

IAF Advisors
Energy Market Outlook
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June 21, 2013

Price Action: Prices rose 3.8 cents (1.0%) to \$3.771 on an expanded 24.5 cent range.

Price Outlook: The market could not establish a new low, missing that mark by 2.9 cents. Rather, prices surged higher early in the week to a new high, maintaining history by avoiding an inside week. Since 2000, there have only been 55 inside weeks compared to 73 where both a new high and low is established. This data is basis the generic front month CME contract and does bias data to outside rather than inside ranges. Considering the weak price action, a new low is considered the more probable path next week. The +91 BCF injection was slightly above market expectation, but was again higher than last year last and the historical average. The driving factor remains coal to gas switching with coal retaining a significantly higher market share than last year. The decline in the speculative net long position continued with another sizable liquidation. Considering the weakness at the end of the week and reduction in open interest, a further decrease is likely. CME open interest fell to 1.43 million contracts while total open interest across the complex edged up to 5.42 million contracts as of June 18. This level remains well below the record open interest of 6.36 million. While overall classical volatility remains subdued, substantial daily moves are still likely.

Weekly Storage: US working gas storage rose 91 BCF for the week ending June14. Current inventory levels of 2,438 BCF now fall 568 BCF (18.9%) below last year and 43 BCF (1.7%) behind the 5 year average.

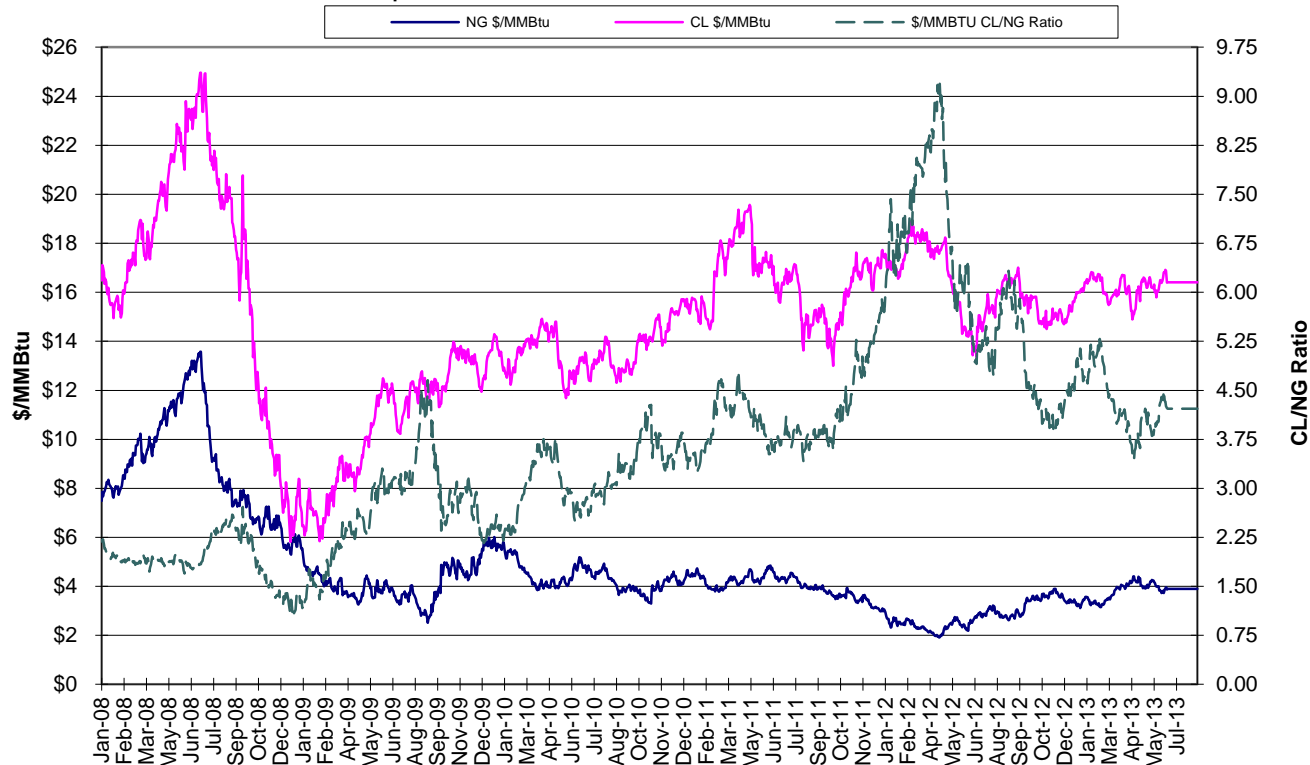
Storage Outlook: The continued reduction in the storage deficit is considered the primary market driver. Until the pace of reduction is reduced, prices are likely to remain defensive. Inventories are on pace to reach slightly above 3,800 BCF in November.

Supply Trends: Total supply fell 0.4 BCF/D to 68.1 BCF/D. A drop US production was partially offset by lower Mexican exports. The US Baker Hughes rig count fell 12 as both oil and natural gas activity dropped. Canadian activity rose 21. Thus the total North American rig count increased by 9 to 1,956 which now trails last year by 248. The higher efficiency US horizontal rig count fell 7 and at 1,086 falls 86 behind last year.

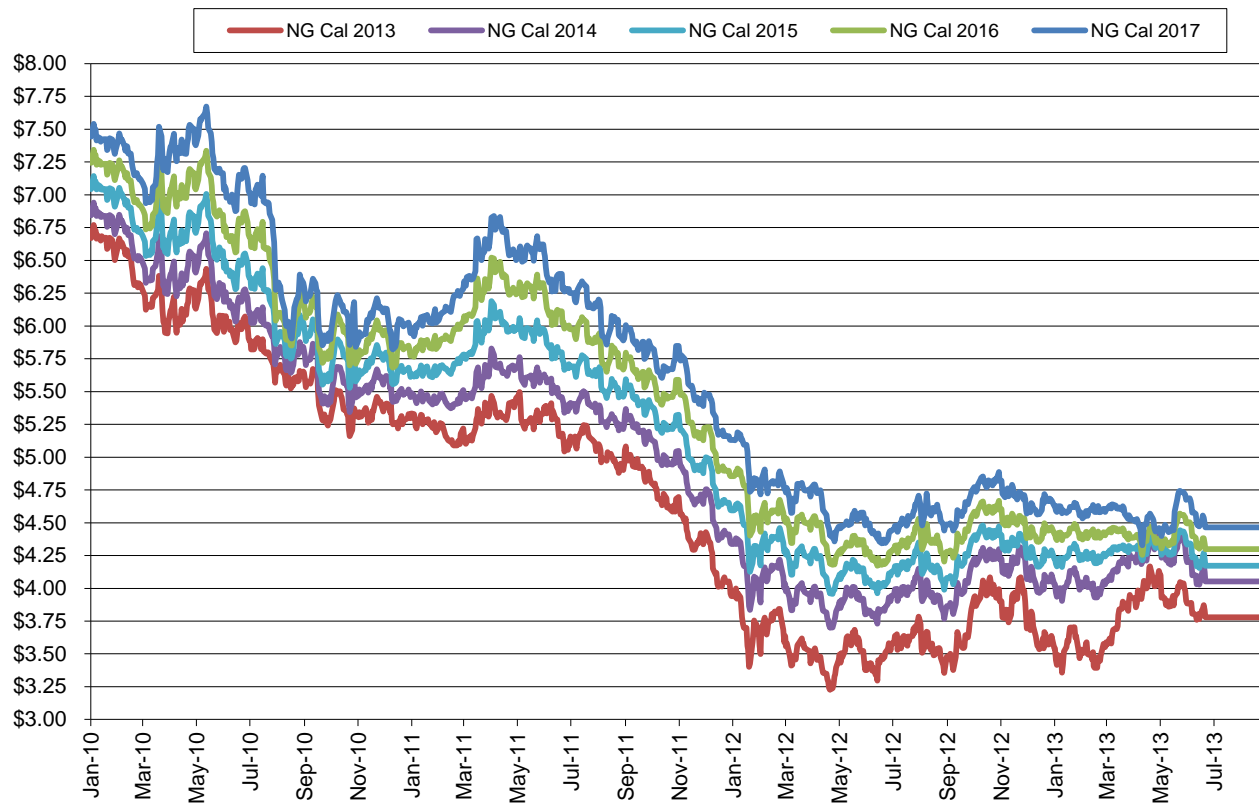
Demand Trends: Total demand fell 0.1 BCF/D to 55.0 BCF/D. Higher power demand was offset by lower R&C and industrial demand. Electricity demand rose 4,847 gigawatt-hrs to 80,937, which trails last year by 968 (1.2%) and the 5 year average by 1,014 (1.2%). Despite the over 80,000 gigawatt-hrs of electric generation, the relatively high injection exemplifies the dramatic shift between 2013 and 2012. For example, the 82,356 gigawatt-hrs of generation recorded on August 24, 2012 was accompanied by an injection of just 66 BCF. Until absolute electricity demand increases markedly, power related natural gas demand is likely to remain seasonally subdued. Temperatures are forecast to rise and should increase through late July. This will help increase natural gas demand. However, a recent drop in coal prices remains a bearish factor to be considered.

Other Factors: The S&P 500 plummeted as concerns remain centered on Fed policy tightening.

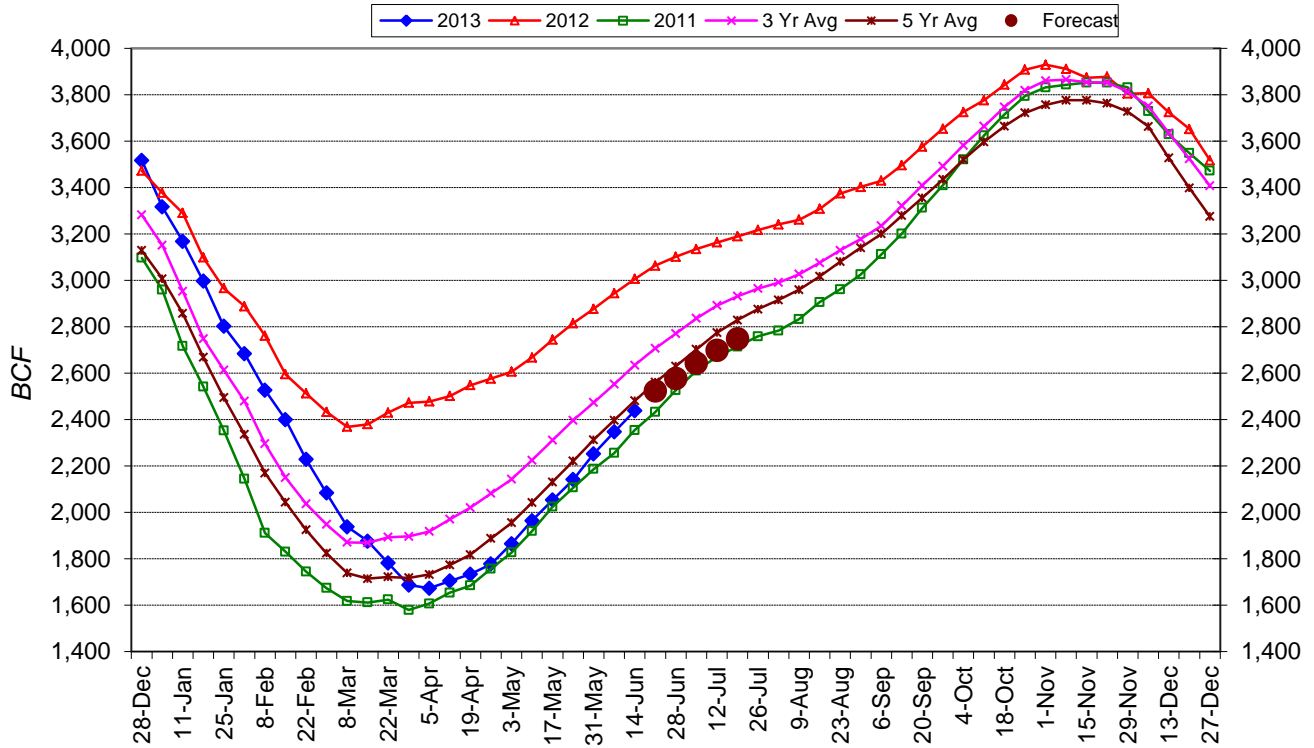
\$/MMBtu Ratio of NYMEX CL and NG



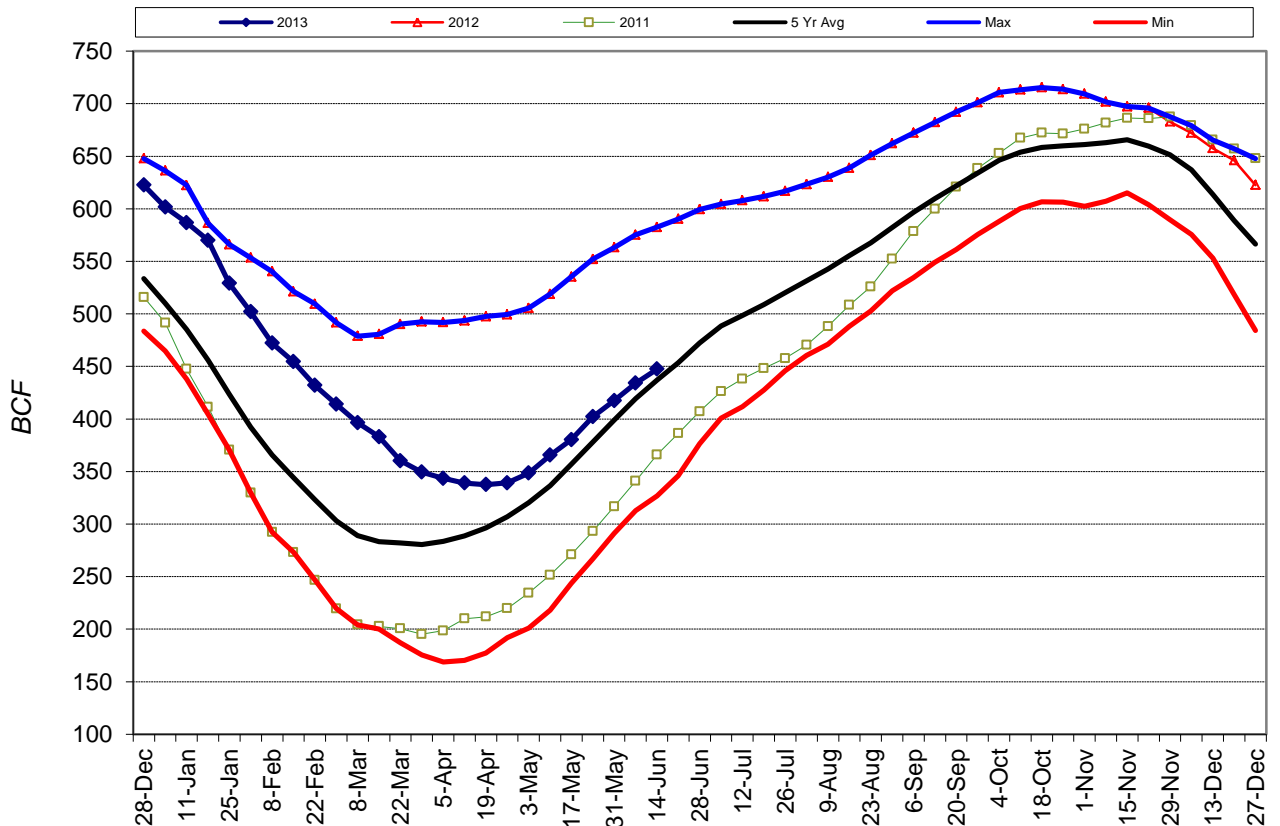
NYMEX Calendar Strips



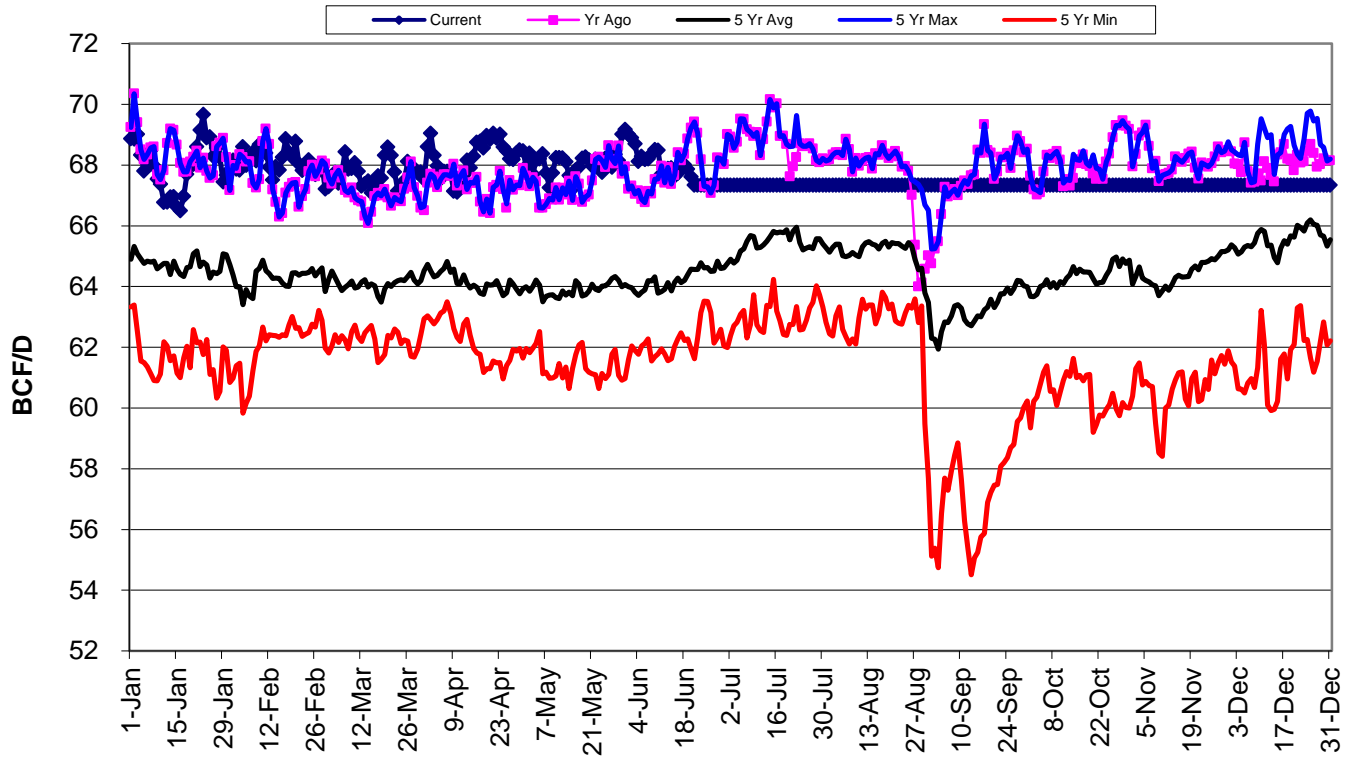
US Working Gas Storage - Source - EIA



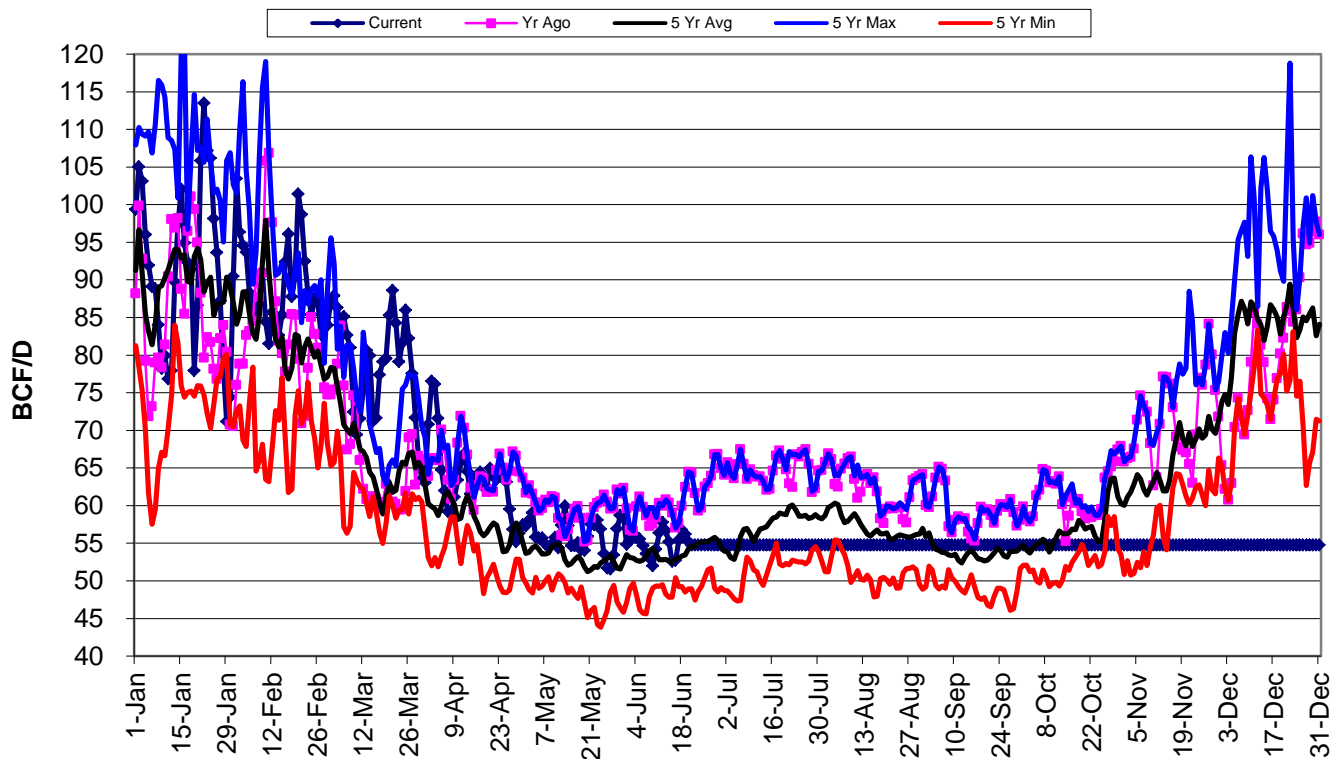
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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