

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
June 28, 2013

Price Action: Prices fell 22.8 cents (6.0%) to \$3.565 basis the now prompt August contract on an expanded 31.6 cent range.

Price Outlook: The market did indeed establish a new low and considering the upcoming holiday week, another new low is considered the more probable path next week. The shortened holiday week will see the weekly storage report released on Wednesday at 12:00 pm EST. The +95 bcf injection was again above market expectation and especially surprising week on week. With both higher electricity demand and warmer temperatures across the country, an injection lower than last week was expected. This dramatically illustrates the significant difference between 2013 and 2012. The decline in the speculative net long position continued with the size now well over 100,000 contracts lower than the end of May. This situation poses an interesting question. Unlike crude, which rarely experiences a net short position, natural gas has witnessed speculative short positions and a move to establish a speculative net short position could initiate substantial selling. CME open interest fell to 1.41 million contracts with total open interest across the complex dropping to 5.26 million contracts as of June 25. While overall classical volatility remains subdued, substantial daily moves are still likely.

Weekly Storage: US working gas storage rose 95 BCF for the week ending June 21. Current inventory levels of 2,533 BCF now fall 530 BCF (17.3%) below last year and 28 BCF (1.1%) behind the 5 year average.

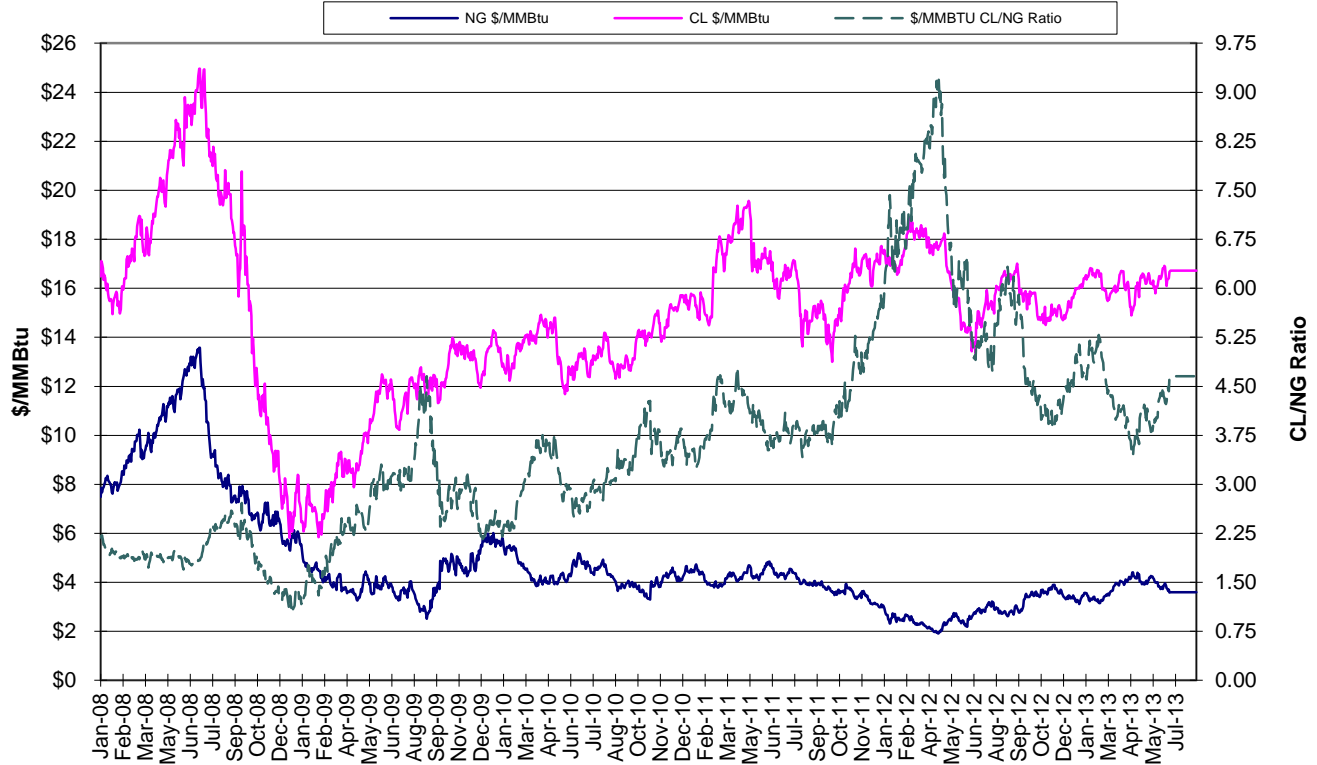
Storage Outlook: The continued reduction in the storage deficit remains the primary market driver. Until the pace of reduction is reduced, prices are likely to remain defensive. With the recent large injections despite decent electricity demand, end of season estimates are edging higher. The shortened holiday week will see the weekly storage report released on Wednesday at 12:00 pm EST.

Supply Trends: Total supply fell 0.2 bcf/d to 67.8 bcf/d. US production dropped with other factors largely unchanged. The US Baker Hughes rig count fell 11 as oil activity fell while natural gas activity rose. Canadian activity rose 9. Thus the total North American rig count decreased by 2 to 1,954 which now trails last year by 266. The higher efficiency US horizontal rig count fell 12 and at 1,067 falls 104 behind last year. The EIA monthly report indicated an uptick in US production and the resilience of output despite the drop in rig activity remains a bearish factor.

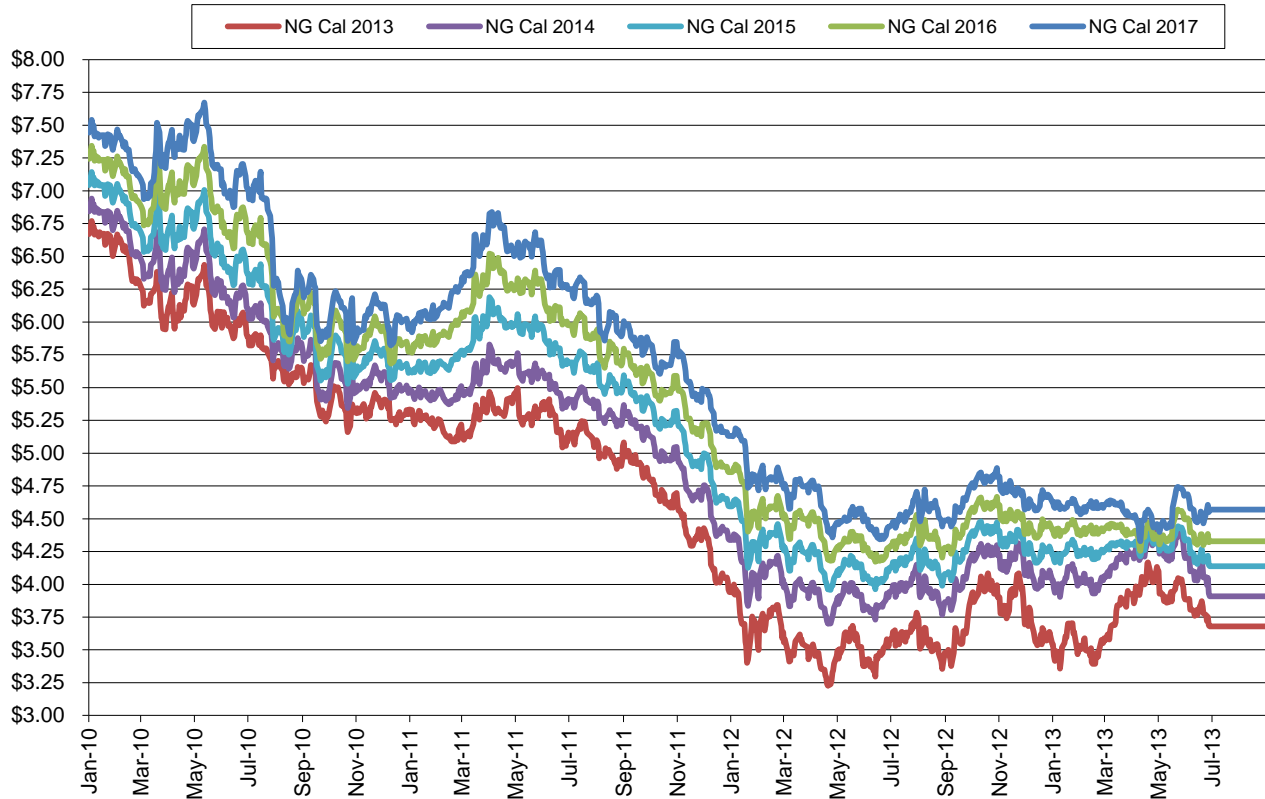
Demand Trends: Total demand fell 0.2 bcf/d to 54.8 bcf/d. Higher power demand was offset by lower R&C demand. Electricity demand rose 758 gigawatt-hrs to 81,695, which trails last year by 4,607 (5.3%) and the 5 year average by 2,130 (2.5%).

Other Factors: The S&P 500 managed to rebound as concern over imminent Fed tightening was alleviated, for now.

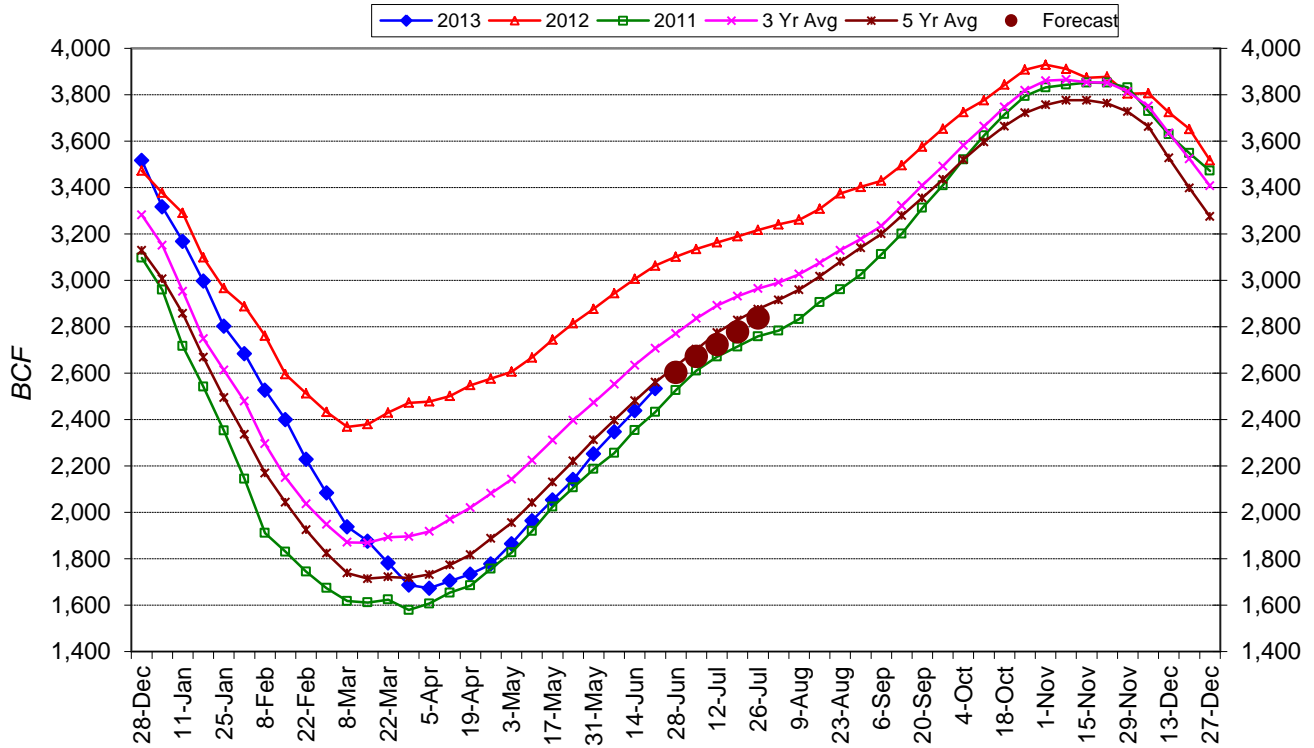
\$/MMBtu Ratio of NYMEX CL and NG



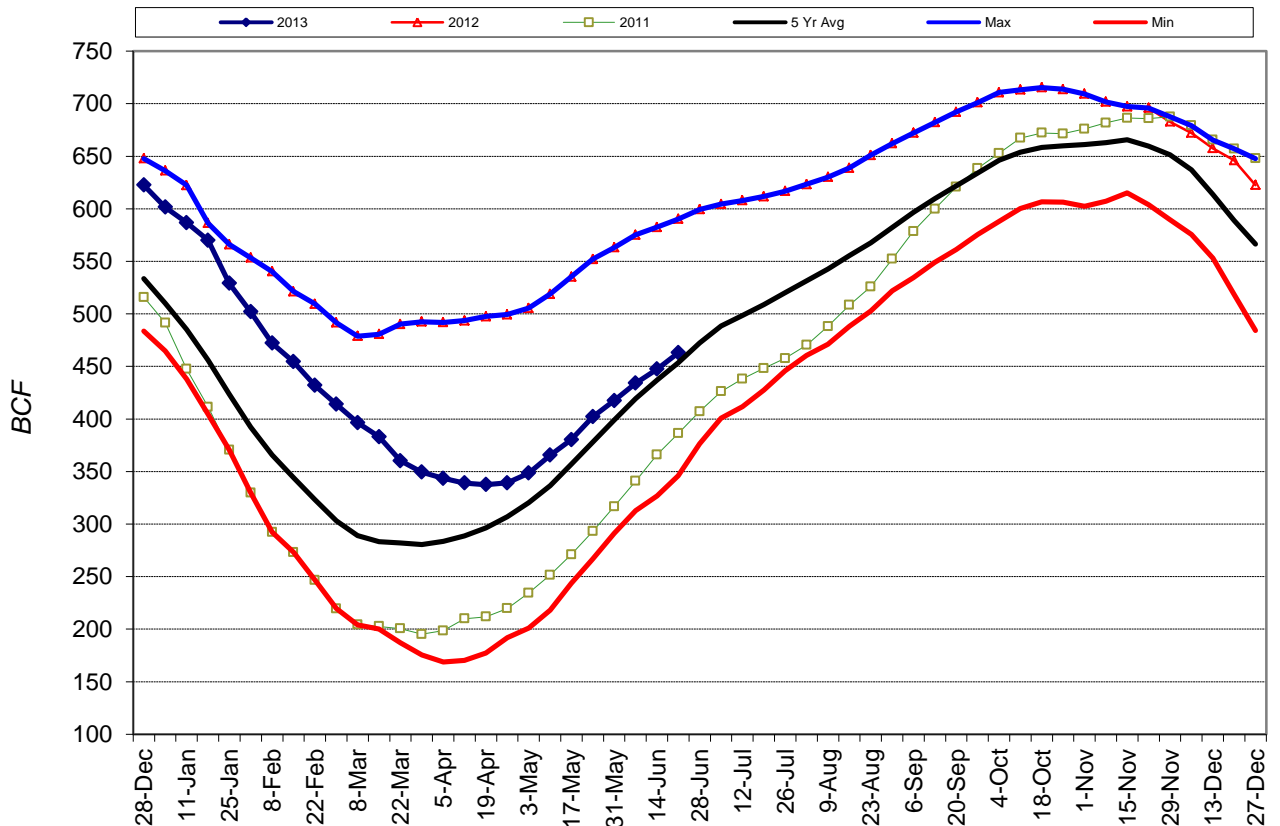
NYMEX Calendar Strips



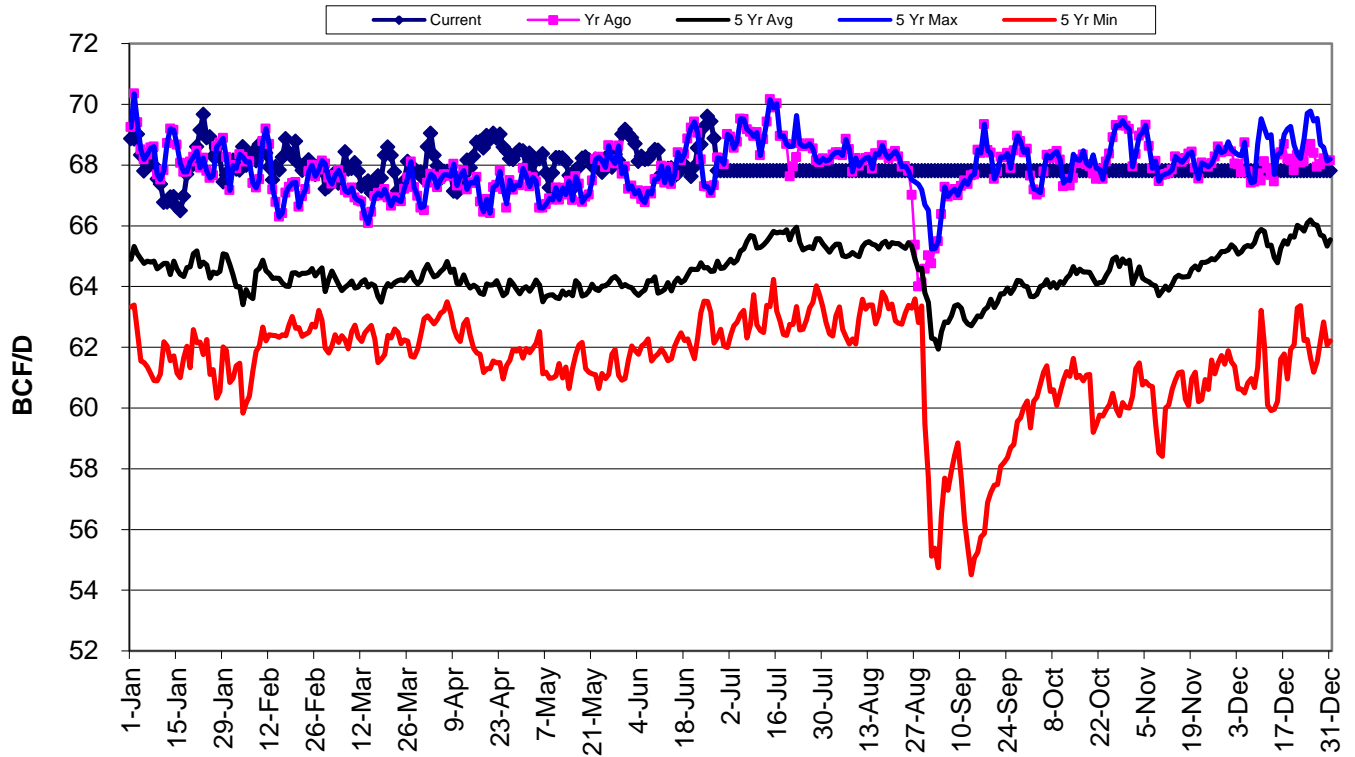
US Working Gas Storage - Source - EIA



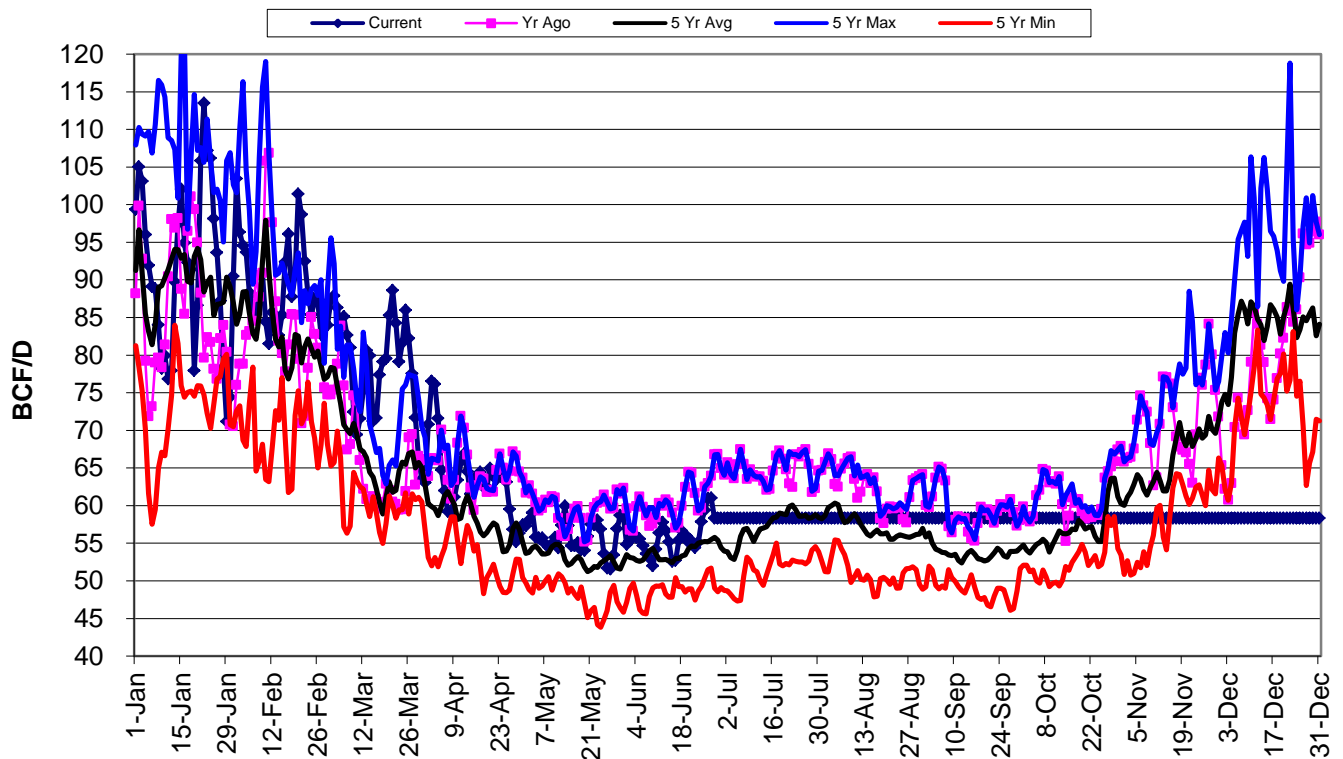
Canadian Working Gas Storage - Enerdata



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.