

IAF Advisors
Energy Market Outlook
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Price Action: Prices rose 5.2 cents (1.5%) to \$3.617 on a tight 16.9 cent range.

Price Outlook: The market could not establish another new weekly low and instead recorded a rare inside week with prices also unable to rally enough for a new weekly high. Since 2000, only 55 inside weeks have been recorded. The market ended very near the middle of the weekly range. With expectations for yet another relatively large injection and no extreme heat in the forecast, there is a slight bias toward establishing a new weekly low next week. The mainline story remains very tepid temperature adjusted electricity demand. Factors considered influential include increased efficiency related to CFL/LED lighting conversions as well as expanding distributed generation that results in lower on-grid demand. Solar panels installed on residential homes reduce on-grid demand and appear as lower electricity, even though actual consumption has not fallen. A secondary factor may be an economy that is simply not that healthy. With weather forecasts now extending into the latter half of July, the window of possible extended extreme heat is diminishing. It should be noted that the only summer time draws in 2006 occurred in late July and early August and thus the very highest demand period is approaching. But quite simply, after mid-August it is very difficult for the northern climes to remain extremely hot. Therefore, the possibility of extended very high national demand due to A/C related electricity generation falls. The CFTC data did not update due to the July 4th Holiday. However, with a continued decline in open interest and the price action, the speculative net long position likely continued to contract. CME open interest fell to 1.37 million contracts as of July 3rd.

Weekly Storage: US working gas storage rose 72 bcf for the week ending June 28. Current inventory levels of 2,605 bcf now fall 497 bcf (16.0%) below last year and 25 bcf (1.0%) behind the 5 year average.

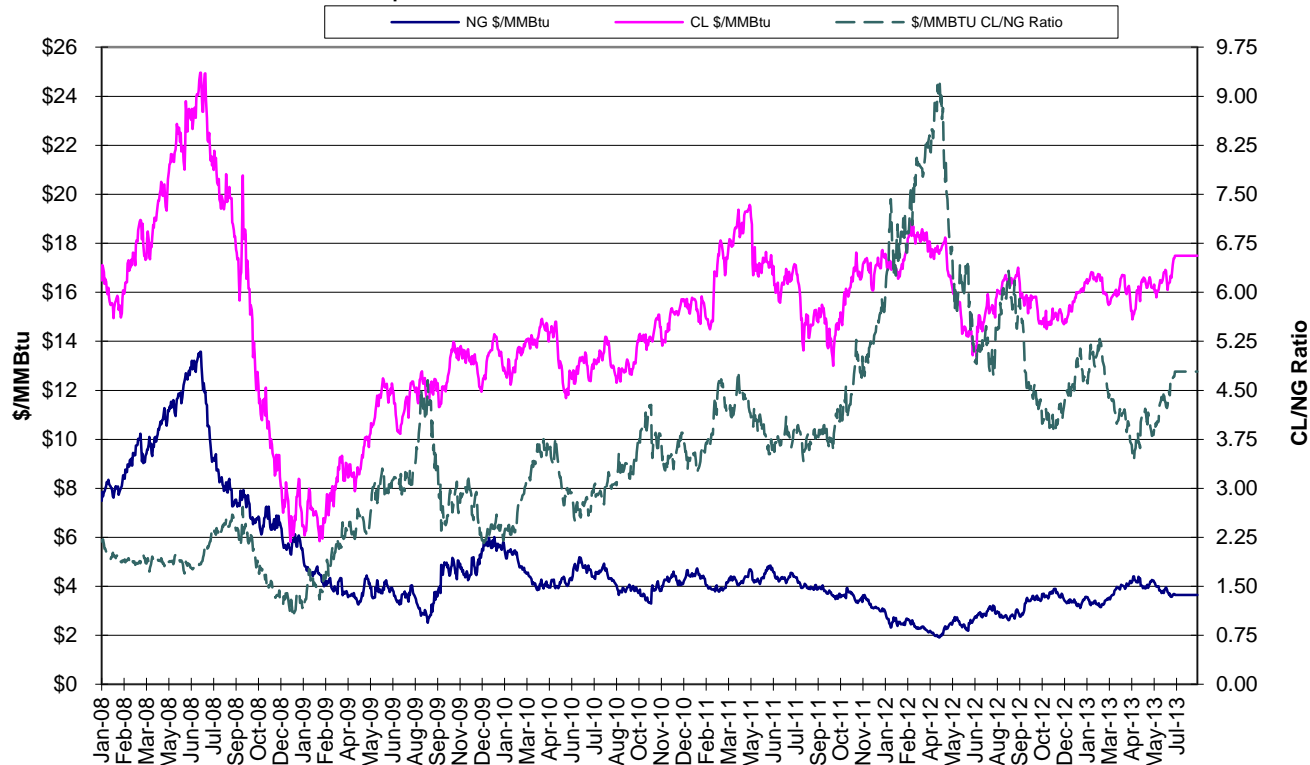
Storage Outlook: While the yearly storage deficit remains large, the reduction from the 814 bcf (31.9%) deficit of April 19 remains a primary market driver. With injections last year near or below 30 bcf until mid-August, the reduction in the yearly storage deficit is likely to continue at a high pace with the deficit projected to be in the mid 300 bcf range by early August.

Supply Trends: Total supply rose 1.1 bcf/d to 69.0 bcf/d. US production and Canadian imports were responsible for the increase with other factors largely unchanged. The US Baker Hughes rig count rose 9 with both oil and natural gas activity increasing. Canadian activity rose 8. Thus the total North American rig count expanded by 17 to 1,971 which now trails last year by 258. The higher efficiency US horizontal rig count rose 1 and at 1,068 falls 106 behind last year.

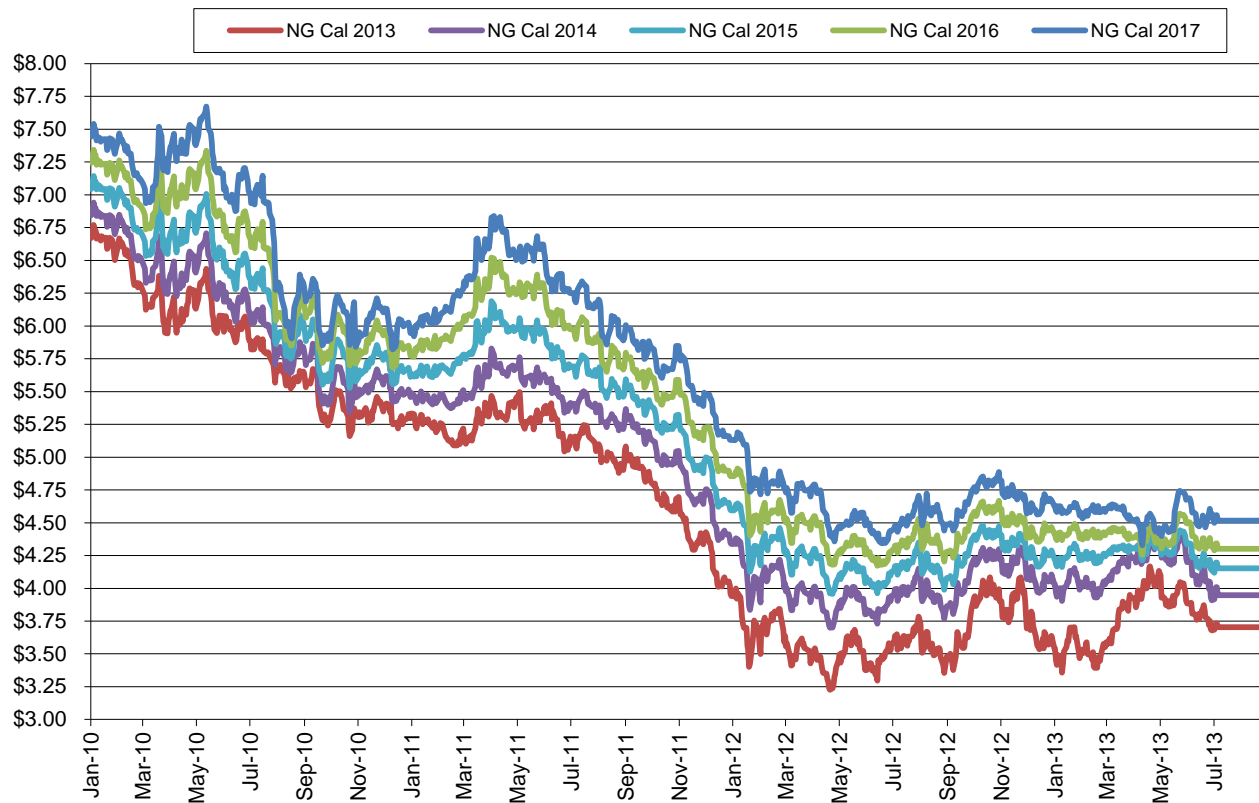
Demand Trends: Total demand rose 3.7 bcf/d to 58.6 bcf/d. Higher power demand offset lower R&C and industrial demand. Electricity demand rose 6,536 gigawatt-hrs to 88,231, which eclipses last year by 265 (0.3%) and the 5 year average by 1,122 (1.3%).

Other Factors: The S&P 500 continued to rise with the US jobs report quite supportive. However, bonds plummeted and the rise in interest rates, while still very low historically, may provide some head winds.

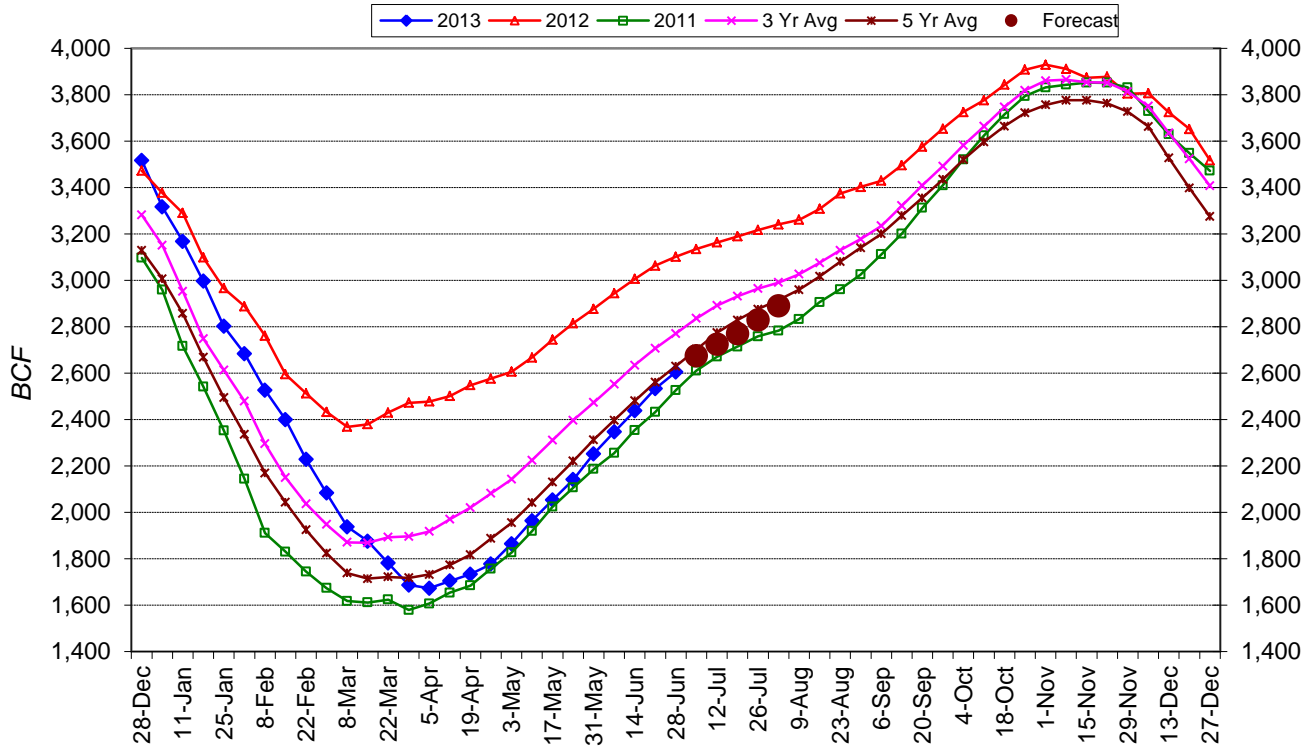
\$/MMBtu Ratio of NYMEX CL and NG



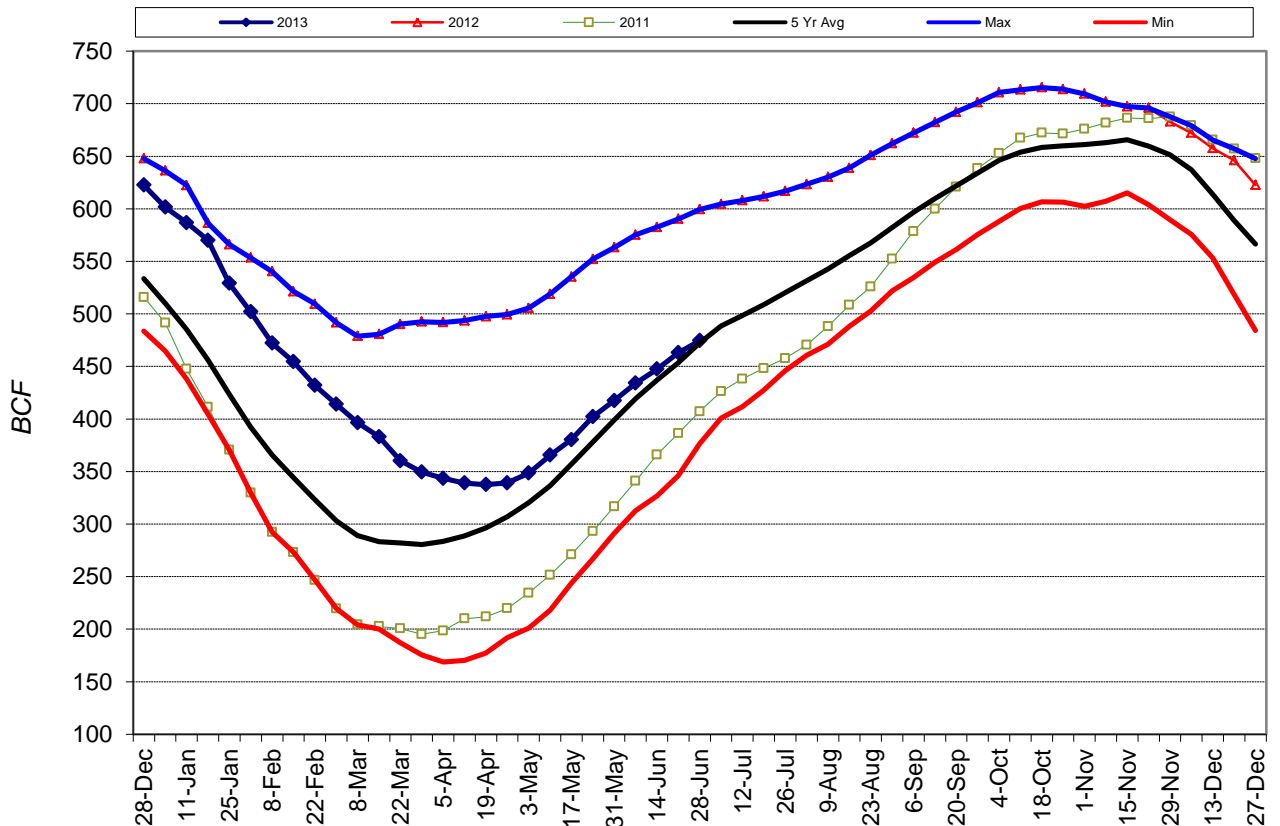
NYMEX Calendar Strips



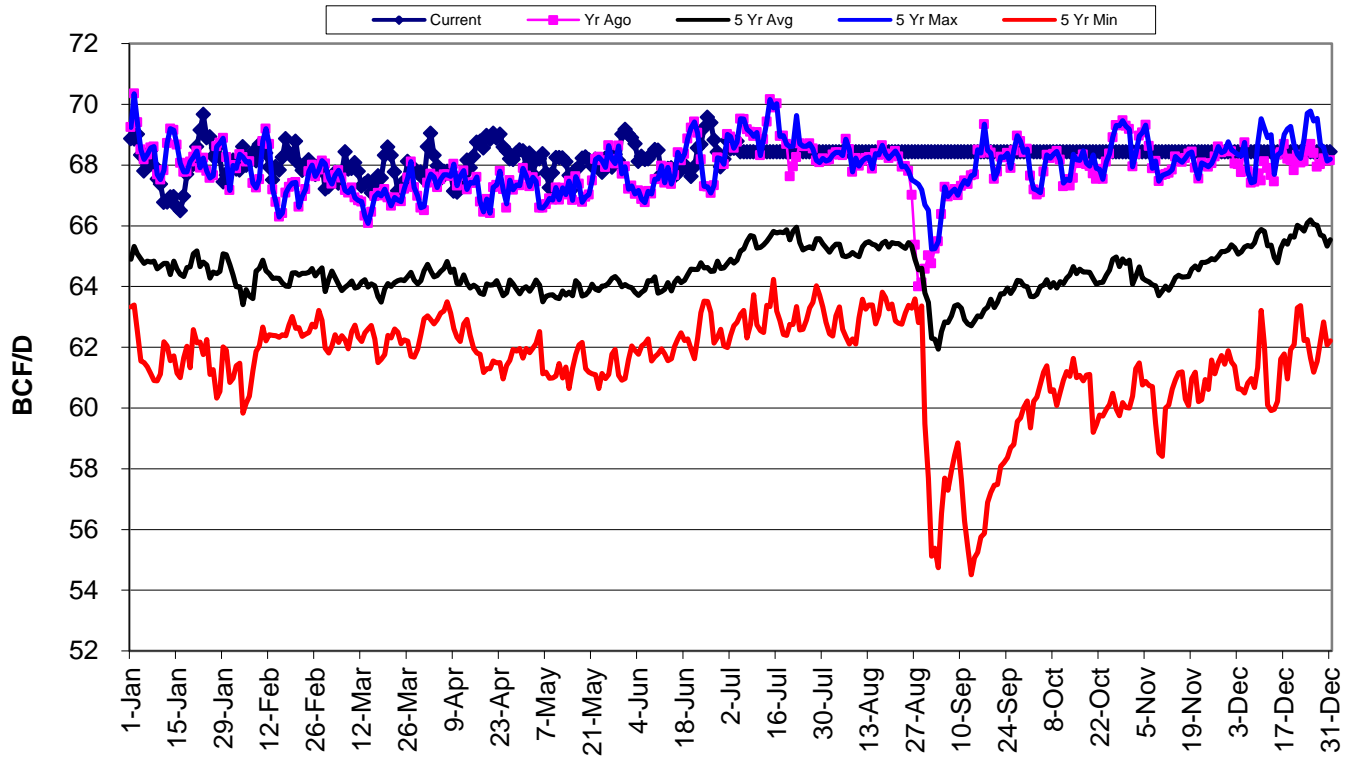
US Working Gas Storage - Source - EIA



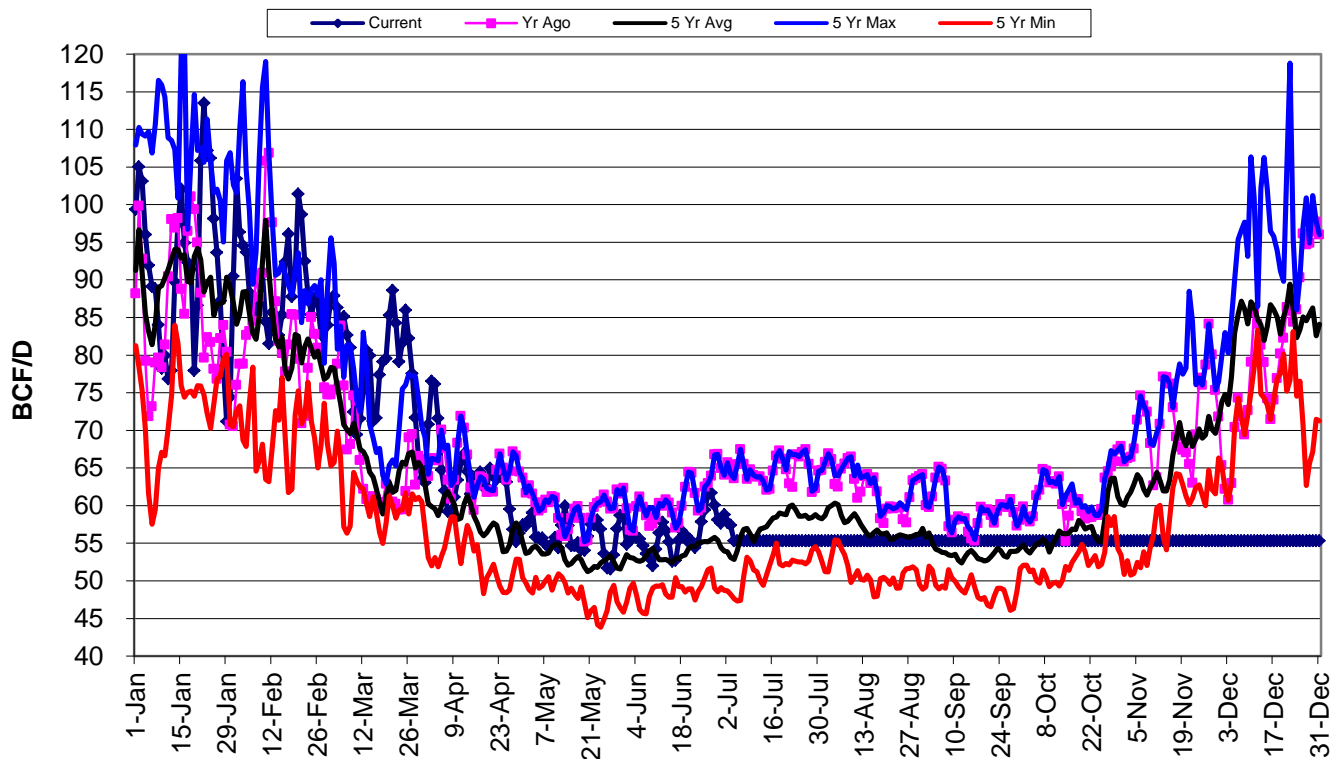
Canadian Working Gas Storage - Enerdata



Total US Supply



Total US Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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