IAF Advisors
Energy Market Outlook

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Price Action: Prices rose 2.7 cents (0.7%) to $3.644 on a still rather small 21.3 cent range.

Price Outlook: **The market could not establish another weekly low as was the slight bias. However, maintaining historical tendencies, the market did manage to rise enough to make a new high. Although, the market has seemingly found support in the $3.50 area, injections are forecast to remain well above last year and the weather forecasts are simply not foreboding. Thus, there is a slight bias toward establishing a new weekly low next week. Although seemingly rather simplistic, the change in the yearly inventory comparison is very influential. A shrinking surplus, even from record levels, such as in 2012, is generally bullish. Likewise, a diminishing deficit is typically bearish. While many other factors are also involved, this factor is important. The CFTC data revealed a continued decline in the still rather large net long speculative position. In general, the speculative net long position has followed the price action quite closely. Total open interest, on a delta adjusted basis, across the complex stood at 5.14 million as of July 9. CME open interest was 1.39 million contracts as of July 11.**

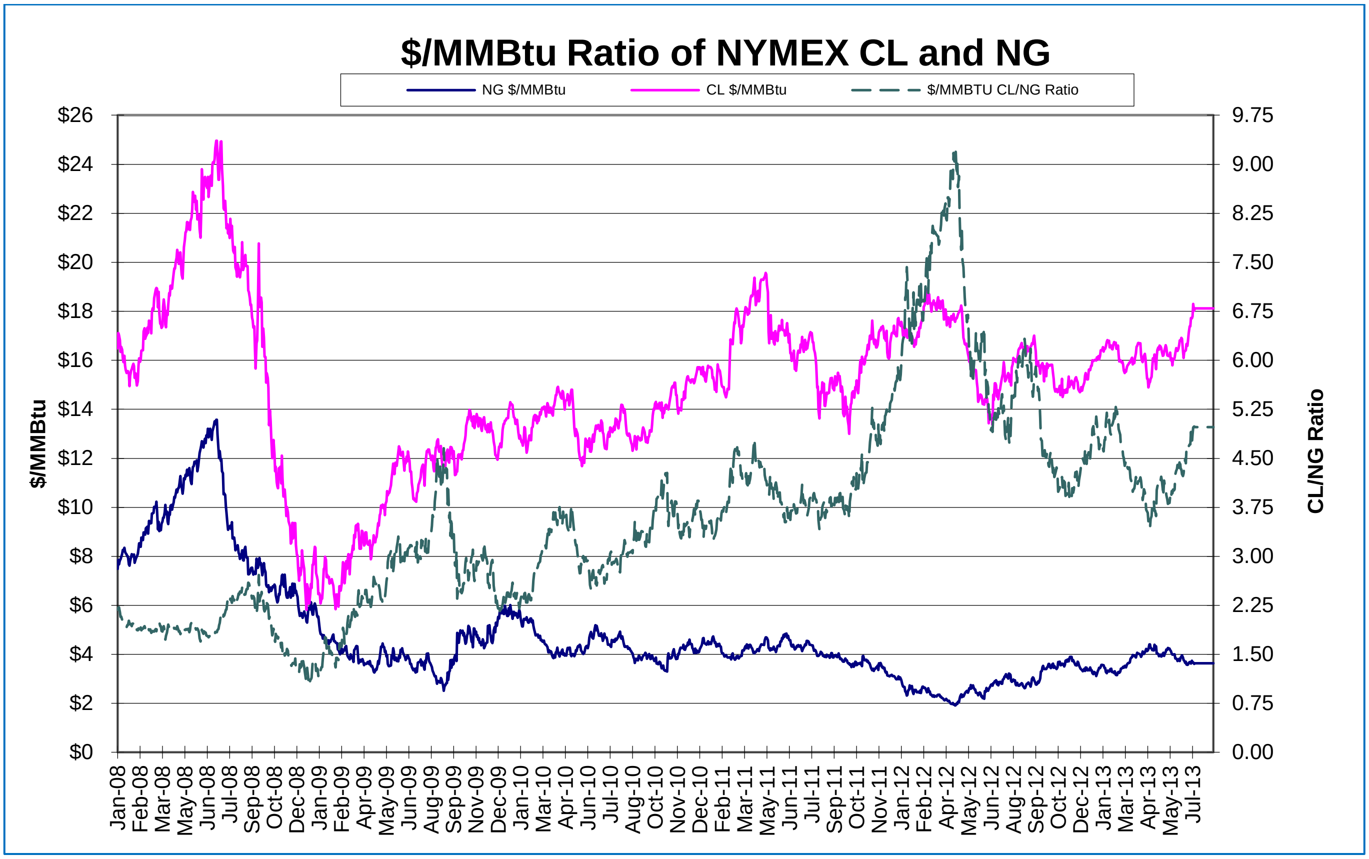
Weekly Storage: US working gas storage rose 82 bcf for the week ending July 5. Current inventory levels of 2,687 bcf now fall 448 bcf (14.3%) below last year and 15 bcf (0.6%) behind the 5 year average.

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 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 below 300 bcf by mid-August.**

Supply Trends: Total supply fell 0.4 bcf/d to 68.5 bcf/d. US production rose while Canadian imports fell. Mexican exports edged higher. The US Baker Hughes rig count rose 2 with oil activity dropping while natural gas increased. Canadian activity rose 80. Thus the total North American rig count expanded by 82 to 2,053 which now trails last year by 196. This is the first YOY deficit smaller than 200 since April. **The higher efficiency US horizontal rig count fell 10 and at 1,058 falls 108 behind last year. With the 2nd quarter completed, we will begin reviewing E&P reports to analyze results including IP rates, drill times, costs and outlooks. The US E&P industry continues to improve and get more from less.**

Demand Trends: Total demand fell 1.5 bcf/d to 57.1 bcf/d. Power demand fell and more than offset higher R&C demand. Industrial consumption was unchanged. Electricity demand fell 6,427 gigawatt-hrs to 81,804, which trails last year by 11,227 (12.1%) and the 5 year average by 4,272 (5.0%). **Temperature adjusted electricity demand remains tepid and is still considered a bearish factor.**

Other Factors: The S&P 500 continued to push higher with prices now near the May 22 intraday high.


$/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
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May-09
Jun-09
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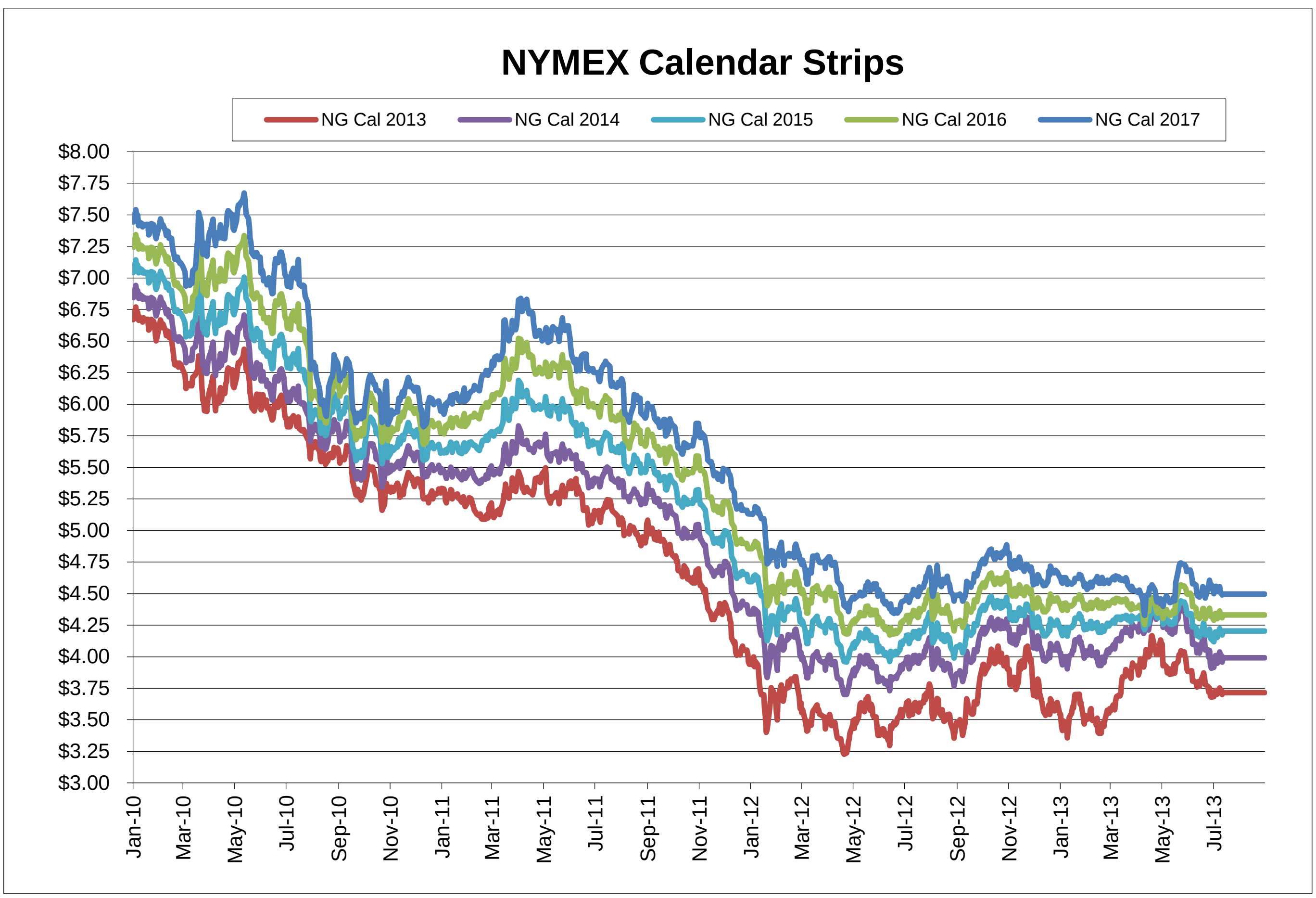
May-13
Jul-13


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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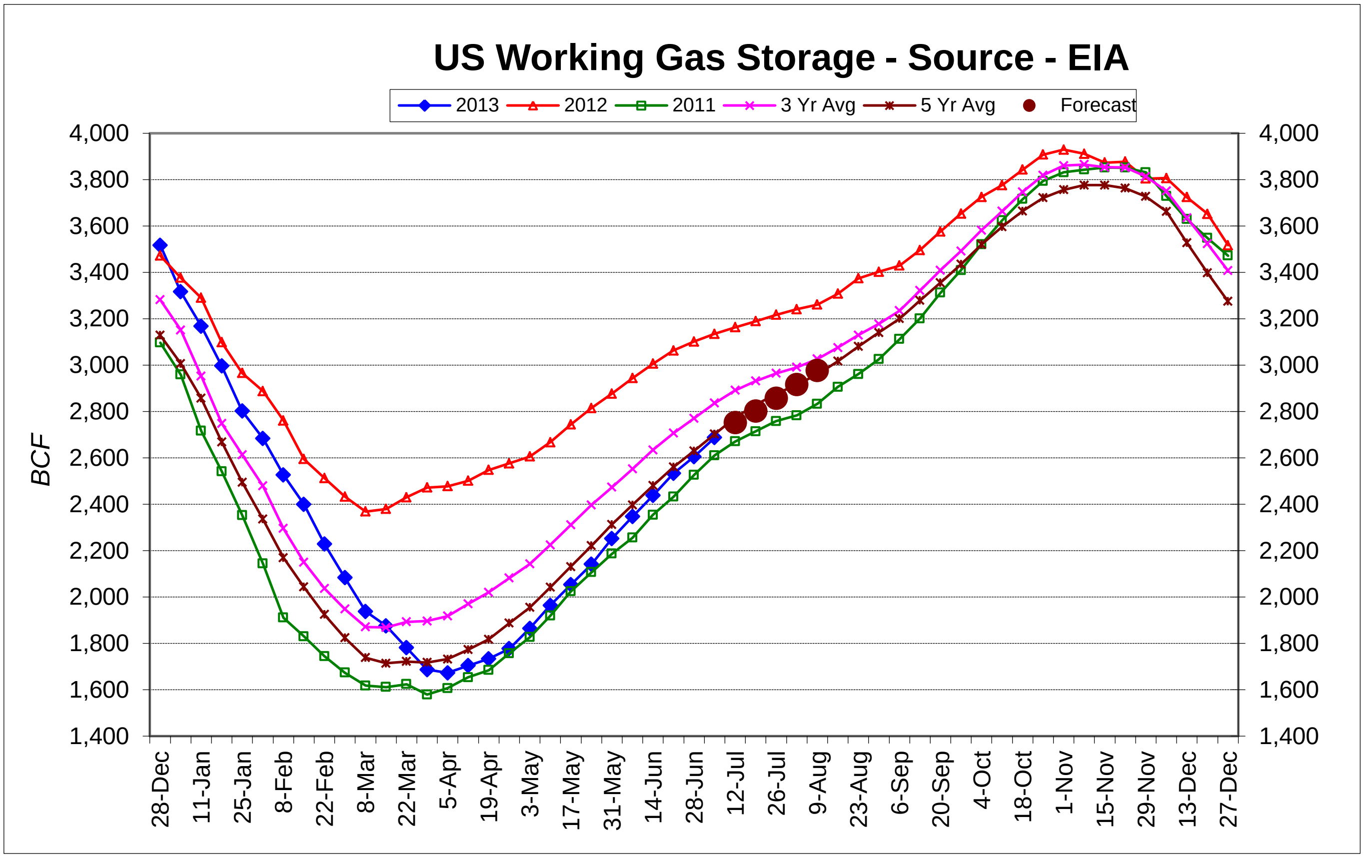
Mar-13
May-13
Jul-13


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
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4-Oct
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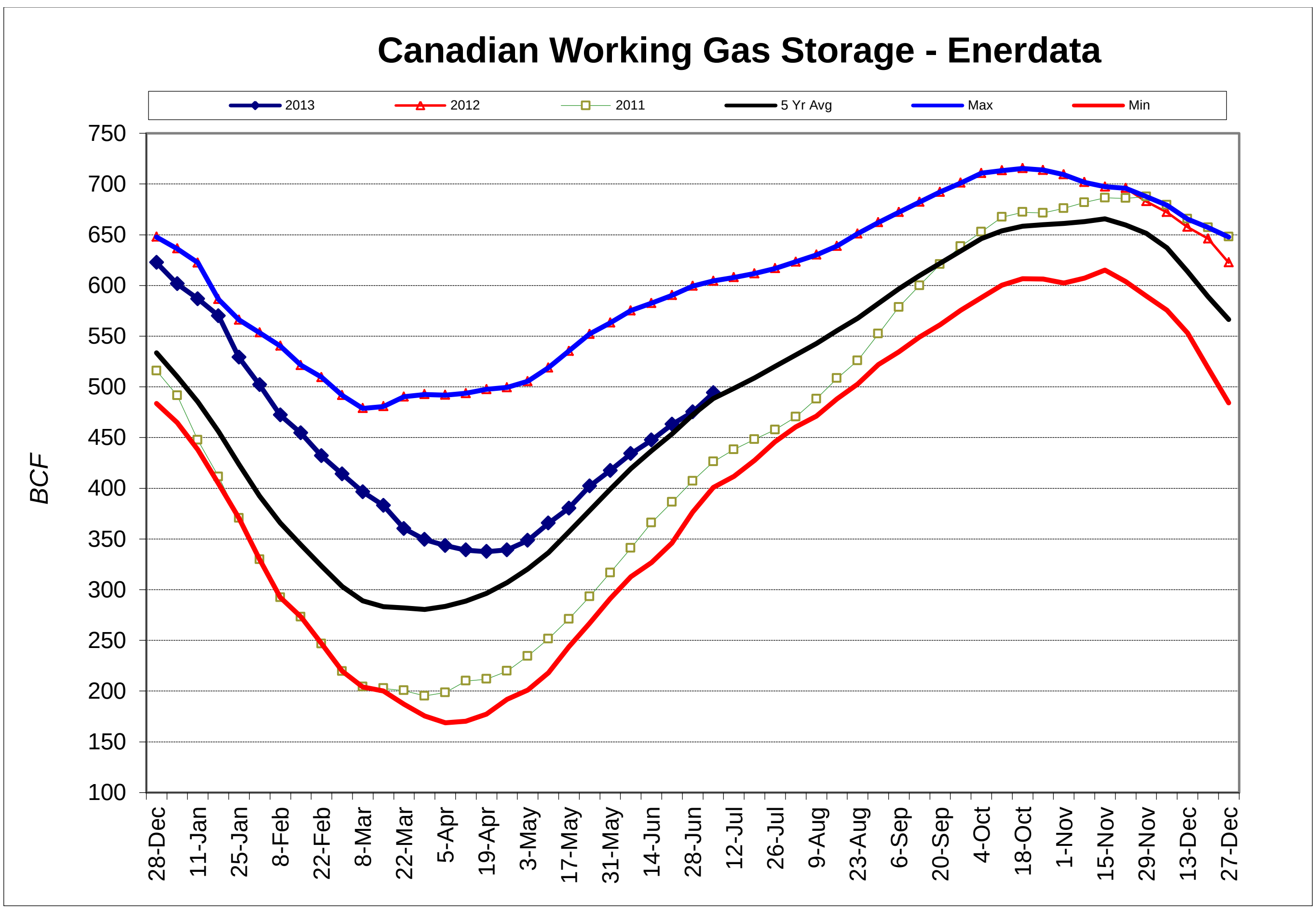
15-Nov
29-Nov
13-Dec
27-Dec


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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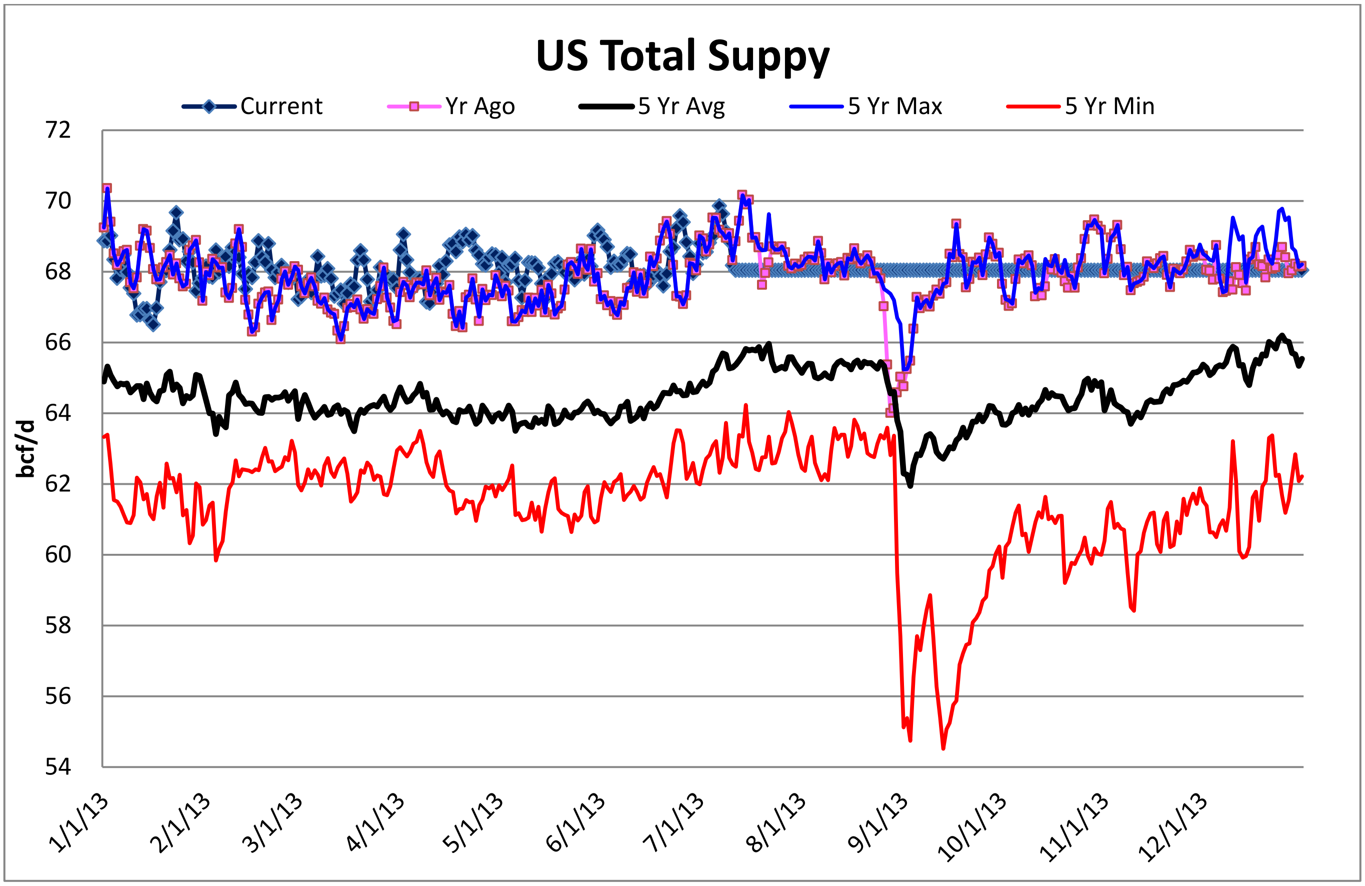
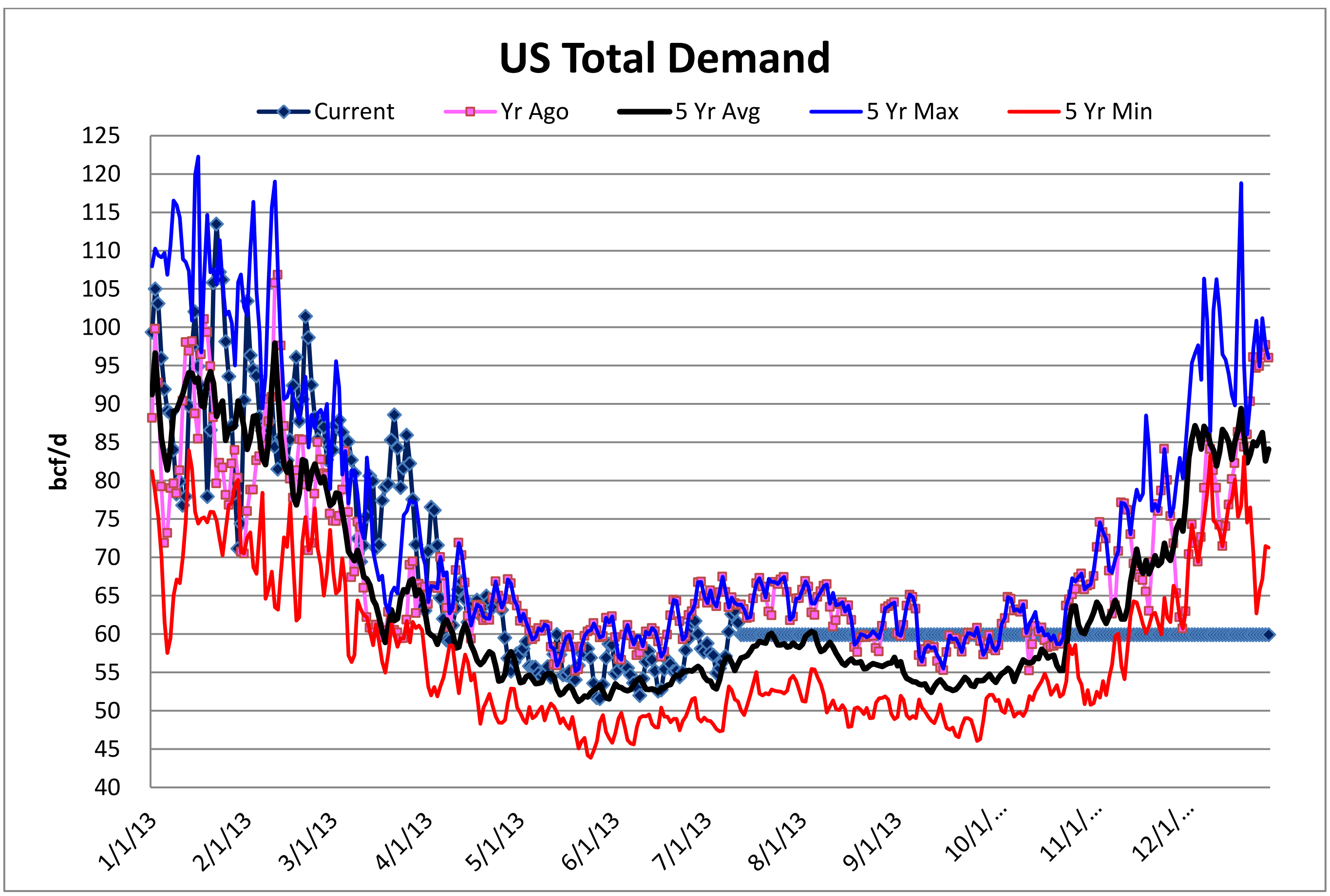
15-Nov
29-Nov
13-Dec
27-Dec



US Total Suppy
Current
Yr Ago
5 Yr Avg
5 Yr Max
5 Yr Min
bcf/d
72
70
68
66
64
62
60
58
56
54
1/1/13
2/1/13
3/1/13
4/1/13
5/1/13
6/1/13
7/1/13
8/1/13
9/1/13
10/1/13
11/1/13
12/1/13



US Total Demand
Current
Yr Ago
5 Yr Avg
5 Yr Max
5 Yr Min
bcf/d
125
120
115
110
105
100
95
90
85
80
75
70
65
60
55
50
45
40
1/1/13
2/1/13
3/1/13
4/1/13
5/1/13
6/1/13
7/1/13
8/1/13
9/1/13
10/1/...
11/1/...
12/1/...

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST
