

IAF Advisors
Energy Market Outlook
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Price Action: Prices continued to slide and fell another 9.5 cents (2.5%) to \$3.733 on a 15.8 cent range. The 15.8 cent weekly range is the smallest since November 2012.

Price Outlook: The market did indeed establish a new low as expected and with prices closing near the weekly low, a new weekly low is still considered the most probably path. Since 2000, 52 weeks have seen 3 weeks in a row of new lows and of those, 33 made another new low to extend the streak to 4. Thus, with a new low just 2.4 cents lower than the closing price, that certainly seems the most likely outcome. Combined with forecasts, June 2013 looks to be quite a bit cooler than 2010 and 2012 while right in line with 2011. At the same time, recent electricity has been lackluster. Some data suggest fossil fueled electricity demand is running over 7% below last year in June. With coal still maintaining increased market share, power related natural gas demand is trailing last year by over 15% by this same data set. Until absolute electricity increases markedly, power related natural gas demand is likely to remain subdued. Temperatures are forecast to rise and should increase through late July. This will help increase natural gas demand, but until more evidence that the lower price has inspired some new natural gas demand, injections are likely to remain relatively robust and keep a lid on price advances. The reduction in the speculative net long position continued with another substantial liquidation. Considering the weakness at the end of the week, a further reduction is likely. CME open interest fell to 1.45 million contracts while total open interest across the complex was nearly unchanged at 5.41 million contracts as of June 11.

Weekly Storage: US working gas storage rose 95 BCF for the week ending June 7. Current inventory levels of 2,347 BCF now fall 597 BCF (20.3%) below last year and 50 BCF (2.1%) behind the 5 year average.

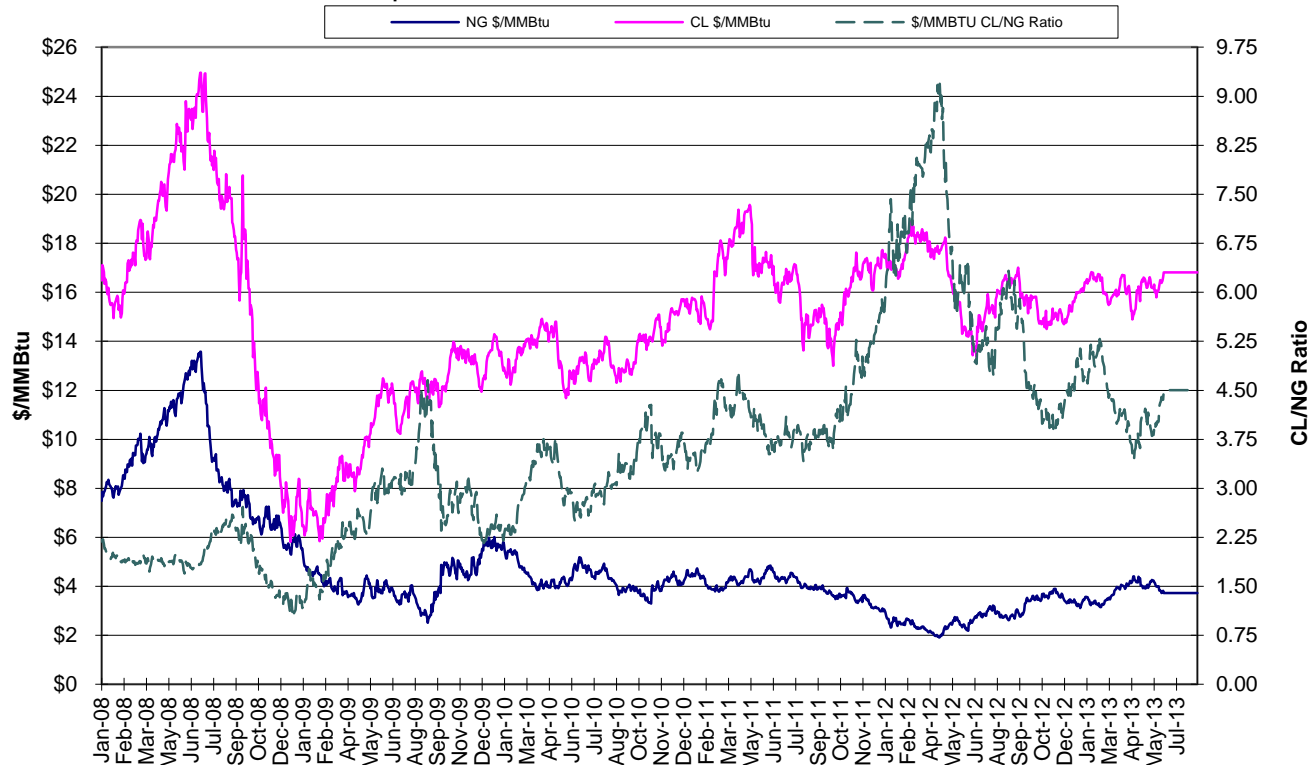
Storage Outlook: After peaking at an 814 BCF (31.9%) deficit on April 19, more than 200 BCF has taken out of the deficit. In the exact opposite trend of 2012 where nearly every week saw a reduction in the surplus, 2013 is witnessing nearly every week reduce the deficit. Considering power related demand and temperatures, it is considered likely that every week at least until September will continue to see a reduction in the YOY storage deficit.

Supply Trends: Total supply rose 0.1 BCF/D to 68.54 BCF/D. US production fell, but was offset by higher Canadian imports and lower Mexican exports. The US Baker Hughes rig count rose 6 as oil activity increased and natural gas fell. Canadian activity rose 24. Thus the total North American rig count increased by 30 to 1,947 which now trails last year by 272. The higher efficiency US horizontal rig count fell 2 and at 1,086 falls 76 behind last year.

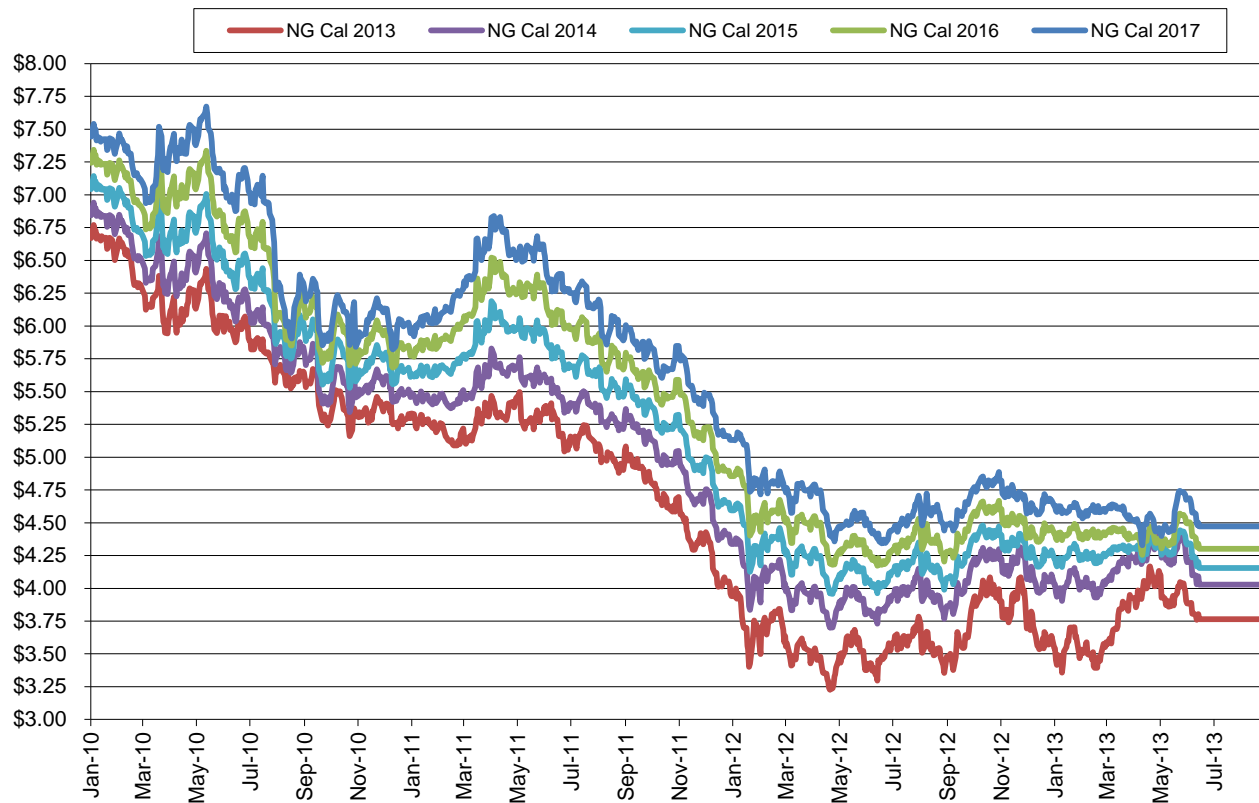
Demand Trends: Total demand rose 0.2 BCF/D to 55.1 BCF/D. Higher power demand more than offset lower R&C and industrial demand. Electricity demand fell 297 gigawatt-hrs to 76,090, which trails last year by 1,028 (1.3%) and the 5 year average by 3,689 (4.6%).

Other Factors: The S&P 500 fell as concerns remain centered on Fed policy tightening. The adjusted monetary base continues to rise and thus no Fed action has been taken as of yet.

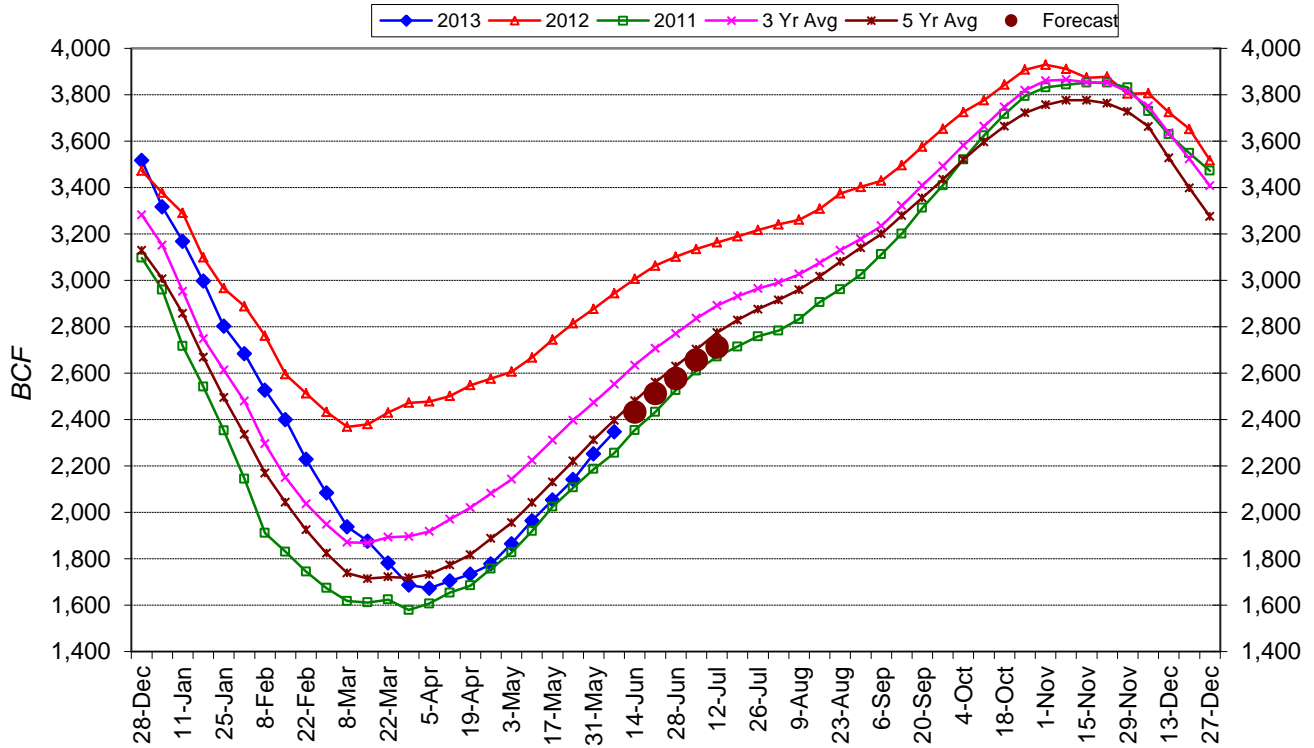
\$/MMBtu Ratio of NYMEX CL and NG



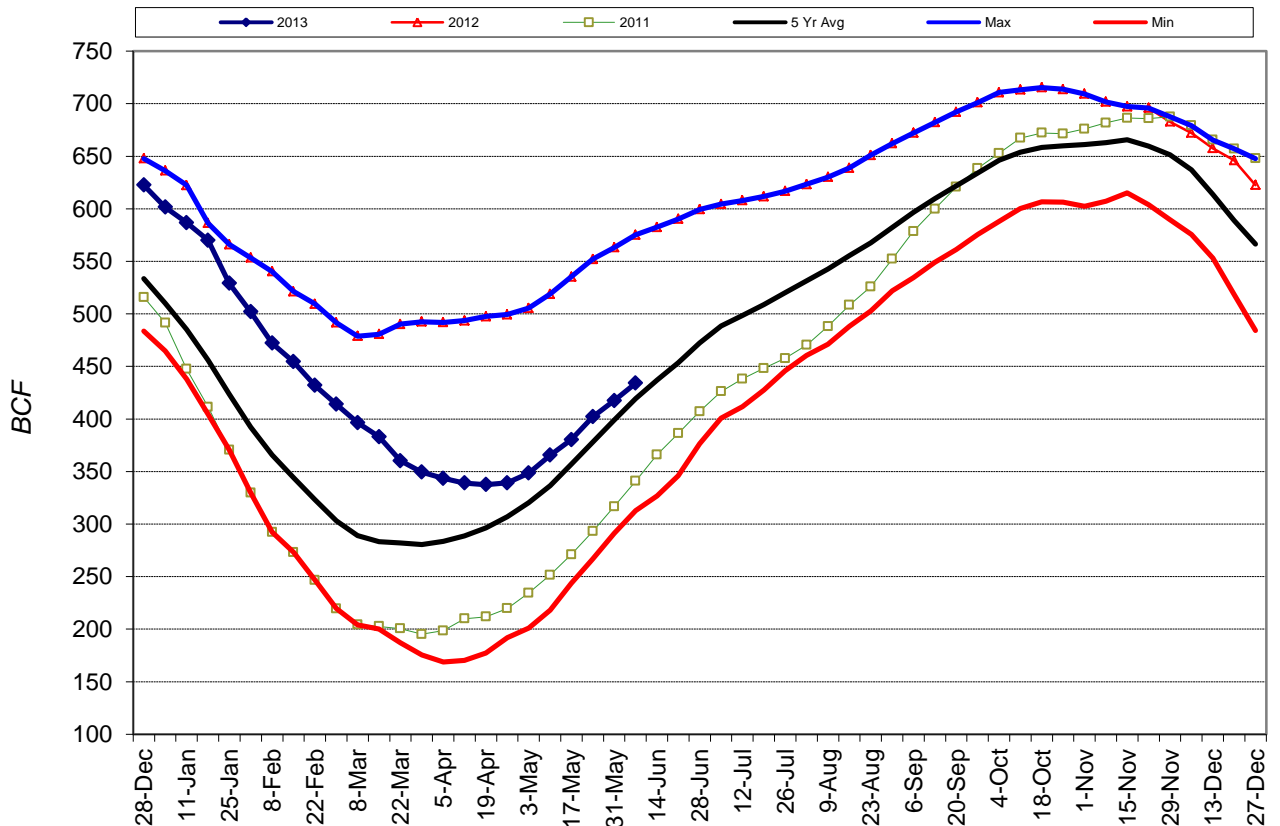
NYMEX Calendar Strips



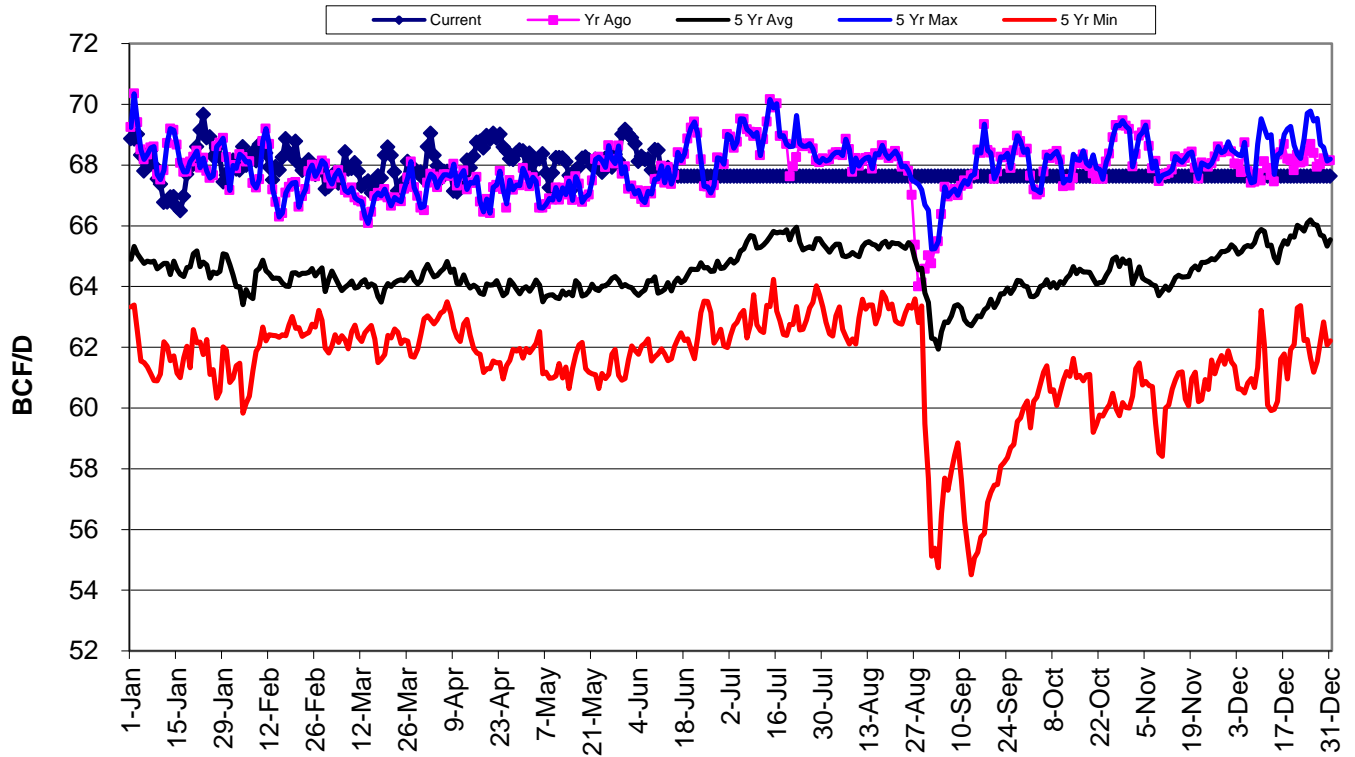
US Working Gas Storage - Source - EIA



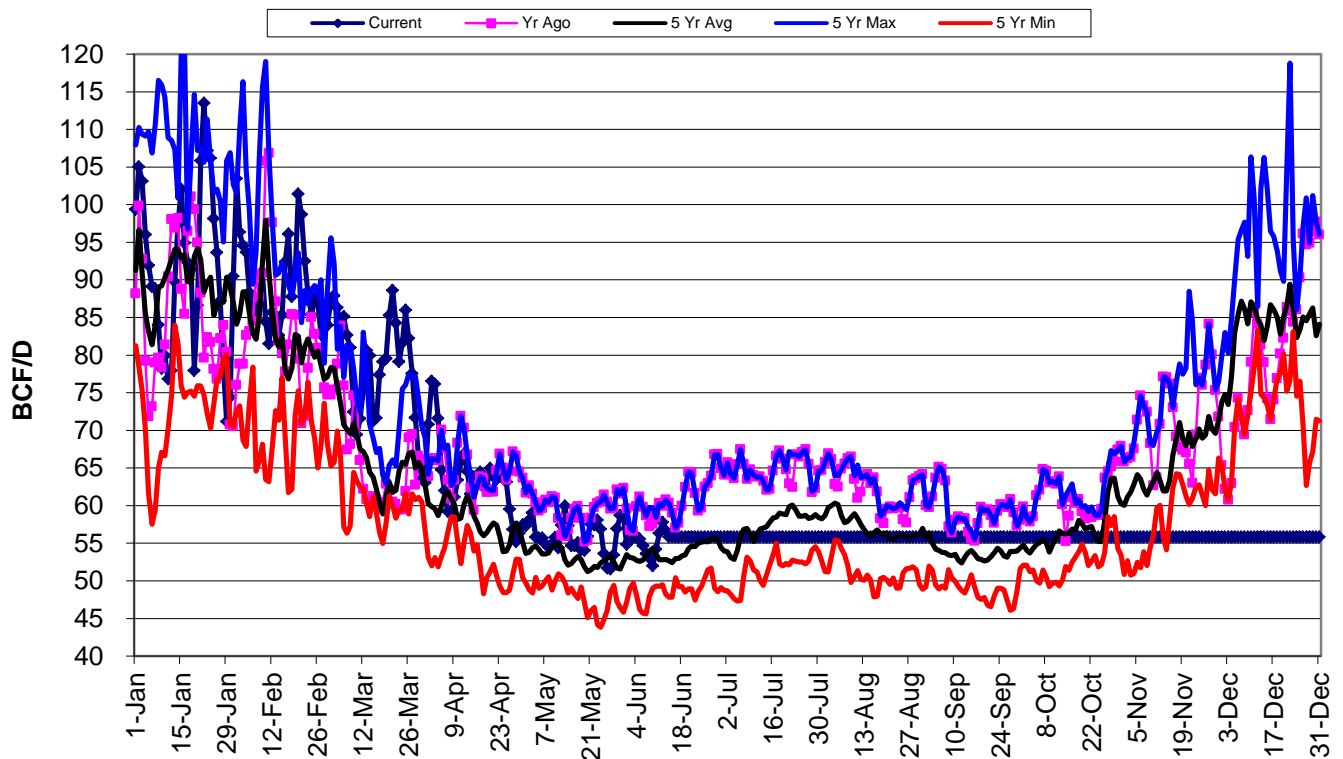
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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