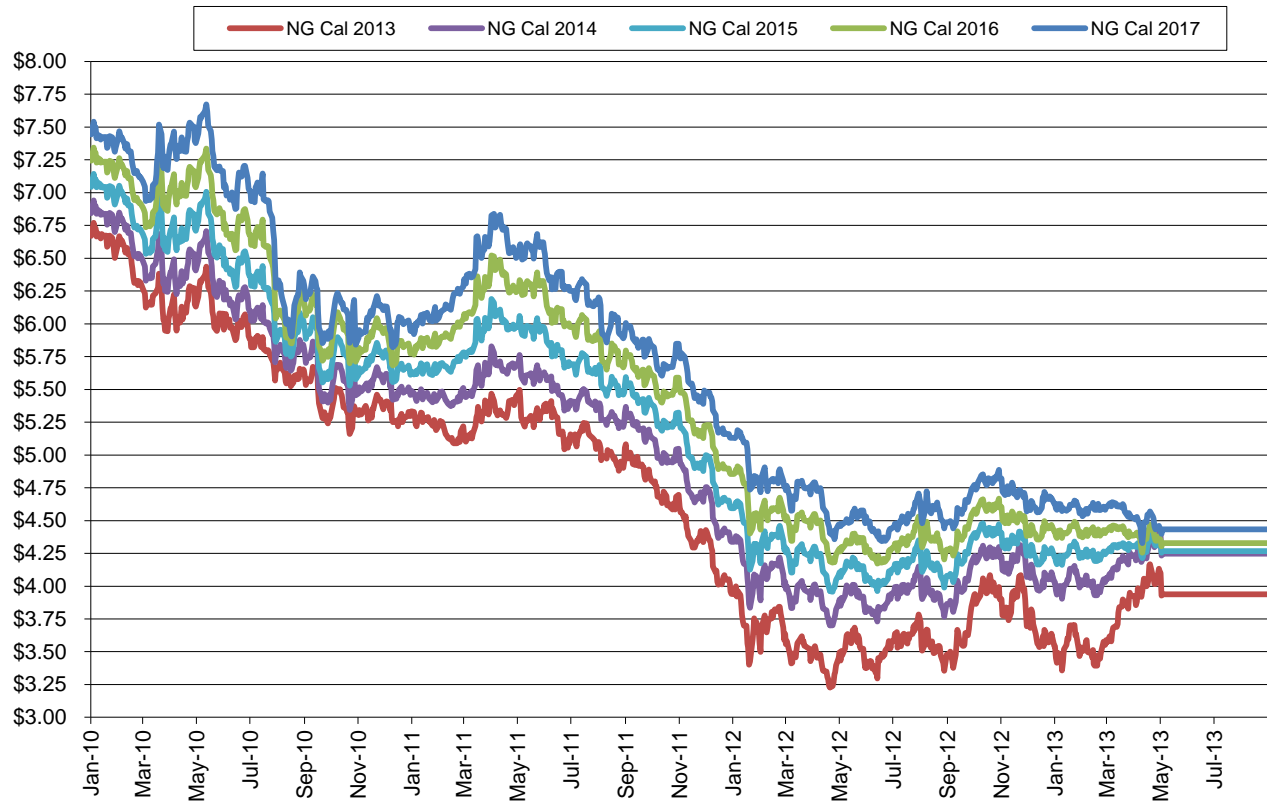
Demand Trends: Total demand rose 0.4 BCF/D to 63.1 BCF/D. R&C and industrial demand more than offset a drop in the power sector. Electricity demand fell 2,083 gigawatt-hrs to 67,629, which trails last year by 1,202 (1.7%) and the 5 year average by 1,201 (1.7%). There continues to be evidence of temperature adjusted power demand loss and injections are expected to rise significantly as temperatures increase.

Other Factors: The S&P 500 rose as the US jobs report was much better than feared.

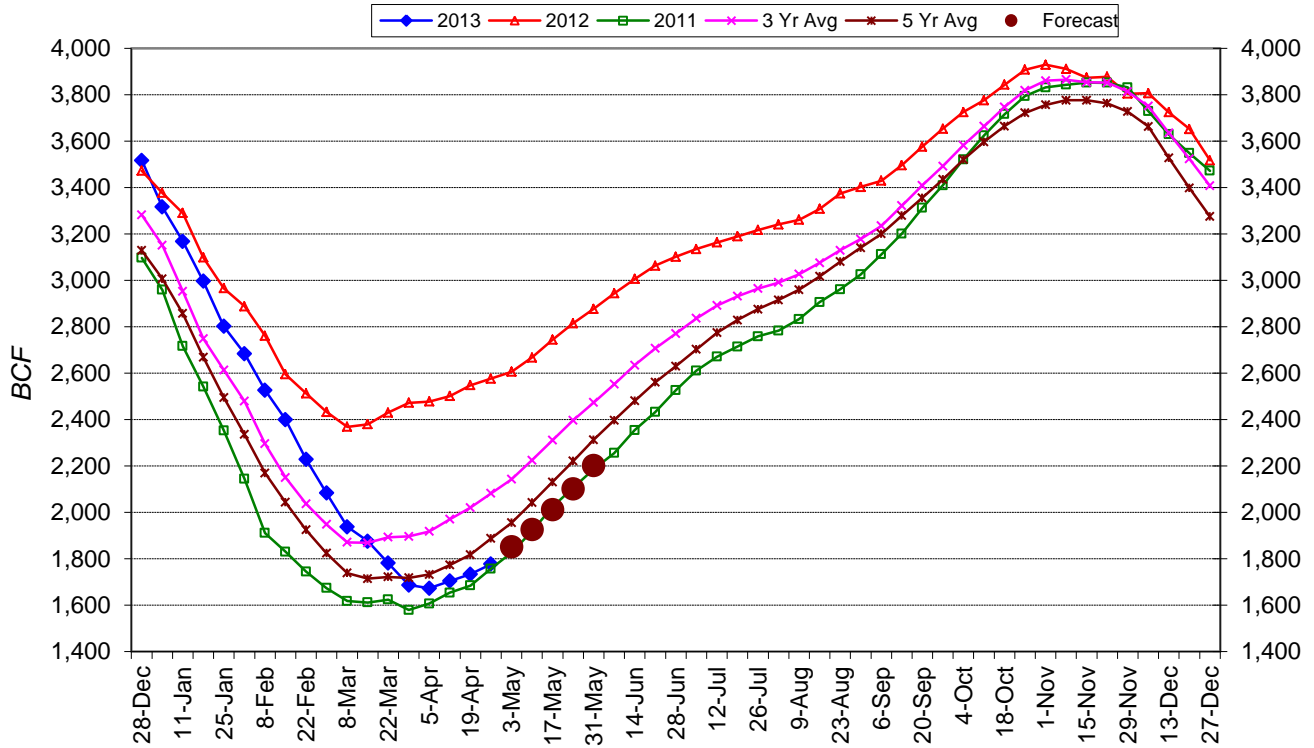
\$/MMBtu Ratio of NYMEX CL and NG



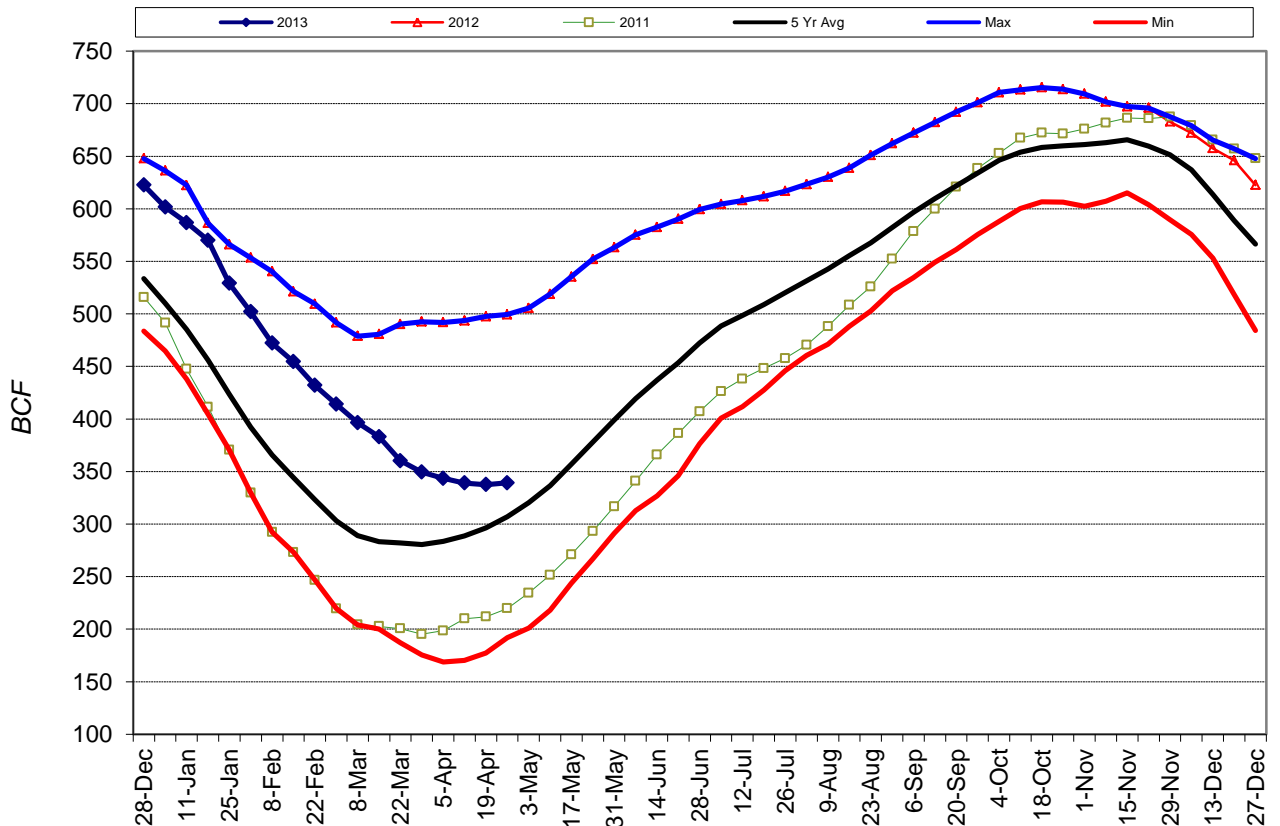
NYMEX Calendar Strips



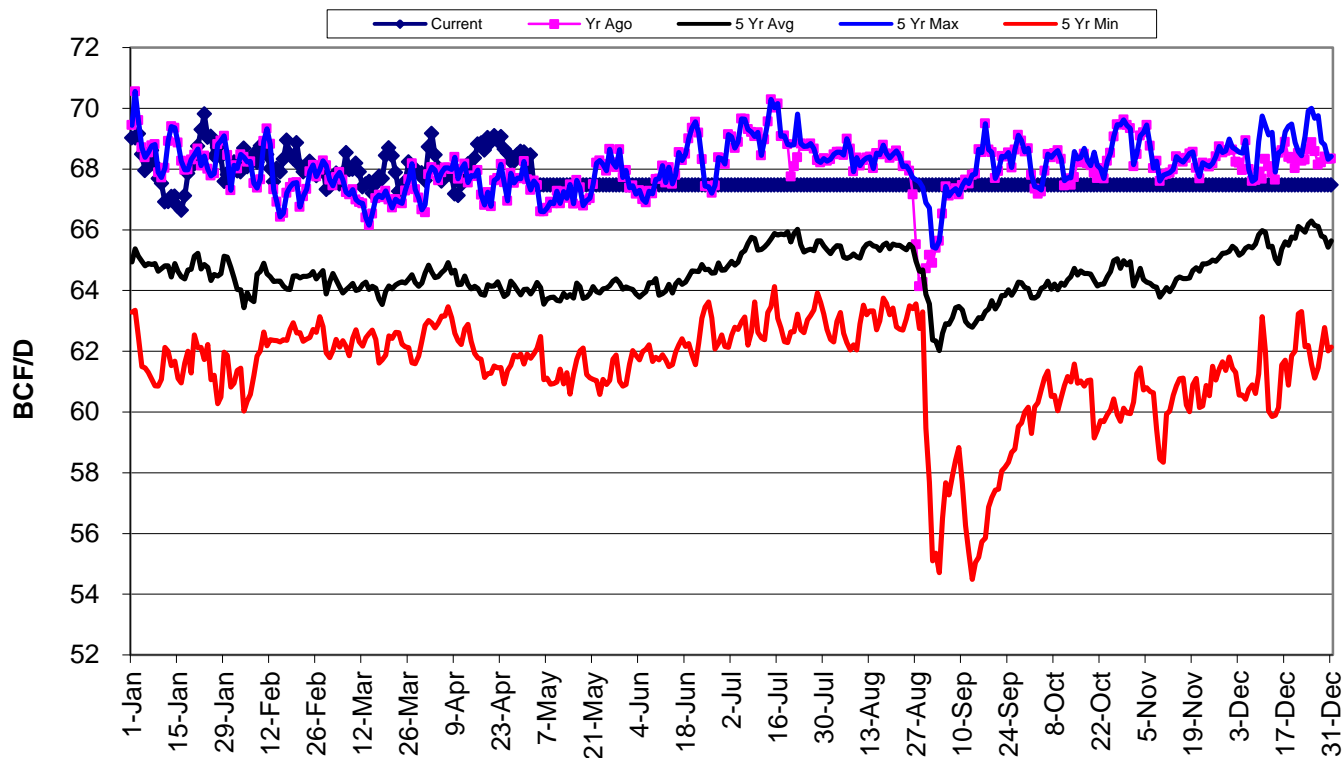
US Working Gas Storage - Source - EIA



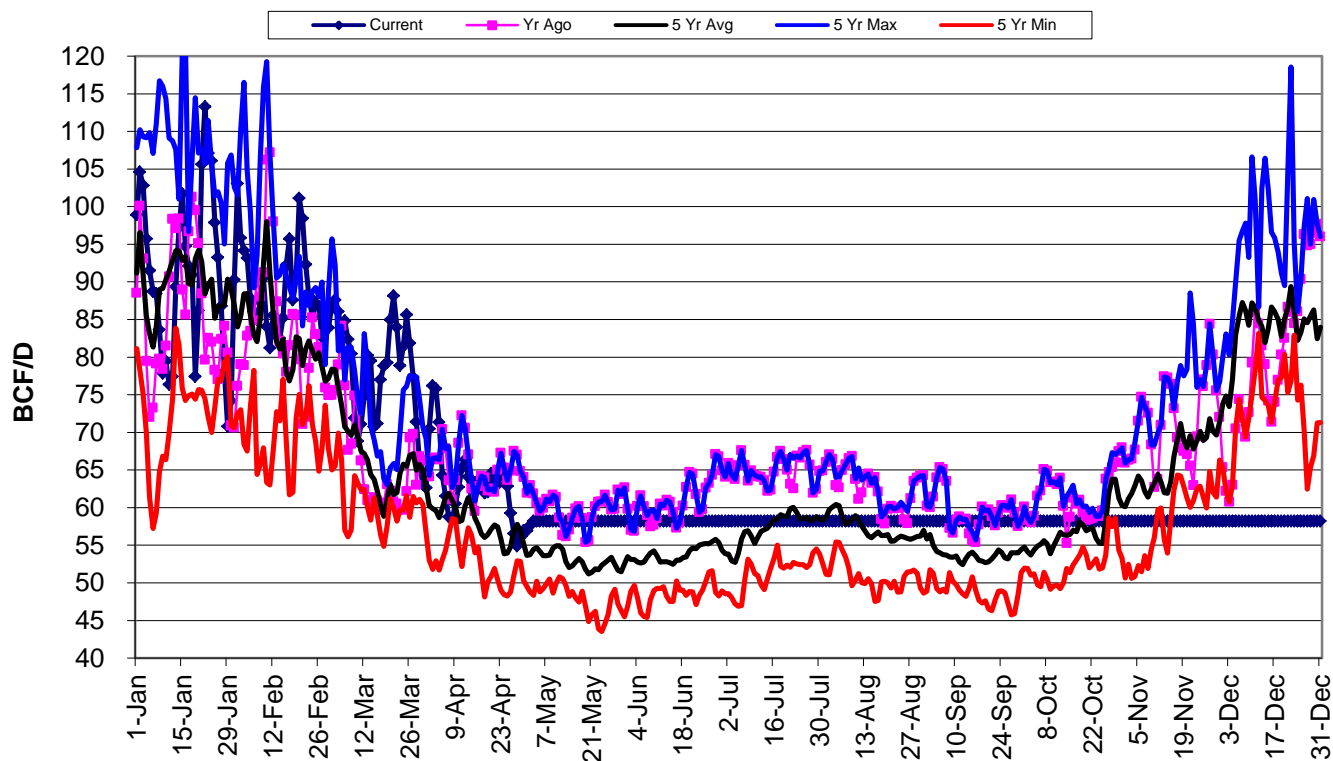
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any commodity, futures contract, or option contract. Although any statements of fact in this report have been obtained from and are based upon sources that IAF Advisors believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. IAF Advisors, its officers and/or employees, may at any time have a long and/or short position in any commodity, futures contract, or option contract mentioned in this report. All opinions and estimates included in this report constitute IAF Advisors judgment as of the date of this report and are subject to change without notice.

© 2013 IAF Advisors.