IAF Advisors
Energy Market Outlook
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Price Action: Prices basis the now prompt July contracts fell 30.0 cents (7.0%) to $4.237 on a 37.7 cent range.

Price Outlook: **The market did indeed establish a new high. However, prices plummeted at the end of the week to also establish a new weekly low. The volatility in natural gas remains impressive. Considering closing prices, certainly a new low is considered the most likely scenario. The temperature forecasts remain bullish, but deviations to normal at the back end of the forecast are less extreme and that was considered a driving market factor. Quite simply the summers of 2010, 2011 and 2012 were scorchers and electricity demand remains highly dependent on those temperatures. The resulting natural gas demand will be determined both by the absolute electricity demand in conjunction with how that demand is satisfied. Currently, coal continues to hold significantly higher market share than last year and that interaction and the absolute temperatures are the near-term key market drivers**. **The increase in speculative net length continued and actually lifted the combined position to a new record. However CME open interest fell below 1.5 million contracts and total open interest across the complex dropped to 5.63 million contracts as of May 28. This level remains well below the record open interest of 6.36 million and with the drop in open interest, the net long position as a percent of open interest is very large. Heightened volatility is still expected in coming weeks.**

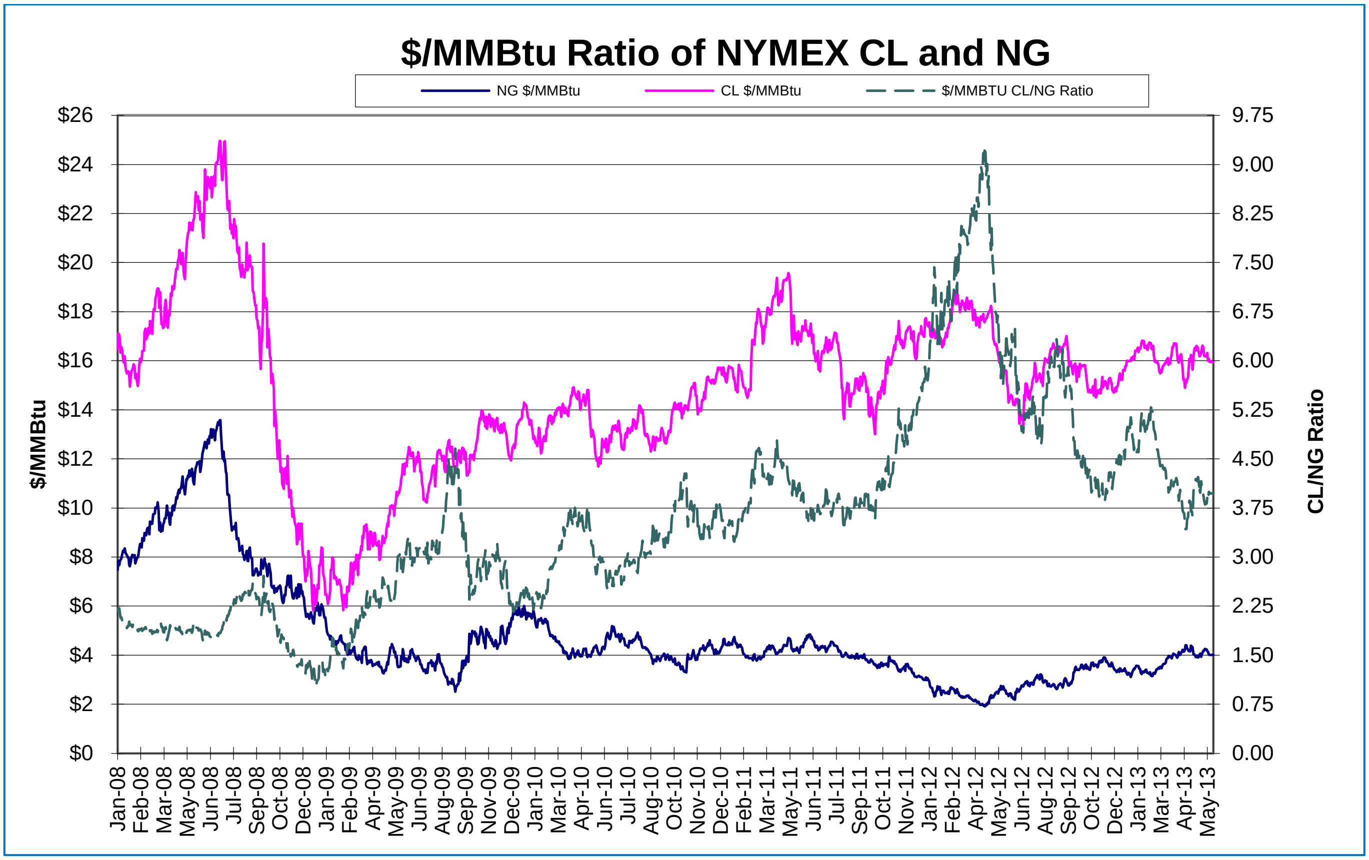
Weekly Storage: US working gas storage rose 88 BCF for the week ending May 24. Current inventory levels of 2,141 BCF now fall 674 BCF (23.9%) below last year and 80 BCF (3.6%) behind the 5 year average.

Storage Outlook: **If injections match individual years, 2006 and 2012 injections would be very bullish with November levels in the 3,200 to 3,300 BCF range. Conversely, injections matching 2003 or 2011 would lift inventories to the 3,900 to 4,000 BCF range.**

Supply Trends: Total supply rose 0.2 BCF/D to 68.1 BCF/D. US production rose while Canadian imports were down with all other factors unchanged. Recent data suggests an uptick in US production. The US Baker Hughes rig count rose 9 as oil activity rose and natural gas was unchanged. Canadian activity rose 14. Thus the total North American rig count increased by 23 to 1,916 which now trails last year by 220. **The higher efficiency US horizontal rig count rose 2 and at 1,089 falls 94 behind last year.**

Demand Trends: Total demand rose 0.1 BCF/D to 56.3 BCF/D. Power demand rose while R&C and industrial demand slipped. Electricity demand rose 3,789 gigawatt-hrs to 74,913, which trails last year by 3,085 (4.0%) while exceeding the 5 year average by 833 (1.1%). **Electricity demand was considered bullish on a temperature adjusted and if this situation is maintained, will be quite supportive.**

Other Factors: The S&P 500 again slipped with focus looking forward to the Friday jobs report.


$/MMBtu Ratio of NYMEX CL and NG
NG $/MMBtu
CL $/MMBtu
$/MMBTU CL/NG Ratio
$/MMBtu
CL/NG Ratio
$26
$24
$22
$20
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
9.75
9.00
8.25
7.50
6.75
6.00
5.25
4.50
3.75
3.00
2.25
1.50
0.75
0.00
Jan-08
Feb-08
Mar-08
May-08
Jun-08
Jul-08
Sep-08
Oct-08
Dec-08
Jan-09
Feb-09
Apr-09
May-09
Jun-09
Aug-09
Sep-09
Nov-09
Dec-09
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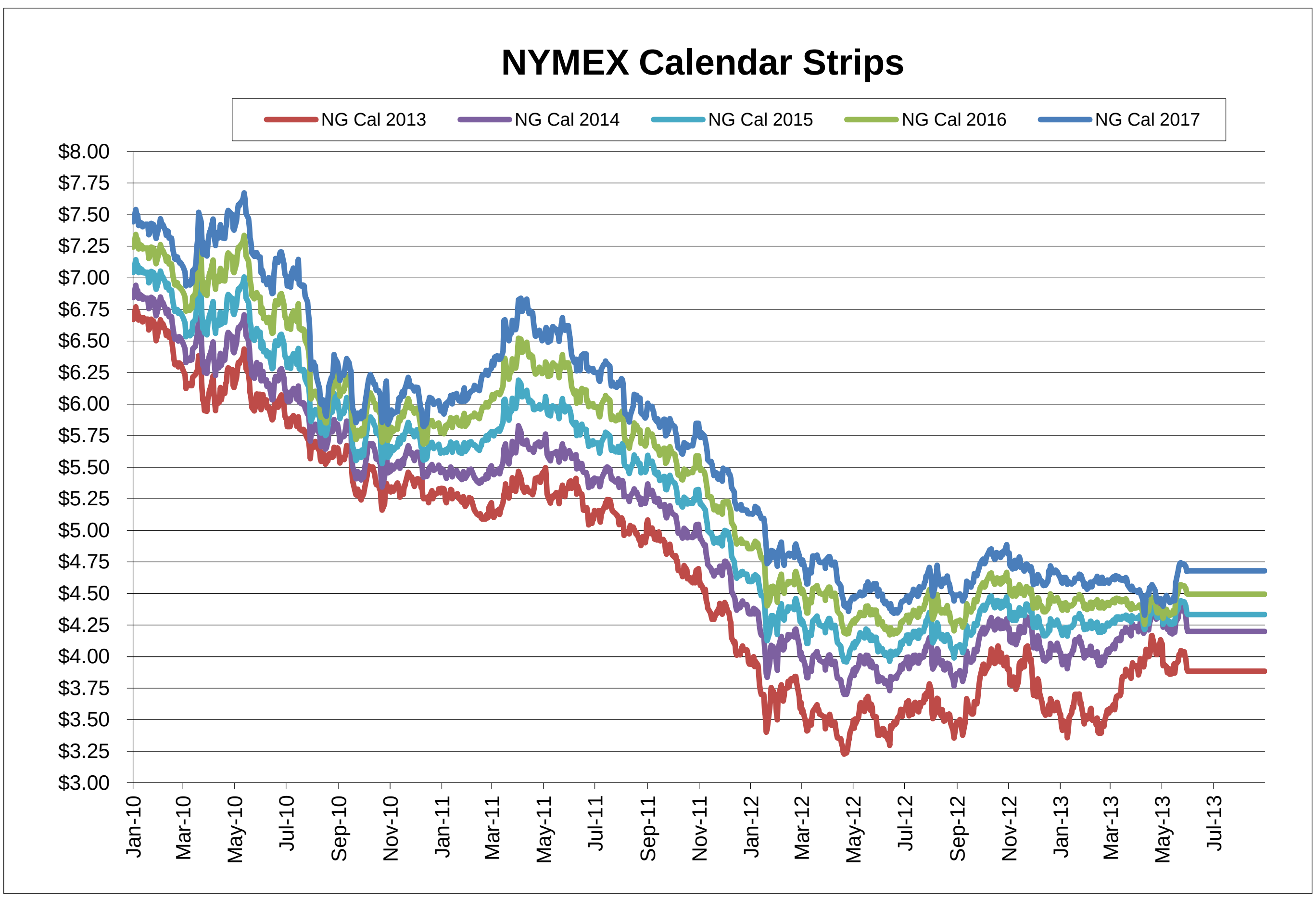
May-13


NYMEX Calendar Strips
NG Cal 2013
NG Cal 2014
NG Cal 2015
NG Cal 2016
NG Cal 2017
$8.00
$7.75
$7.50
$7.25
$7.00
$6.75
$6.50
$6.25
$6.00
$5.75
$5.50
$5.25
$5.00
$4.75
$4.50
$4.25
$4.00
$3.75
$3.50
$3.25
$3.00
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
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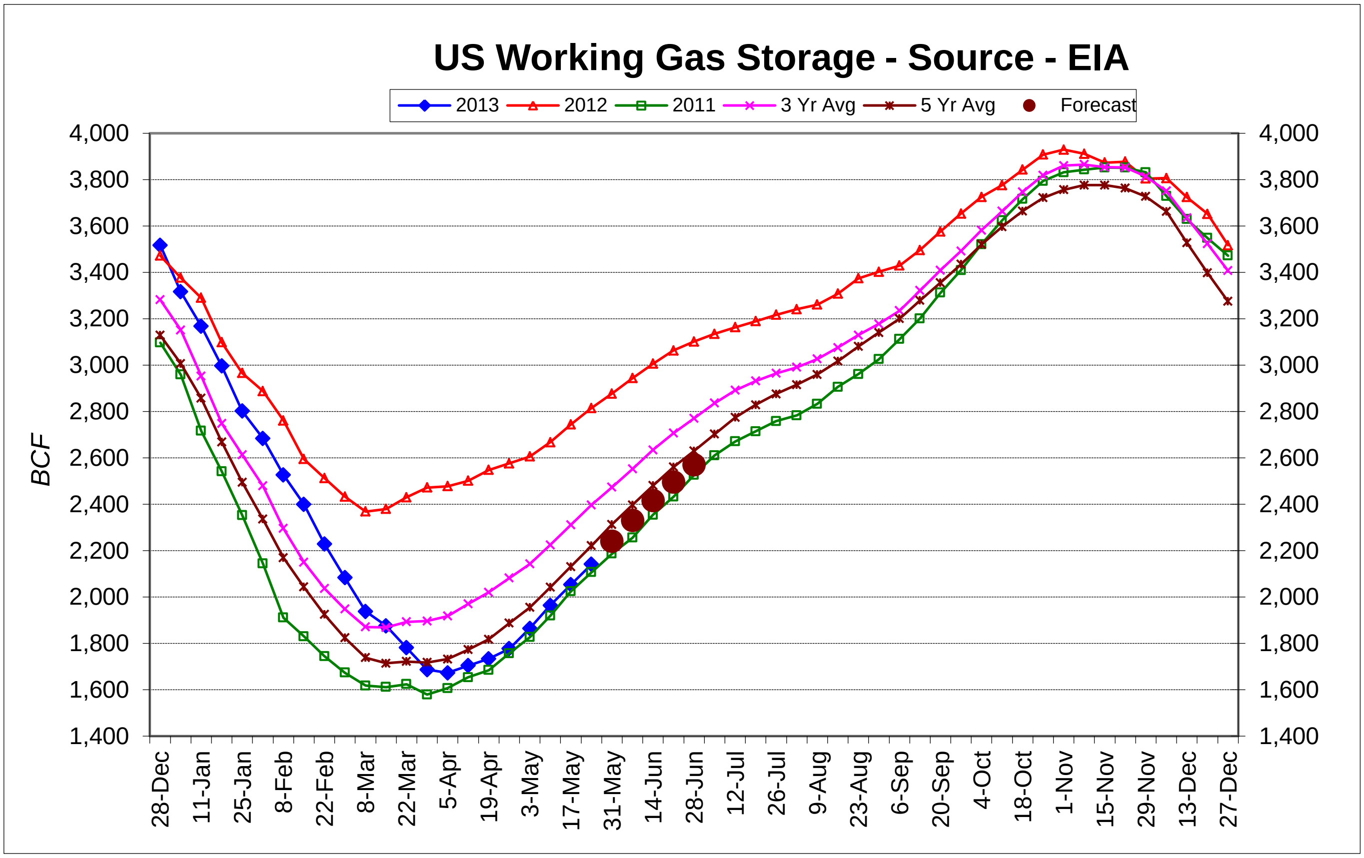
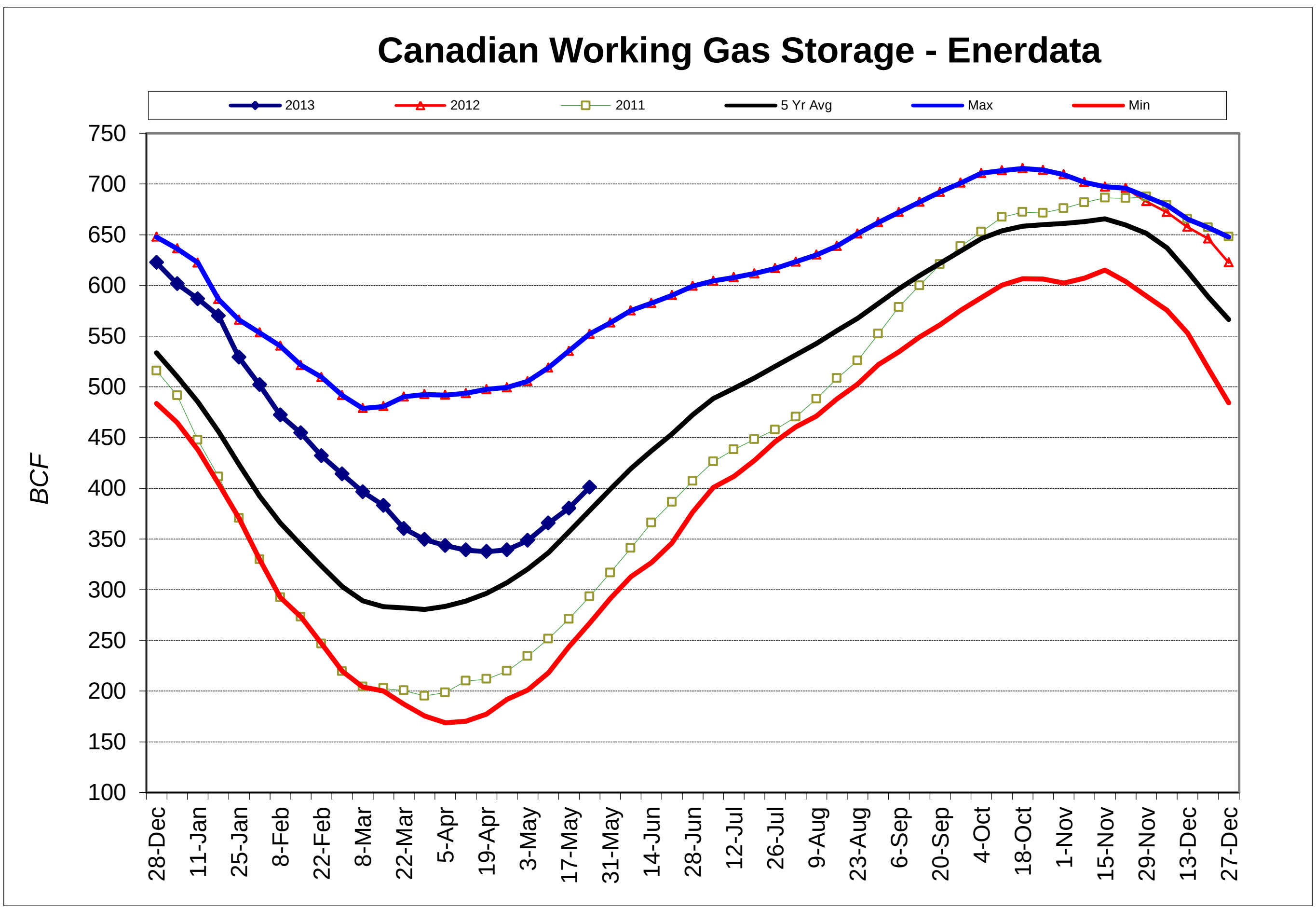
Mar-13
May-13
Jul-13


US Working Gas Storage - Source - EIA
2013
2012
2011
3 Yr Avg
5 Yr Avg
Forecast
BCF
4,000
3,800
3,600
3,400
3,200
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
28-Dec
11-Jan
25-Jan
8-Feb
22-Feb
8-Mar
22-Mar
5-Apr
19-Apr
3-May
17-May
31-May
14-Jun
28-Jun
12-Jul
26-Jul
9-Aug
23-Aug
6-Sep
20-Sep
4-Oct
18-Oct
1-Nov
15-Nov
29-Nov
13-Dec
27-Dec


Canadian Working Gas Storage - Enerdata
2013
2012
2011
5 Yr Avg
Max
Min
BCF
750
700
650
600
550
500
450
400
350
300
250
200
150
100
28-Dec
11-Jan
25-Jan
8-Feb
22-Feb
8-Mar
22-Mar
5-Apr
19-Apr
3-May
17-May
31-May
14-Jun
28-Jun
12-Jul
26-Jul
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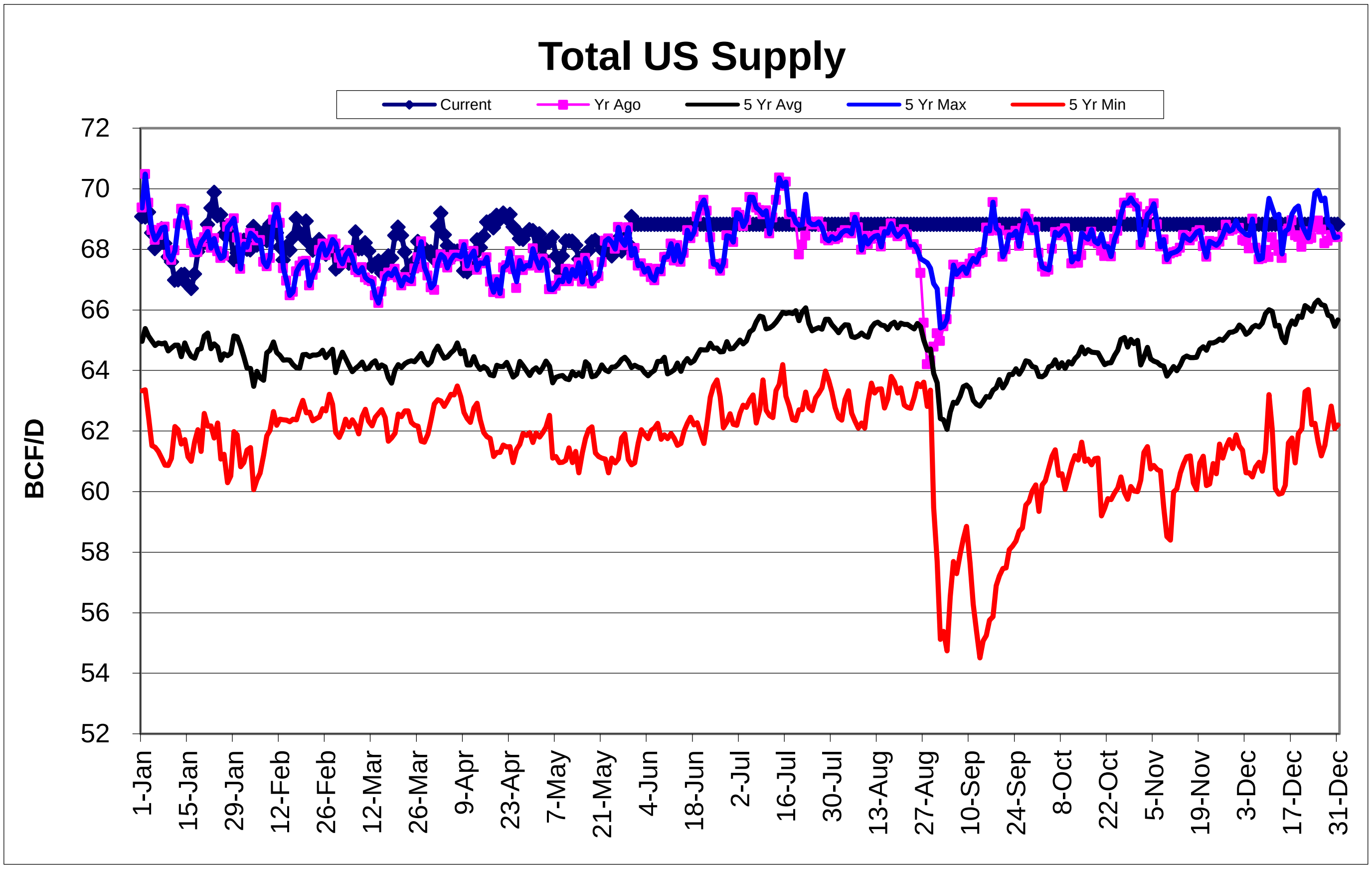
15-Nov
29-Nov
13-Dec
27-Dec


Total US Supply
Current
Yr Ago
5 Yr Avg
5 Yr Max
5 Yr Min
BCF/D
72
70
68
66
64
62
60
58
56
54
52
1-Jan
15-Jan
29-Jan
12-Feb
26-Feb
12-Mar
26-Mar
9-Apr
23-Apr
7-May
21-May
4-Jun
18-Jun
2-Jul
16-Jul
30-Jul
13-Aug
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10-Sep
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8-Oct
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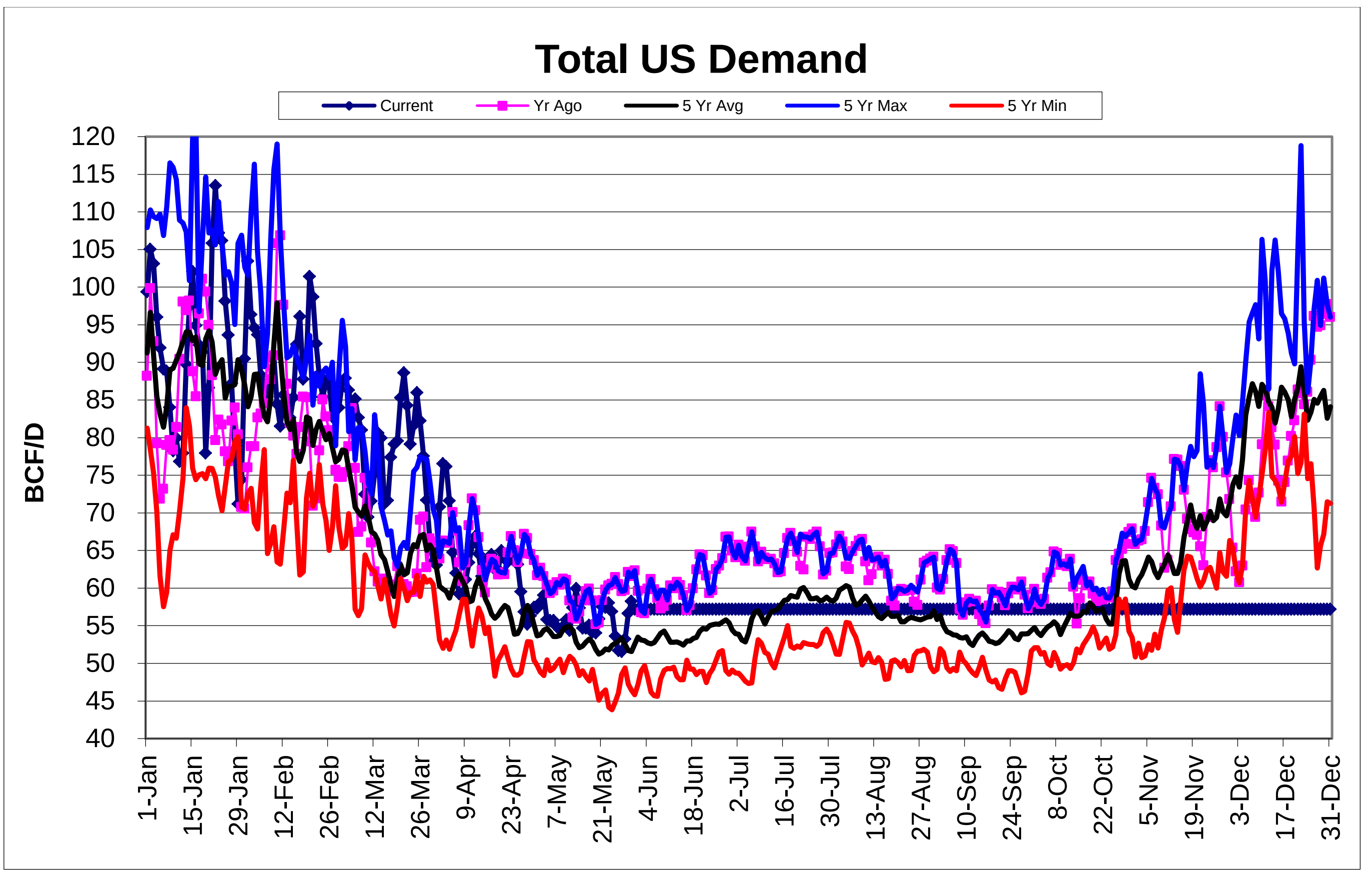
19-Nov
3-Dec
17-Dec
31-Dec


Total US Demand
Current
Yr Ago
5 Yr Avg
5 Yr Max
5 Yr Min
BCF/D
120
115
110
105
100
95
90
85
80
75
70
65
60
55
50
45
40
1-Jan
15-Jan
29-Jan
12-Feb
26-Feb
12-Mar
26-Mar
9-Apr
23-Apr
7-May
21-May
4-Jun
18-Jun
2-Jul
16-Jul
30-Jul
13-Aug
27-Aug
10-Sep
24-Sep
8-Oct
22-Oct
5-Nov
19-Nov
3-Dec
17-Dec
31-Dec

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST
