

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
May 24, 2013

Price Action: Prices continued to rise and added 18.2 cents (4.5%) to \$4.237 on a 23.2 cent range.

Price Outlook: The market established a new high on Monday, but then actually made a new high every day of the week and never witnessed any significant pullback. The market has made a new high two weeks in a row and a new high and thus three weeks in a row would seem the most likely scenario. Three up weeks in a row is certainly not extreme. The temperature forecasts remain bullish with Mother Nature flipping below normal temperatures to above normal temperatures very near the exact day it was bullish to do so. While not unprecedented, it is rare. Normal temperatures will rise into late July and maintain those high levels until mid-August, at which point they begin to fall. Thus, above normal temperatures are now considered bullish and will not be considered bearish again until late September. The liquidation in speculative net length was reversed as buyers returned to the market with a slight uptick in the overall combined net long position. After finding a bottom in open interest below 1.5 million contracts, CME open interest is also on the rise again with recent levels back above 1.5 million. Total open interest across the complex increase to 5.74 million contracts as of May 21. 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 89 BCF for the week ending May 17. Current inventory levels of 2,053 BCF now fall 691 BCF (25.2%) below last year and 78 BCF (3.7%) behind the 5 year average.

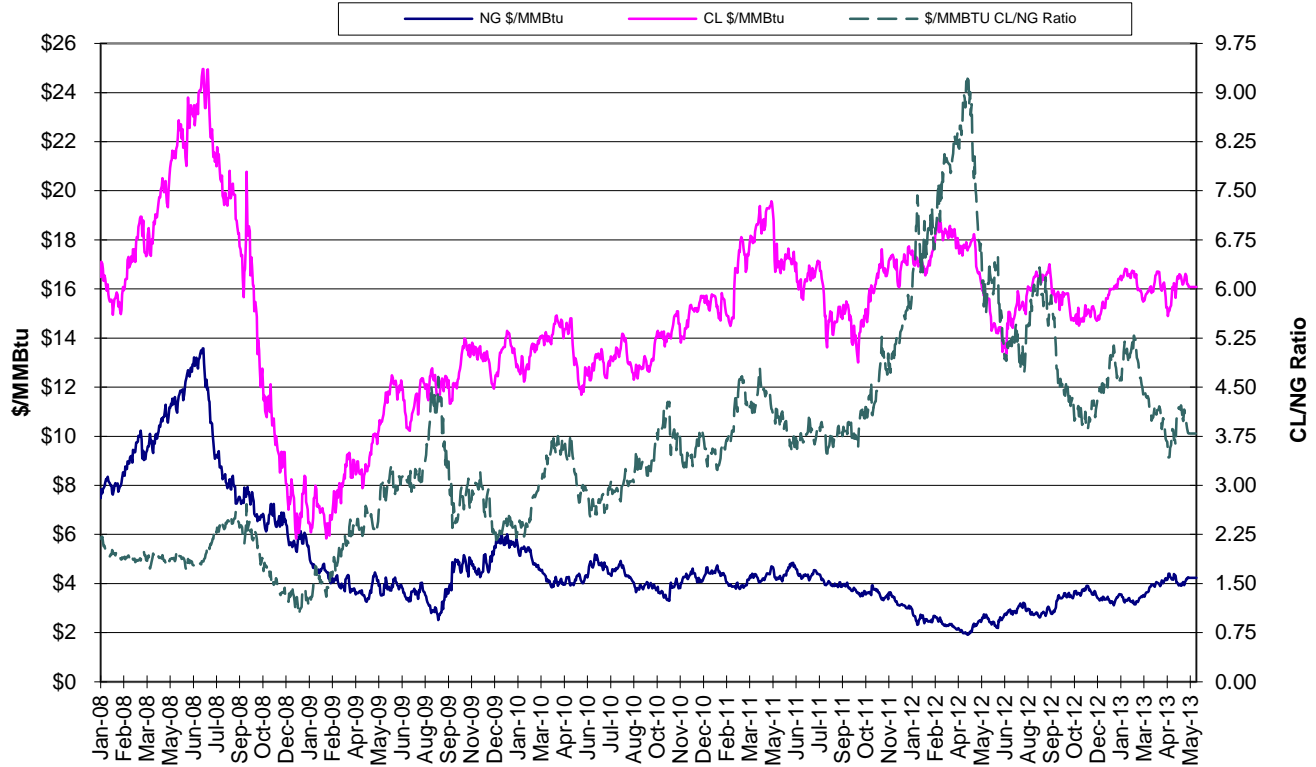
Storage Outlook: If injections match the 5 year average for the balance of the injection season, then inventories will reach 3.700 BCF in November. It would take just a 5% increase over the 5 year average to reach 3.78 BCF. Just as last year distorts the absolute 5 year average, the low injections distorts the weekly injection average and exceeding the 5 year average weekly injection is considered likely.

Supply Trends: Total supply fell 0.1 BCF/D to 67.9 BCF/D. Canadian imports were down with all other factors unchanged. Recent data suggests an uptick in US production. The US Baker Hughes rig count fell 7 as oil activity dropped and natural gas was unchanged. Canadian activity rose 8. Thus the total North American rig count increased by 1 to 1,893 which now trails last year by 248. That is largest YOY deficit since March. The higher efficiency US horizontal rig count fell 9 and at 1,087 falls 104 behind last year.

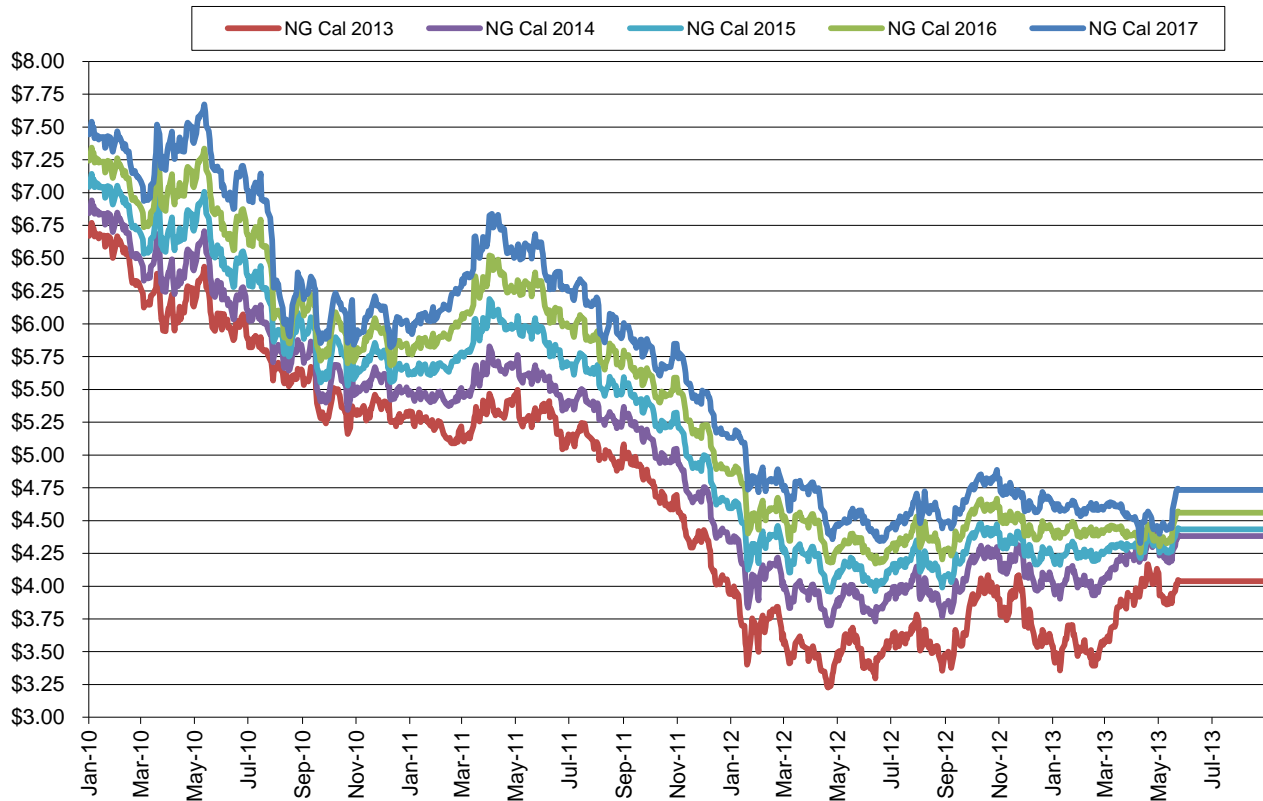
Demand Trends: Total demand rose 0.9 BCF/D to 56.2 BCF/D. Power demand rose while R&C and industrial demand slipped. Electricity demand rose 3,436 gigawatt-hrs to 71,124, which trails last year by 1,157 (1.6%) while exceeding the 5 year average by 670 (1.0%). Demand will likely be low in the upcoming week as a result of the Memorial Day Holiday.

Other Factors: The S&P 500 did slip as fears regarding a tightening of monetary policy are working their way into market sentiment.

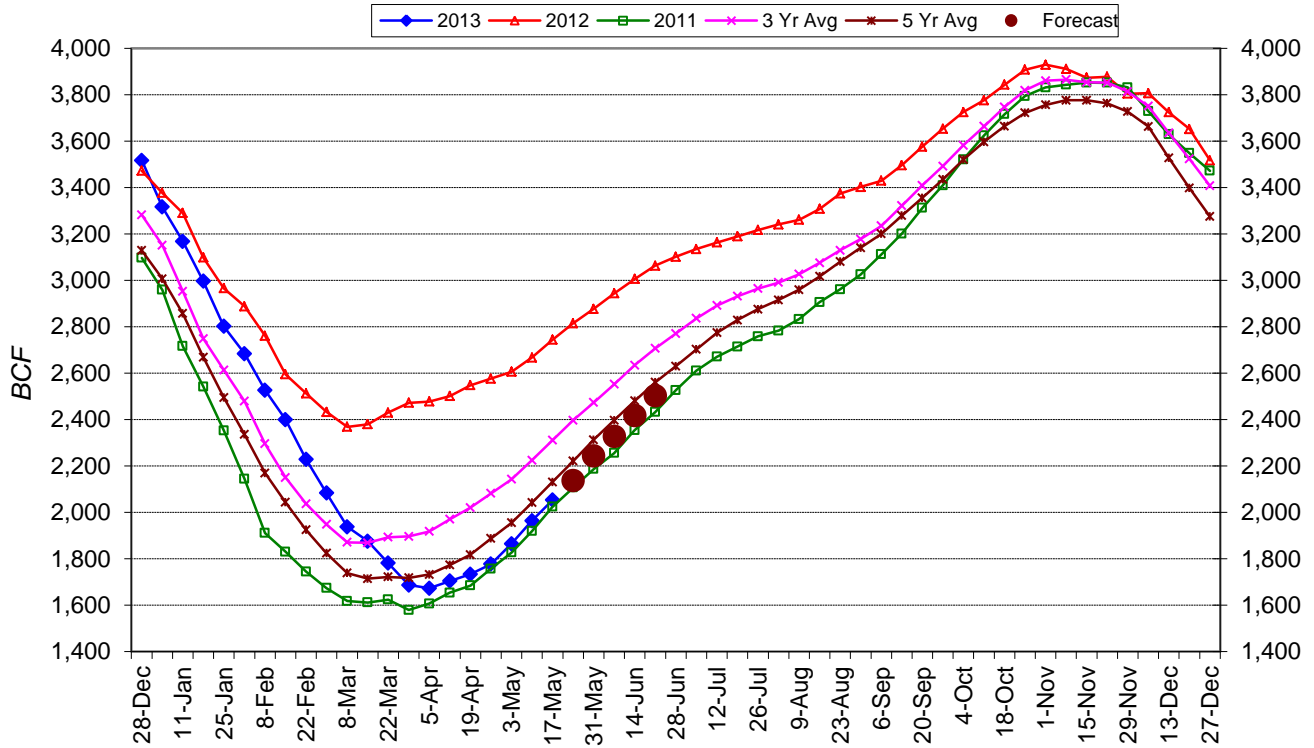
\$/MMBtu Ratio of NYMEX CL and NG



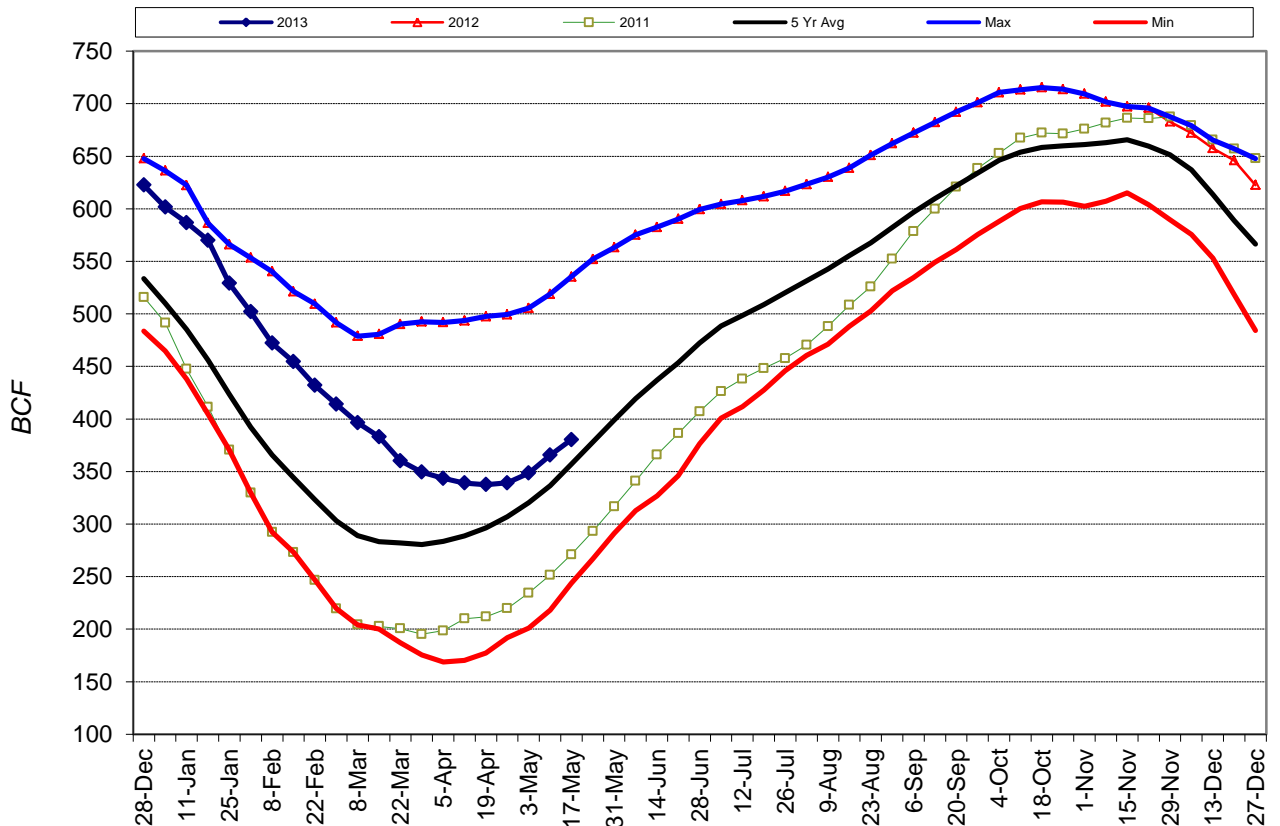
NYMEX Calendar Strips



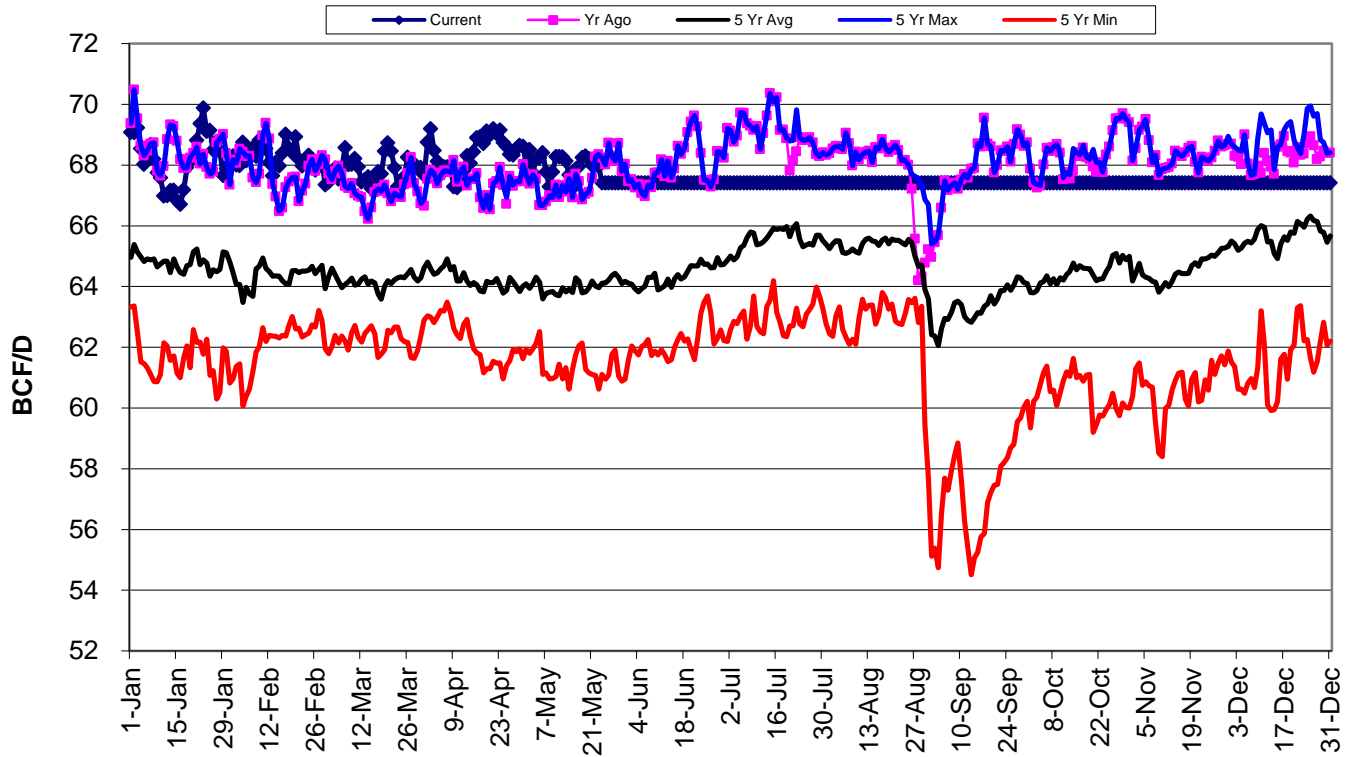
US Working Gas Storage - Source - EIA



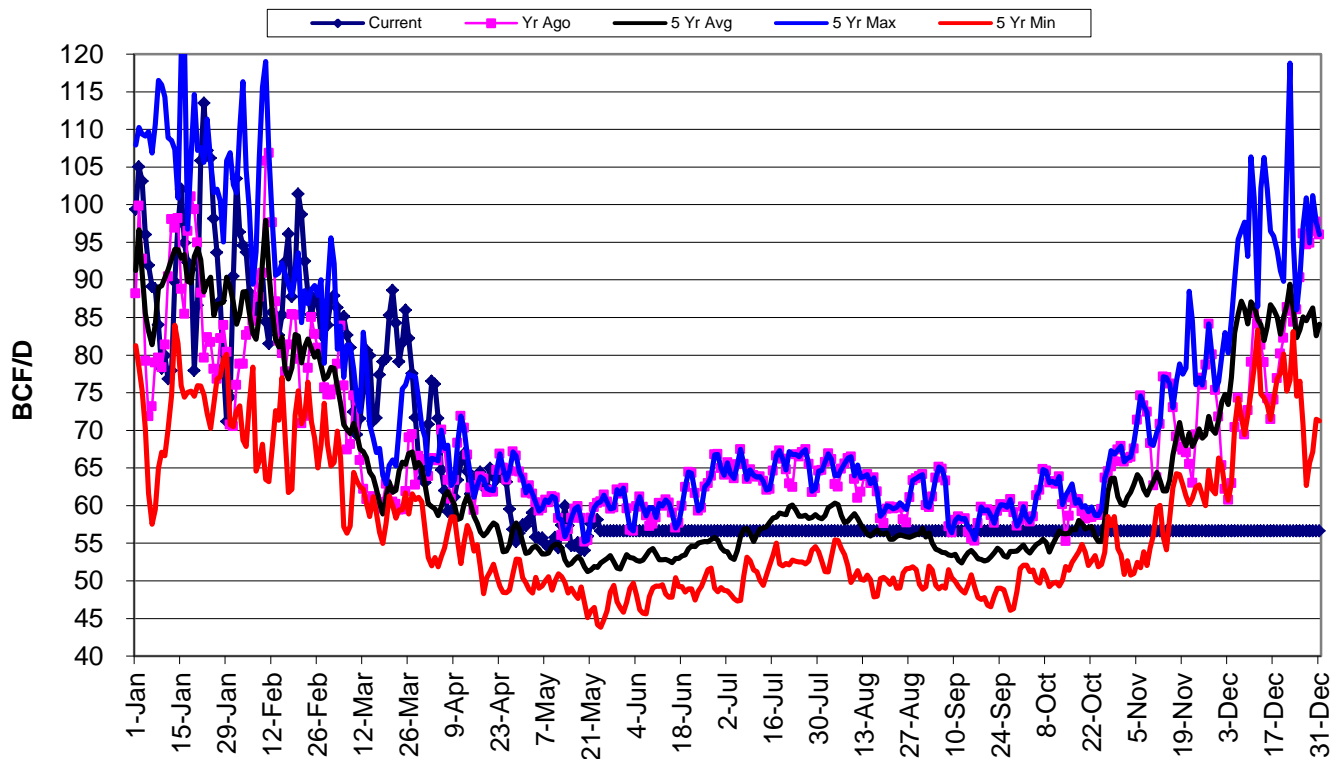
Canadian Working Gas Storage - Enerdata



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.