

IAF Advisors
Energy Market Outlook
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Price Action: Prices continued to slide and dropped another 13.1 cents (3.2%) to \$3.910 on just a 17.3 cent range.

Price Outlook: The market has now established a new low 3 weeks in a row. Since 2000, there have been 51 weeks that have fallen 3 or more weeks in a row. Of those weeks, 33 have seen a 4th new low. Considering the close of \$3.91, the need to print just \$3.882, moderate temperatures and estimates for large injections, a new low is considered the most likely path with 4 weeks hardly extreme for natural gas. The rise in speculative net length finally took a pause and the net long position contracted ever so slightly. It remains well above anything witnessed prior to this year and leaves the market vulnerable to significant liquidation. CME open interest has been falling and total open interest across the complex fell to 5.7 million contracts as of May 7. This is still below the record open interest of 6.36 million and despite the small drop in the net long position, the net long position as a percentage of open interest actually increased. Heightened volatility is still expected in coming weeks.

Weekly Storage: US working gas storage rose 88 BCF for the week ending May 3. Current inventory levels of 1,865 BCF now fall 741 BCF (28.4%) below last year and 90 BCF (4.6%) behind the 5 year average.

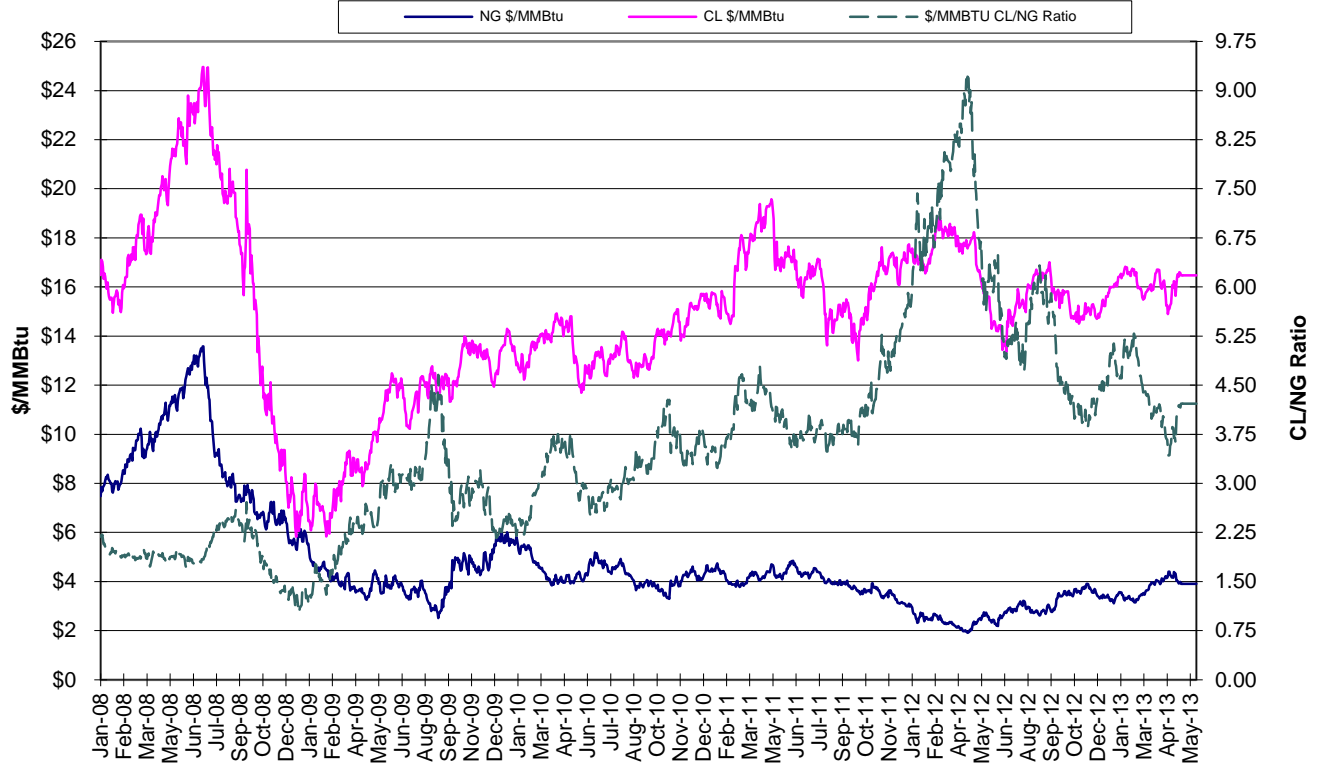
Storage Outlook: The weekly EIA storage injection of +88 BCF easily exceeded last year's peak injection of +80 BCF and with temperatures forecast to become even milder, injections in the 90's are expected and an injection of +100 or greater is quite likely. Two weeks is not enough to dictate injections until November, however, the last two weeks have certainly been larger than forecast and has relieved what was a much tighter situation. After peaking at a storage deficit of 814 BCF on April 19, that is likely to fall to near 600 BCF by early June. While still daunting, that is more manageable and focus now shifts squarely on summer temperatures and demand. Our current forecast lifts storage levels to just under 3,800 BCF by November.

Supply Trends: Total supply fell 0.5 BCF/D to 68.3 BCF/D. US production was unchanged while Canadian imports were lower and Mexican exports rose. A brief summary of Q1 E&P reports suggests continued production growth, albeit at a much slower pace with associated gas production a key factor. The US Baker Hughes rig count rose 5 to 1,769 as oil activity rose and natural gas fell. Canadian activity fell 3. Thus the total North American rig count increased by 2 to 1,887 which now trails last year by 207. The higher efficiency US horizontal rig count rose 7 and at 1,099 falls 88 behind last year.

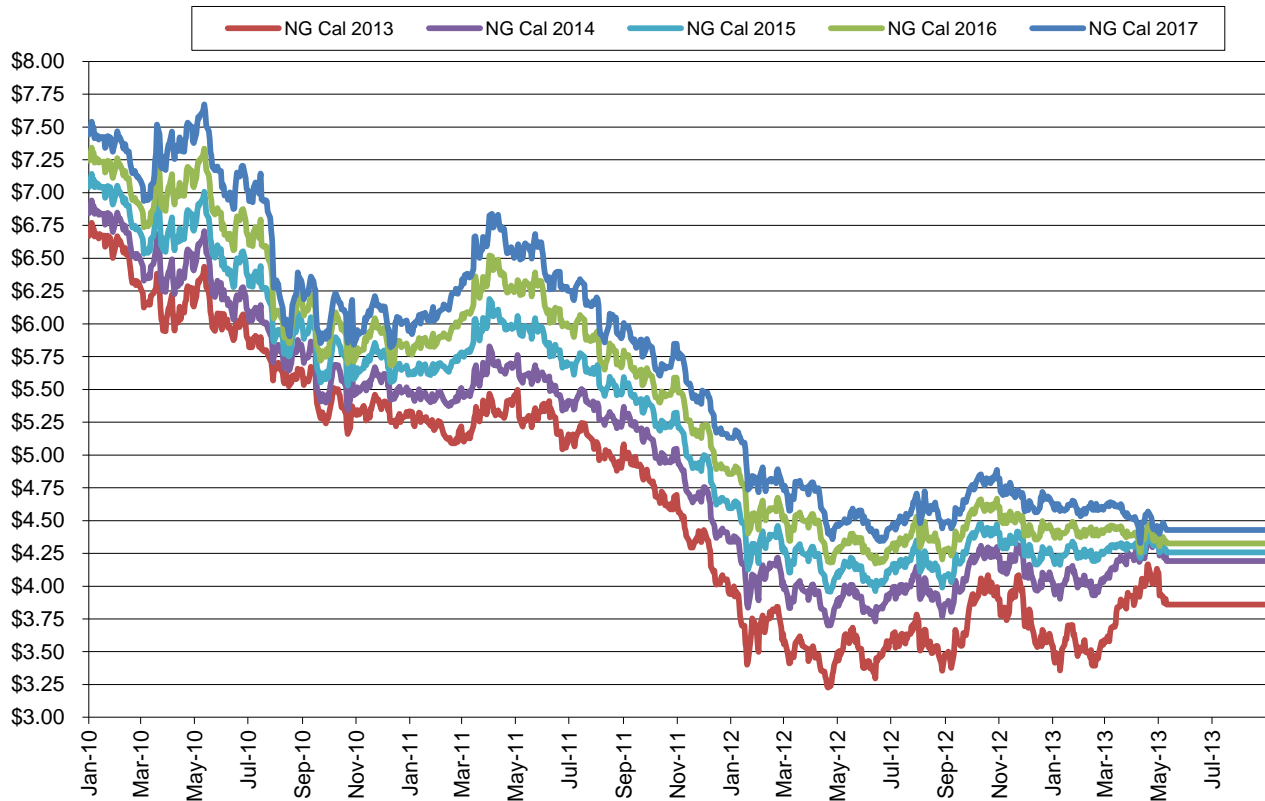
Demand Trends: Total demand fell 6.3 BCF/D to 56.8 BCF/D. A slight rise in the power sector was more than offset by lower R&C and industrial consumption. Electricity demand rose 365 gigawatt-hrs to 67,994, which trails last year by 6,136 (8.3%) and the 5 year average by 1,563 (2.2%). As temperatures have moderated, total demand levels have also fallen significantly.

Other Factors: The S&P 500 continued the 2013 ascent as global central bank policy remains very supportive.

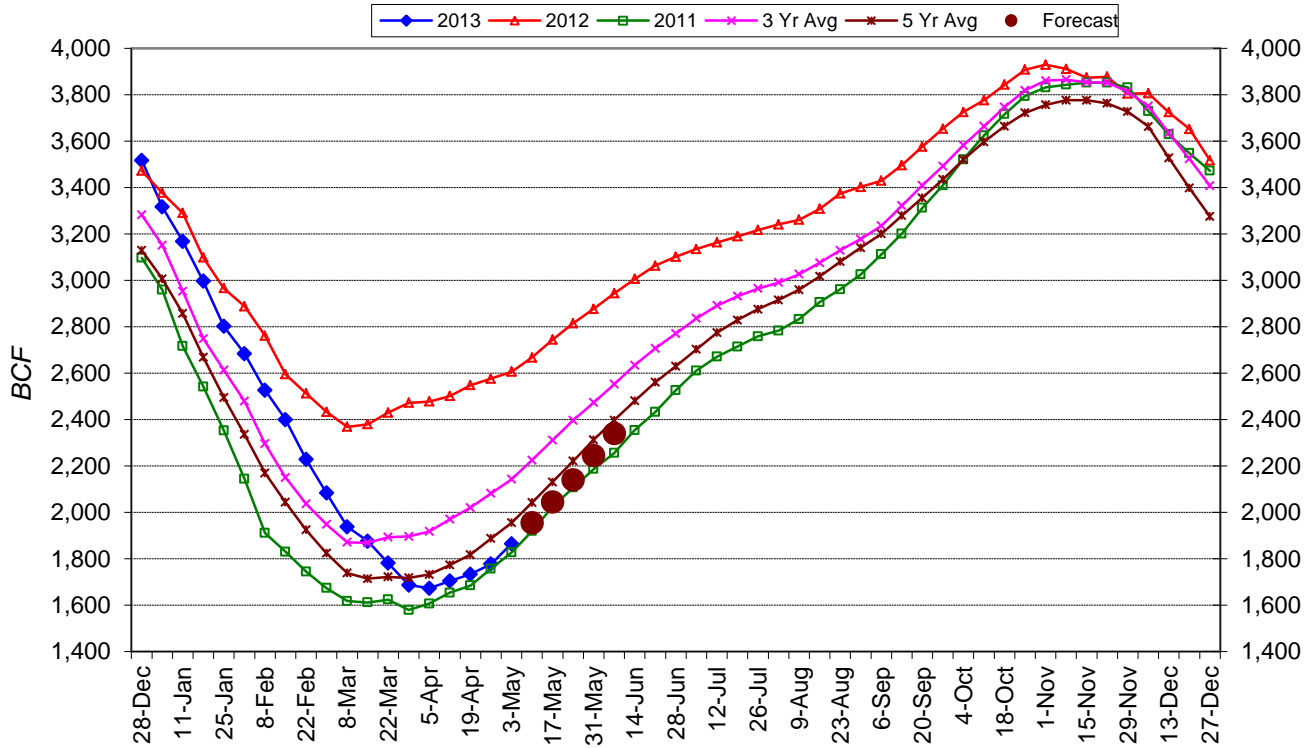
\$/MMBtu Ratio of NYMEX CL and NG



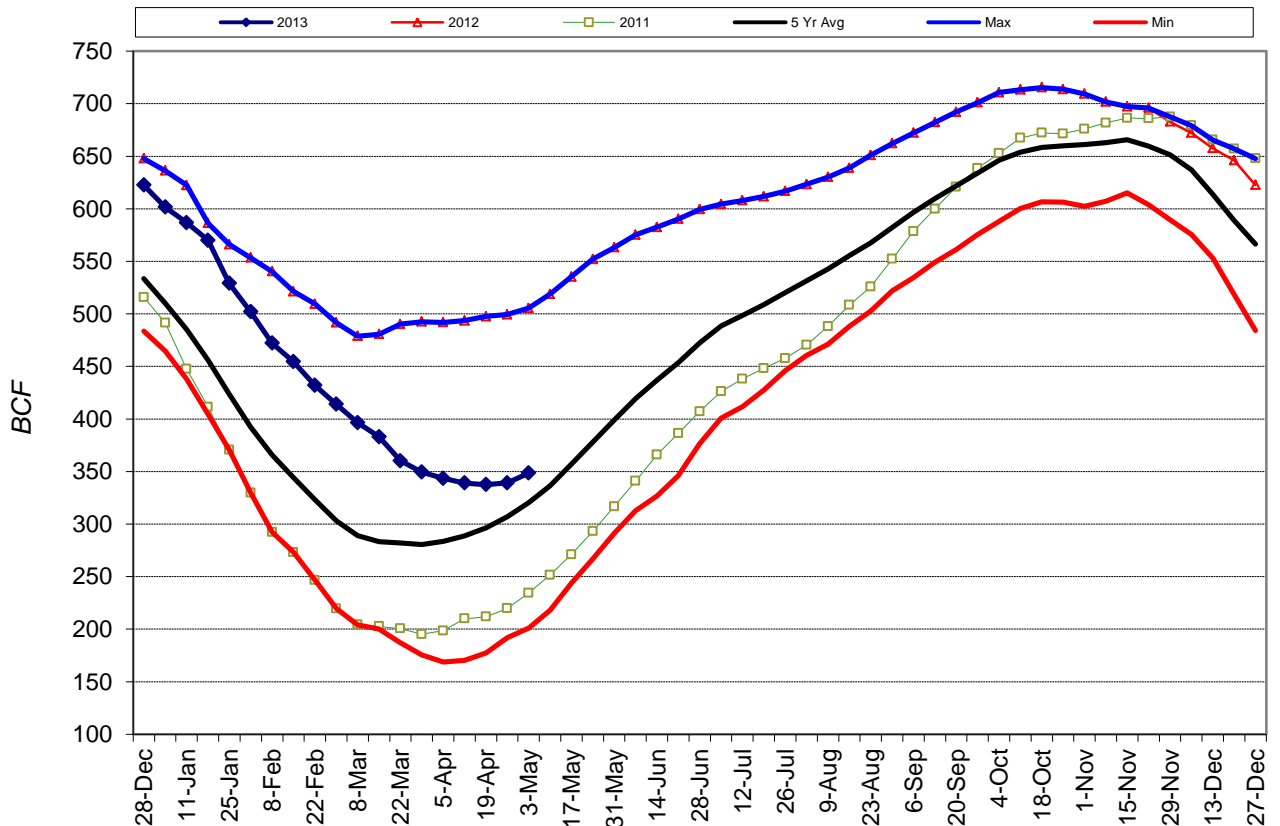
NYMEX Calendar Strips



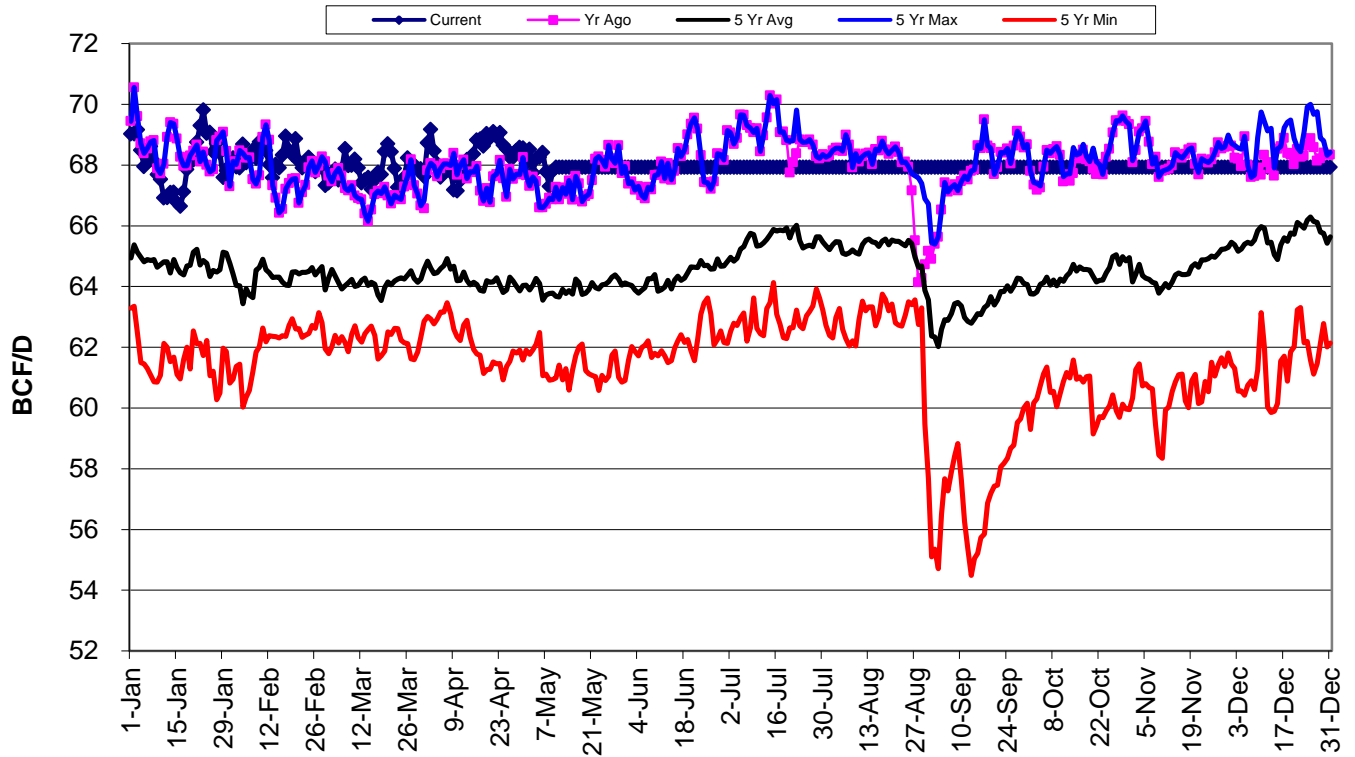
US Working Gas Storage - Source - EIA



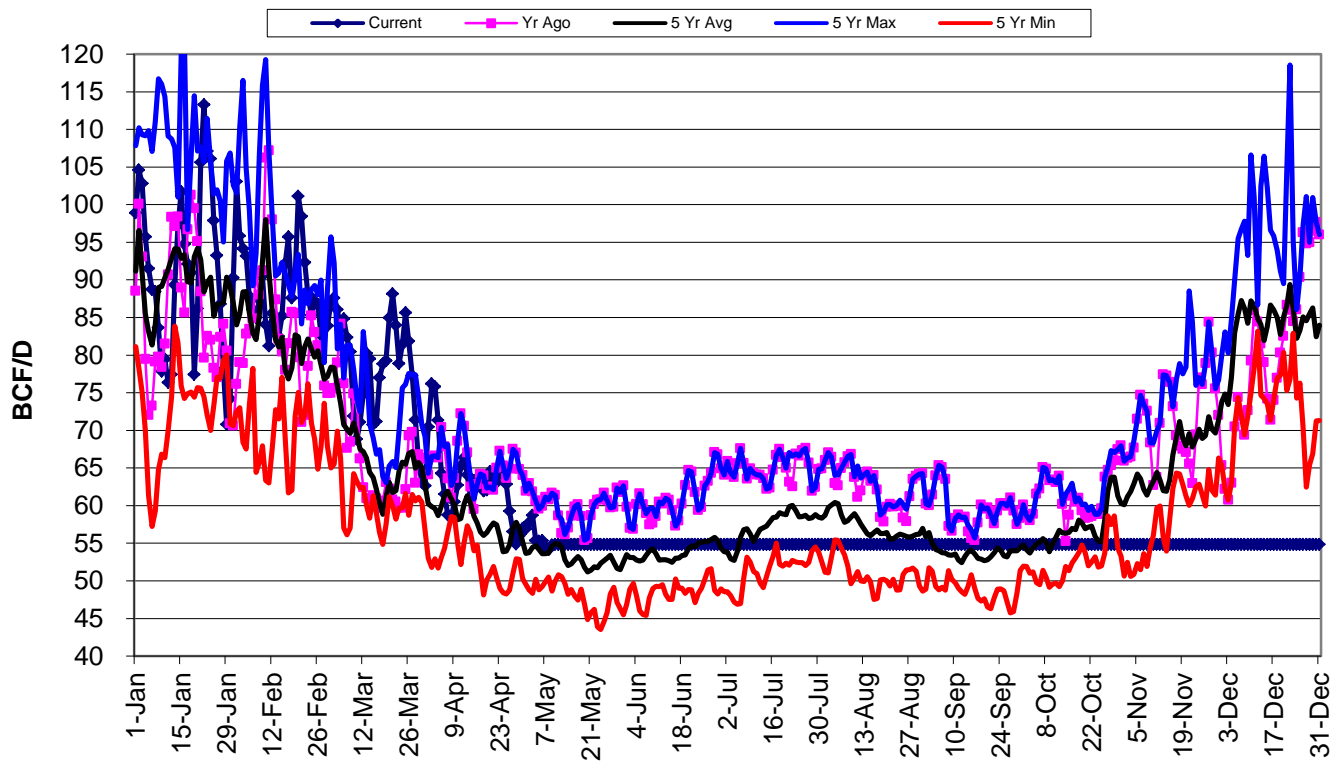
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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