

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
May 17, 2013

Price Action: Prices rebounded and surged 14.5 cents (3.7%) to \$4.055 on a 21.0 cent range.

Price Outlook: The market missed establishing a new low by just 4 ticks. However, just to maintain its own historical tendency of a new high or low, prices rose enough to establish a new high instead. With prices rallying strongly to close the week, the easy estimation is for a new high. However, the storage injection was very high and the late rally was difficult to fundamentally justify. An early week new high followed by a new low if the weekly storage injection remains high would not be all that surprising. The liquidation in speculative net length continued and actually picked up steam. The drop this week in combined net length accelerated and is the lowest since mid-April. CME open interest fell below 1.5 million contracts for the first time since early April while total open interest across the complex fell to 5.68 million contracts as of May 14. This level remains below the record open interest of 6.36 million. Heightened volatility is still expected in coming weeks.

Weekly Storage: US working gas storage rose 99 BCF for the week ending May 10. Current inventory levels of 1,964 BCF now fall 703 BCF (26.4%) below last year and 78 BCF (3.8%) behind the 5 year average.

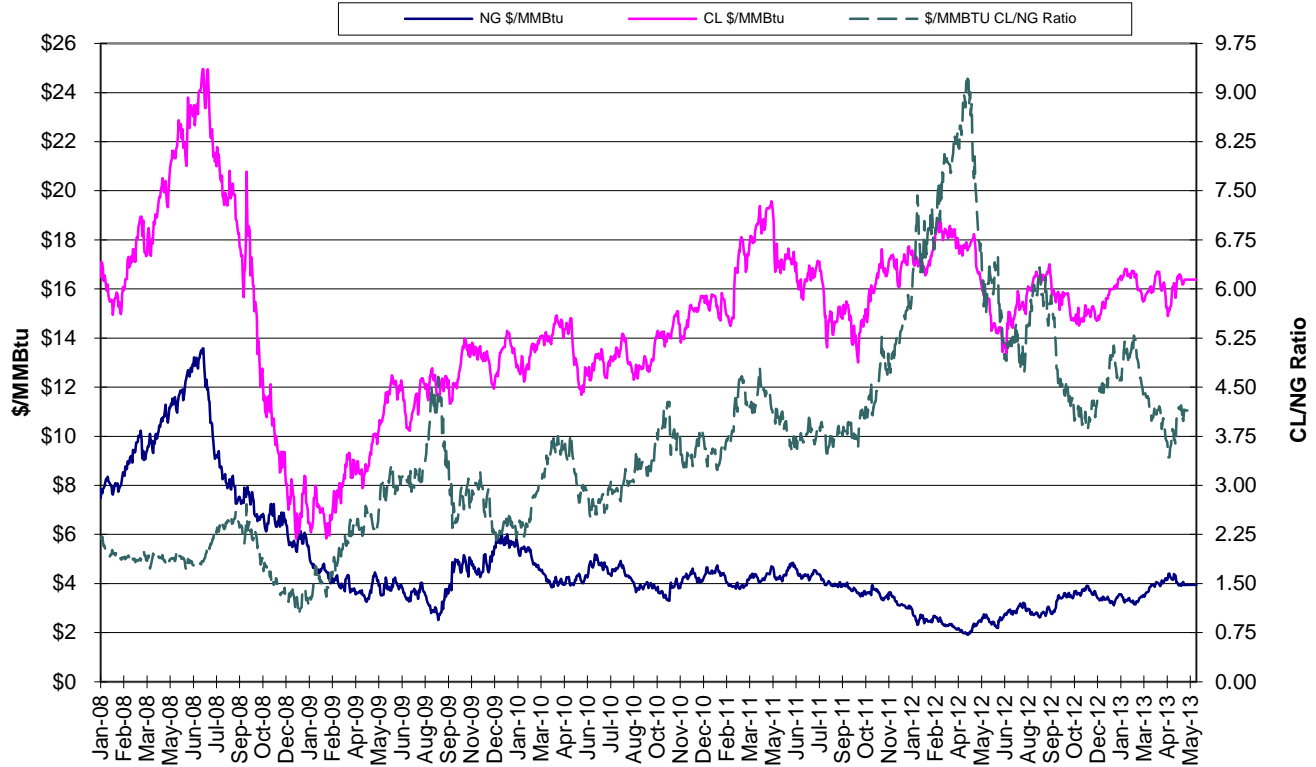
Storage Outlook: The weekly EIA storage injection of +99 BCF was at the upper end of expectations and reinforced the outlook that 2013 is not 2012. After peaking at a storage deficit of 814 BCF on April 19, that may very well fall below 600 BCF by early June. As mentioned previously, last year distorts comparisons and current inventories would exceed the 2007-2011 average by 72 bcf (3.8%). The influence of 2012 needs to be considered on all comparisons. The actual EIA injections have even exceeded our estimations and if the apparent temperature supply/demand remains in place, November projections clearly will need to be increased.

Supply Trends: Total supply fell 0.3 BCF/D to 68.0 BCF/D. US production slipped with imports unchanged and Mexican exports up. The US Baker Hughes rig count was unchanged at 1,769 with oil activity dropping and natural gas increasing. Canadian activity rose 5. Thus the total North American rig count increased by 5 to 1,892 which now trails last year by 217. The higher efficiency US horizontal rig count fell 3 and at 1,096 falls 97 behind last year.

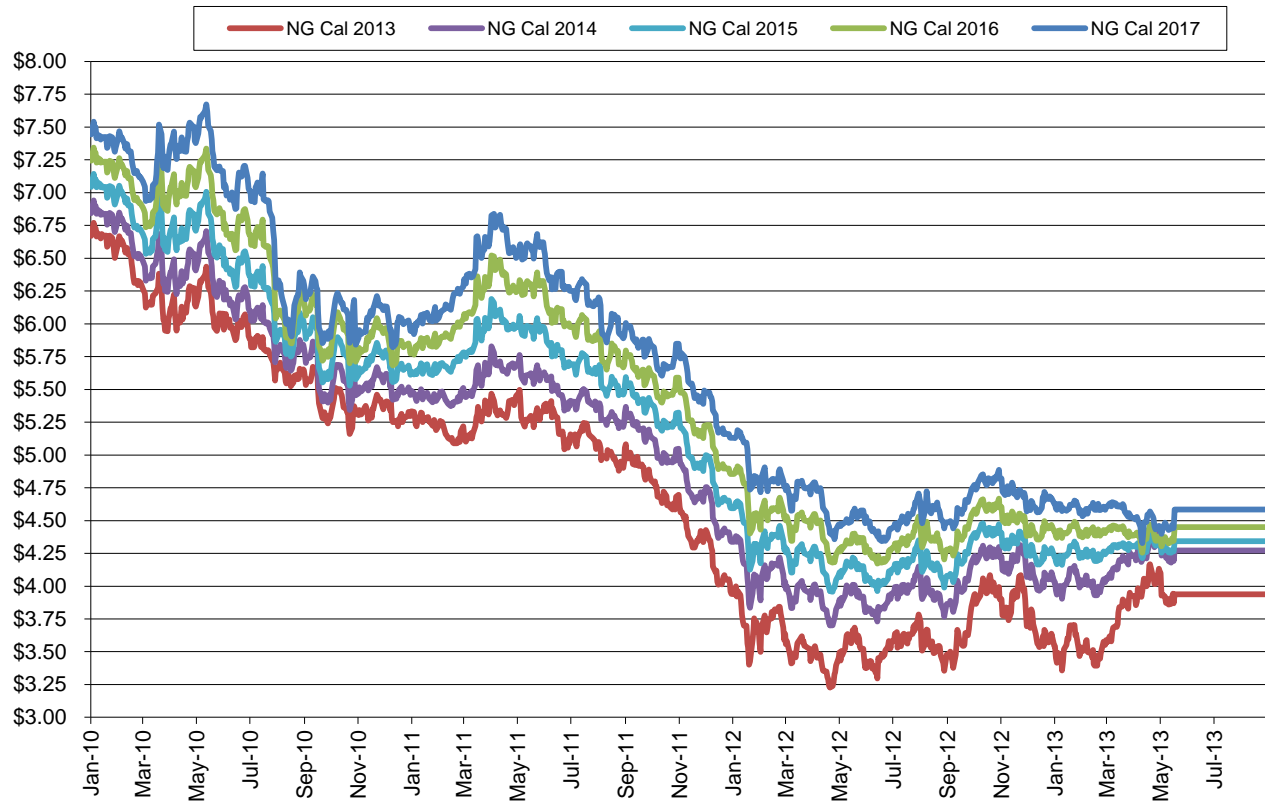
Demand Trends: Total demand fell 1.9 BCF/D to 54.9 BCF/D. All sectors fell as temperatures moderated. Electricity demand fell 306 gigawatt-hrs to 67,688, which trails last year by 3,264 (4.6%) and the 5 year average by 3,608 (5.1%). Temperature adjusted demand has also fallen and that remains a bearish factor.

Other Factors: The S&P 500 reached record levels despite economic data that remains mixed.

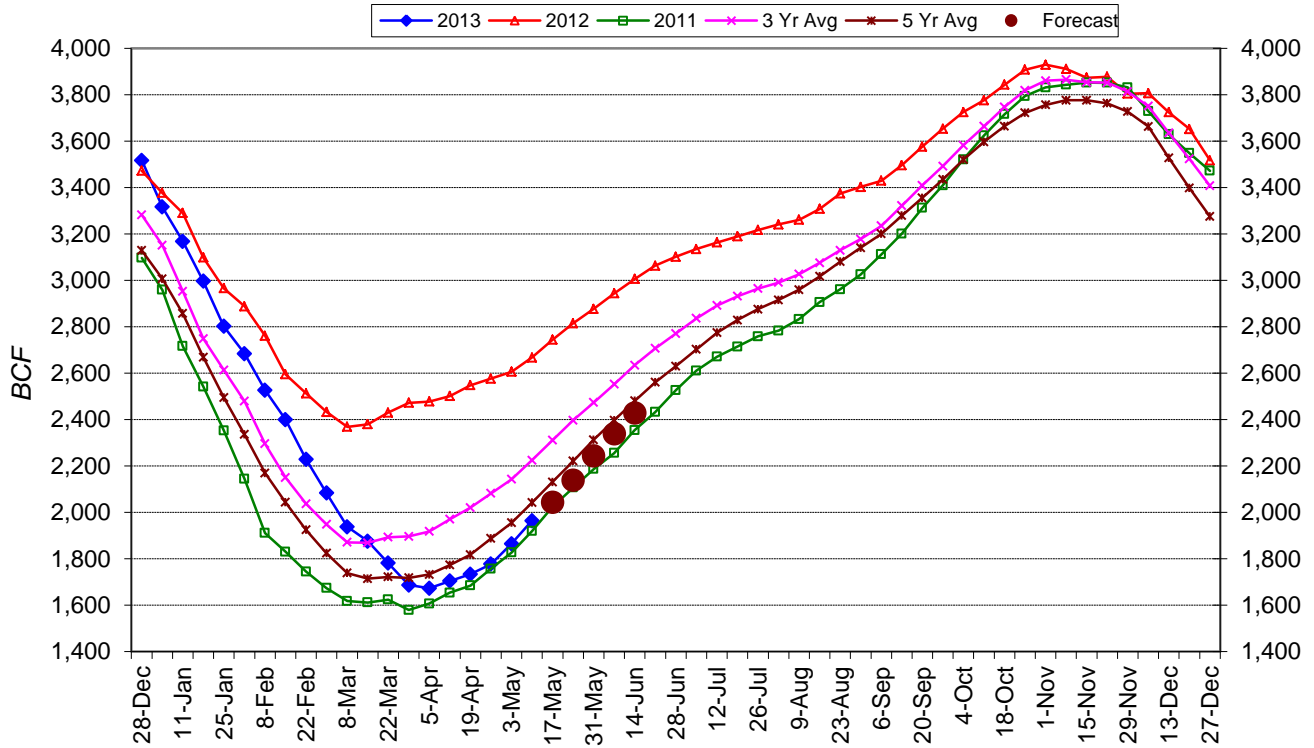
\$/MMBtu Ratio of NYMEX CL and NG



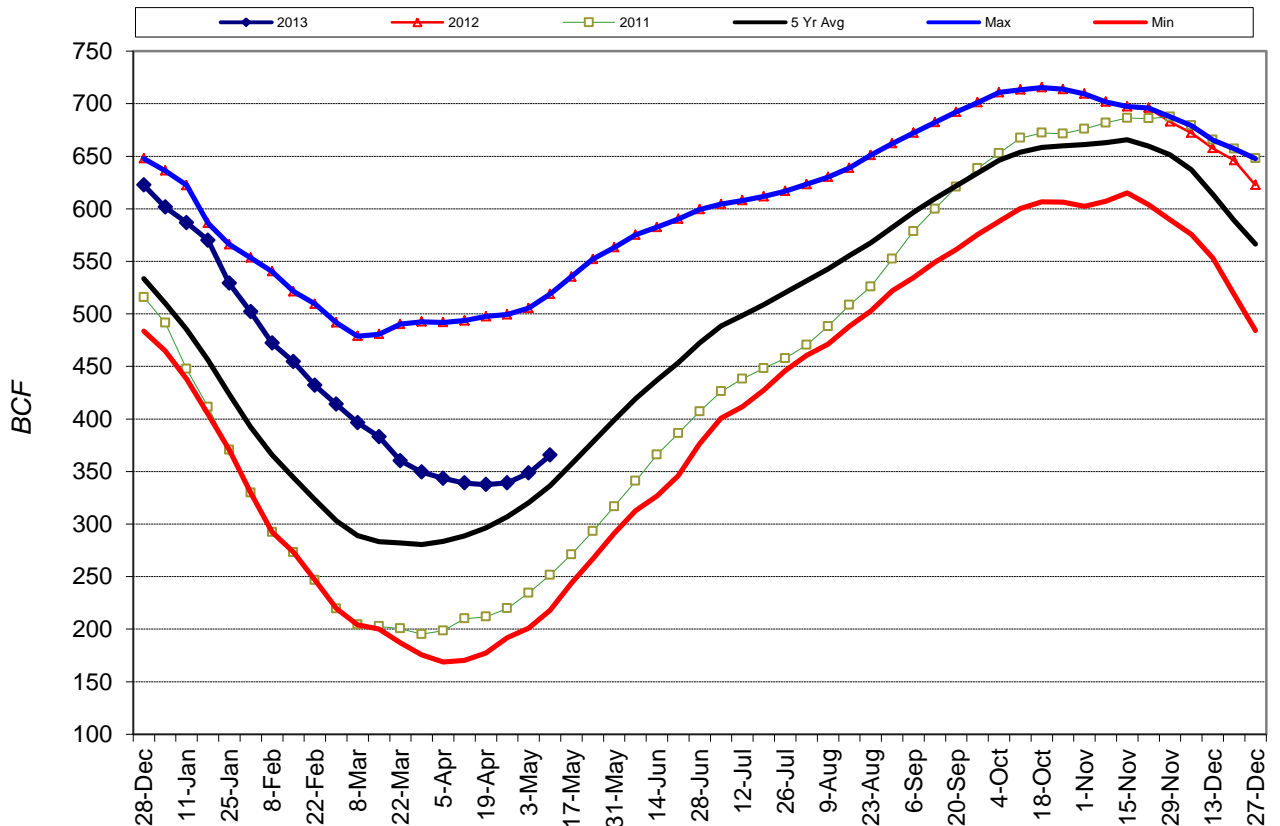
NYMEX Calendar Strips



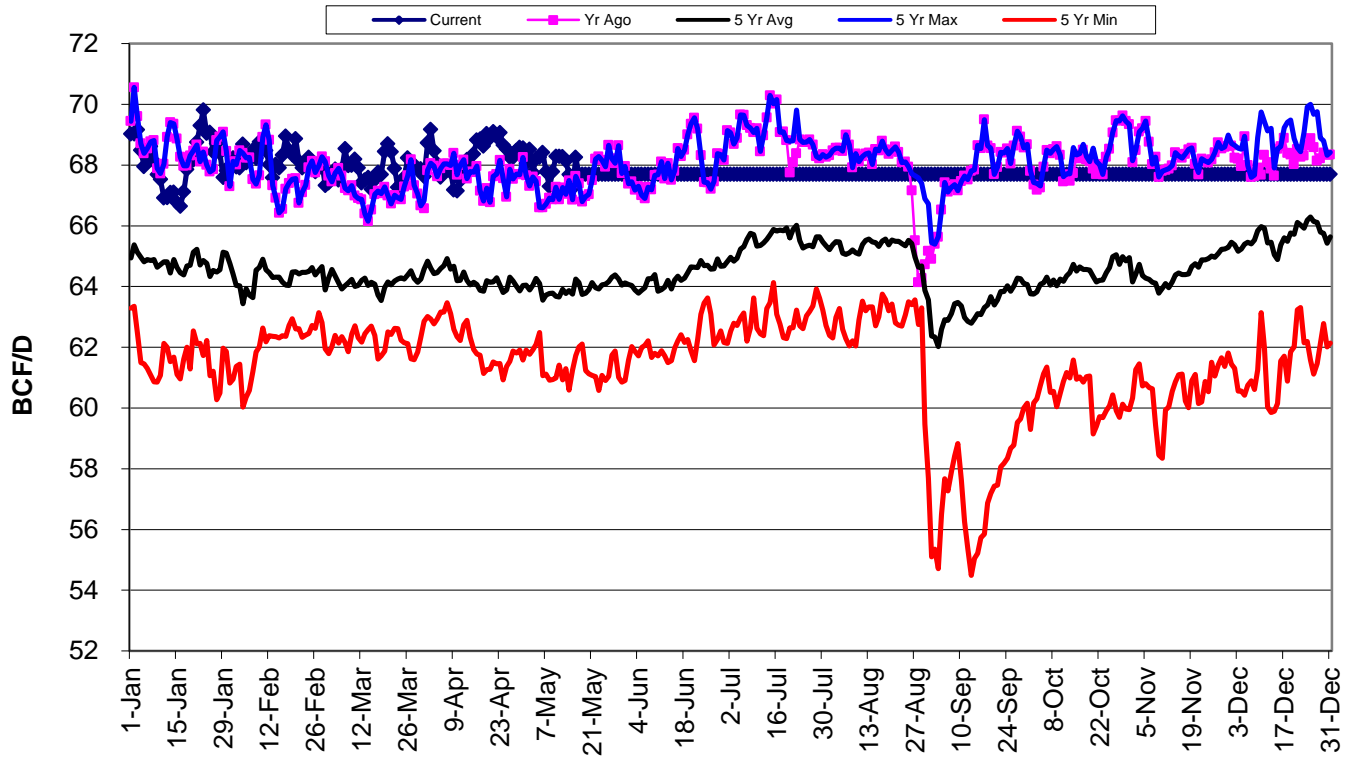
US Working Gas Storage - Source - EIA



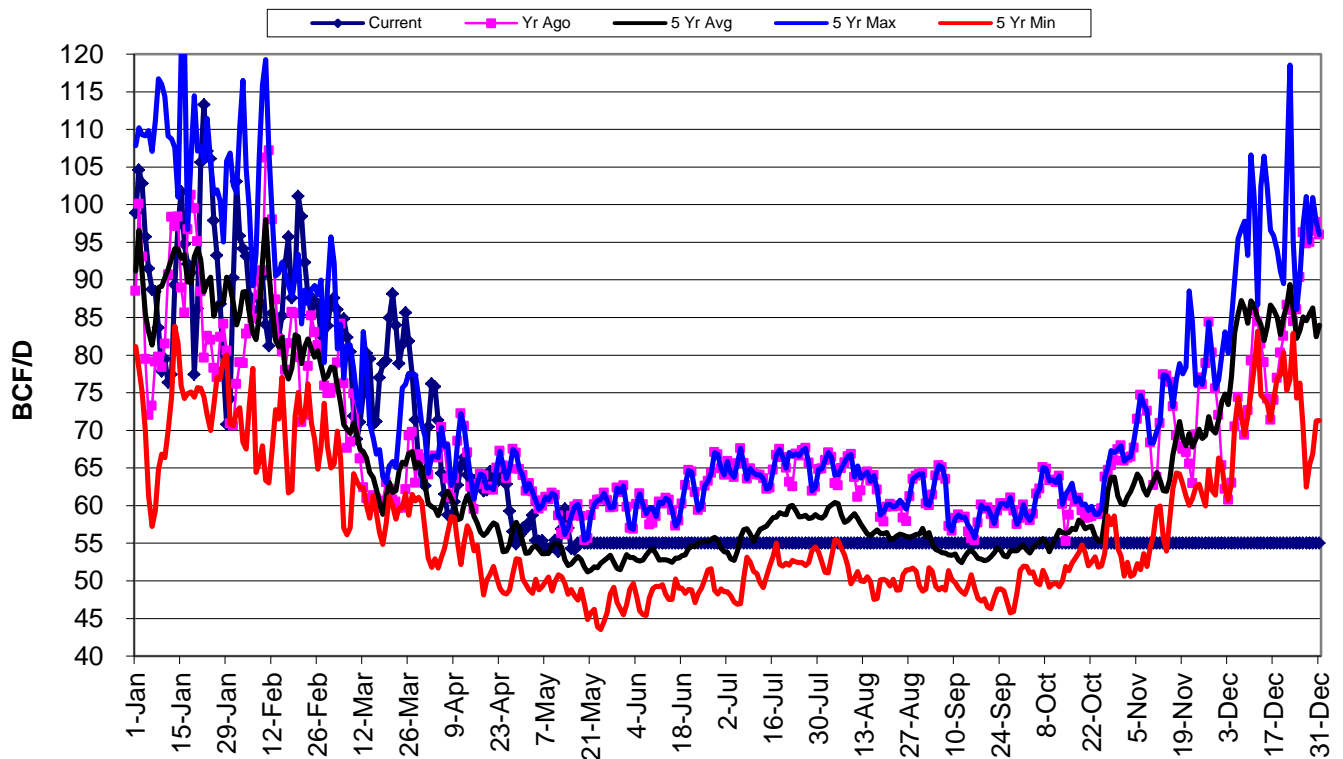
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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