

IAF Advisors
Energy Market Outlook
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Price Action: Prices rose 14.5 cents (4.0%) to \$3.789 on a still below average 28.9 cent range.

Price Outlook: The market did indeed establish a new weekly low as was the slight bias. However, the EIA storage report was well below expectations and prices surged enough to also post a new weekly high. Amazingly, since 2000, the market has had more instances where both a new high and low is posted rather than witnessing an inside week. The market ended near the weekly high and possibly the lowest injection of the season is expected next week. However, temperature forecasts are not overly bullish and while rare, an inside week would not be surprising. The CFTC data indicated another drop in the still rather large net long speculative position. However, the pace of liquidation has slowed in recent weeks. Total open interest, on a delta adjusted basis, across the complex stood at 5.18 million as of July 16. CME open interest was 1.42 million contracts as of July 18. These levels both represent increases from last week.

Weekly Storage: US working gas storage rose 58 bcf for the week ending July 12. Current inventory levels of 2,745 bcf now fall 418 bcf (13.2%) below last year and 29 bcf (1.1%) behind the 5 year average.

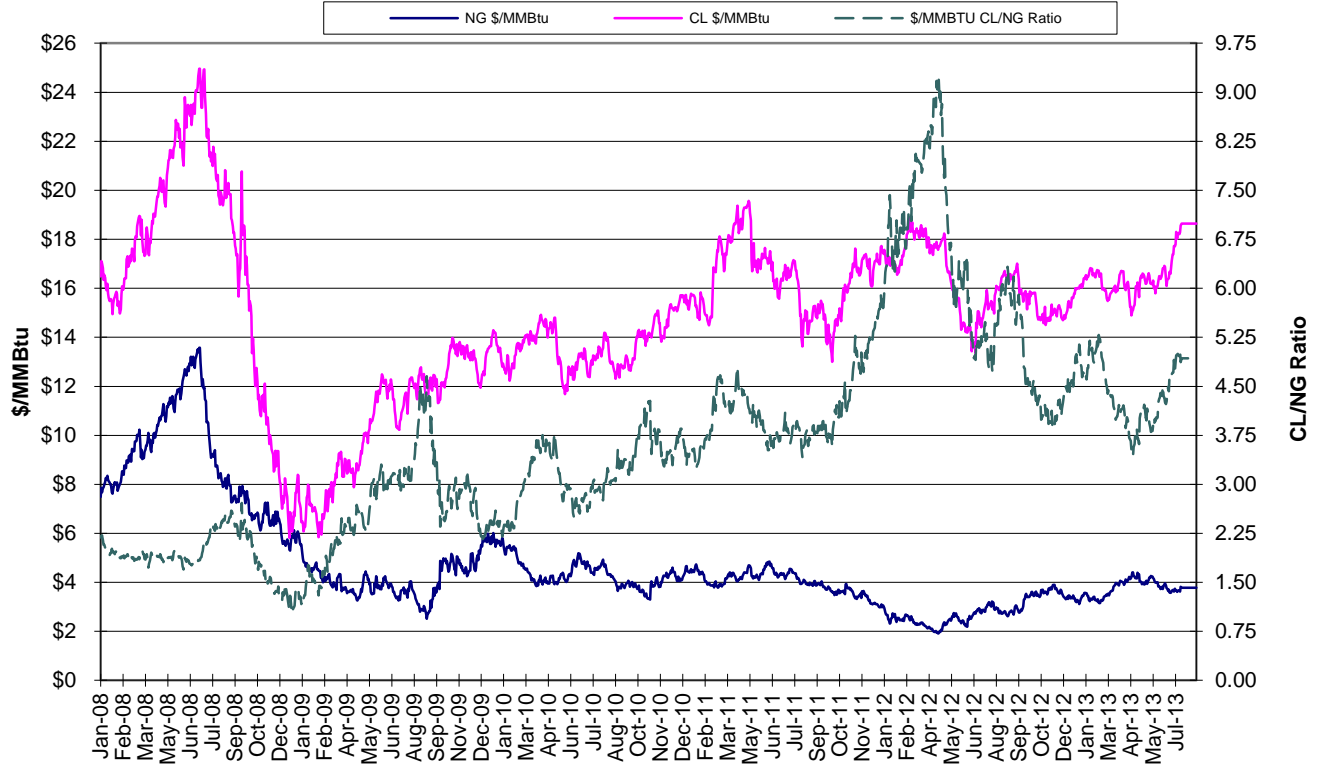
Storage Outlook: This week's injection continued to contract the yearly deficit while it rose compared to the five year average for the first time since May. Next week's injection will likely be the smallest of the summer unless early August gets very warm, which is not currently forecast. Inventories are on pace to reach the mid to upper 3.8 tcf range.

Supply Trends: Total supply rose 0.5 bcf/d to 69.1 bcf/d. US production and Canadian imports rose while Mexican exports slipped. The US Baker Hughes rig count rose 11 with both oil and natural gas recording increases. Canadian activity rose 30. Thus the total North American rig count expanded by 41 to 2,094 which now trails last year by 169. This is the smallest YOY deficit since August 2012. The higher efficiency US horizontal rig count was unchanged at 1,058 and falls 106 behind last year. Recent pipeline data indicates an uptick in natural gas production, while still below all-time peaks.

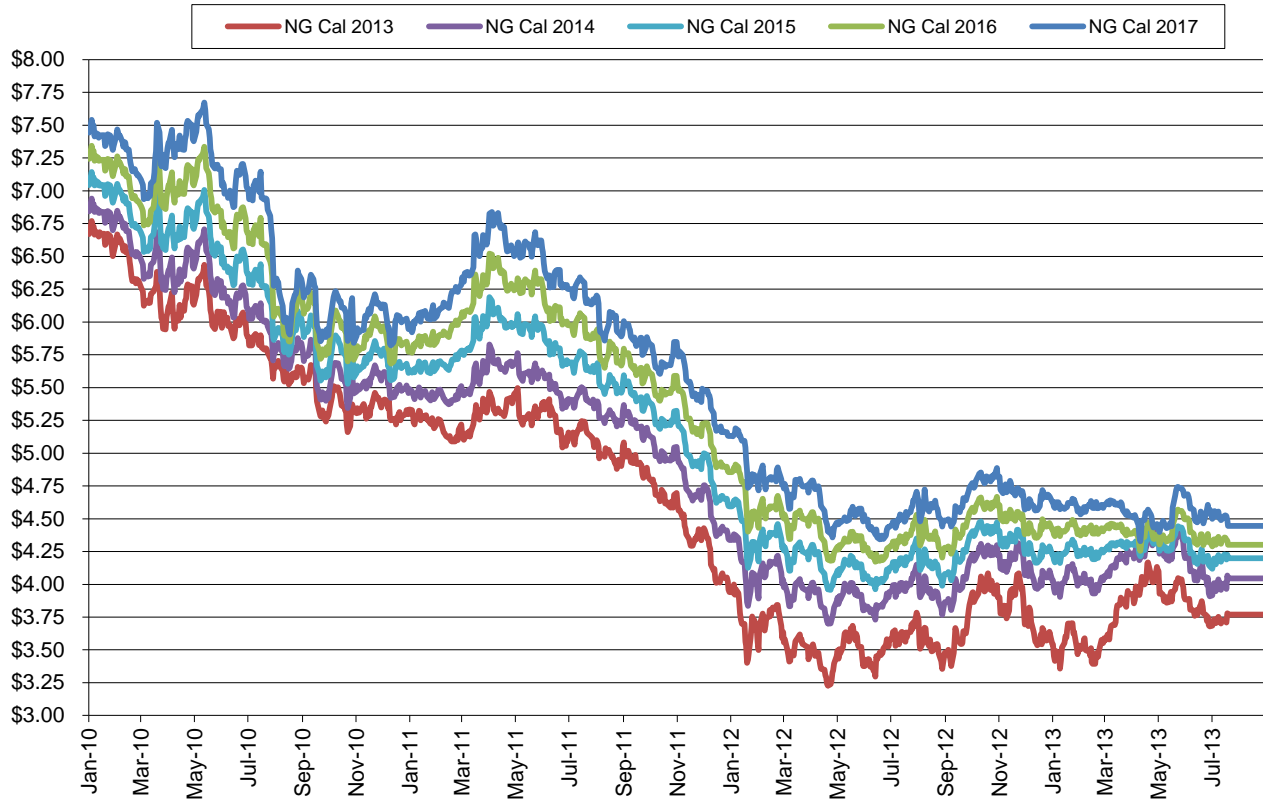
Demand Trends: Total demand rose 2.9 bcf/d to 60.0 bcf/d. Power demand rose and more than offset lower R&C demand. Industrial consumption was unchanged. Electricity demand rose 7,753 gigawatt-hrs to 89,557, which surpasses last year by 304 (0.3%) and the 5 year average by 1,948 (0.3%). Recent temperatures, and thus demand, are possibly the highest that will be witnessed this summer. Early August national temperatures can still be very warm with 1 of the 2 2006 summer time draws occurring in early August. However, with the sunlight hours falling, extremely hot national after mid-August requires significant above normal deviations. That is clearly always possible, but increasingly unlikely with each passing day. Temperature adjusted electricity demand rebounded, but remains unimpressive.

Other Factors: The S&P 500 reached a new settlement high as Q1 earnings and Fed statements are obviously being viewed in a positive light.

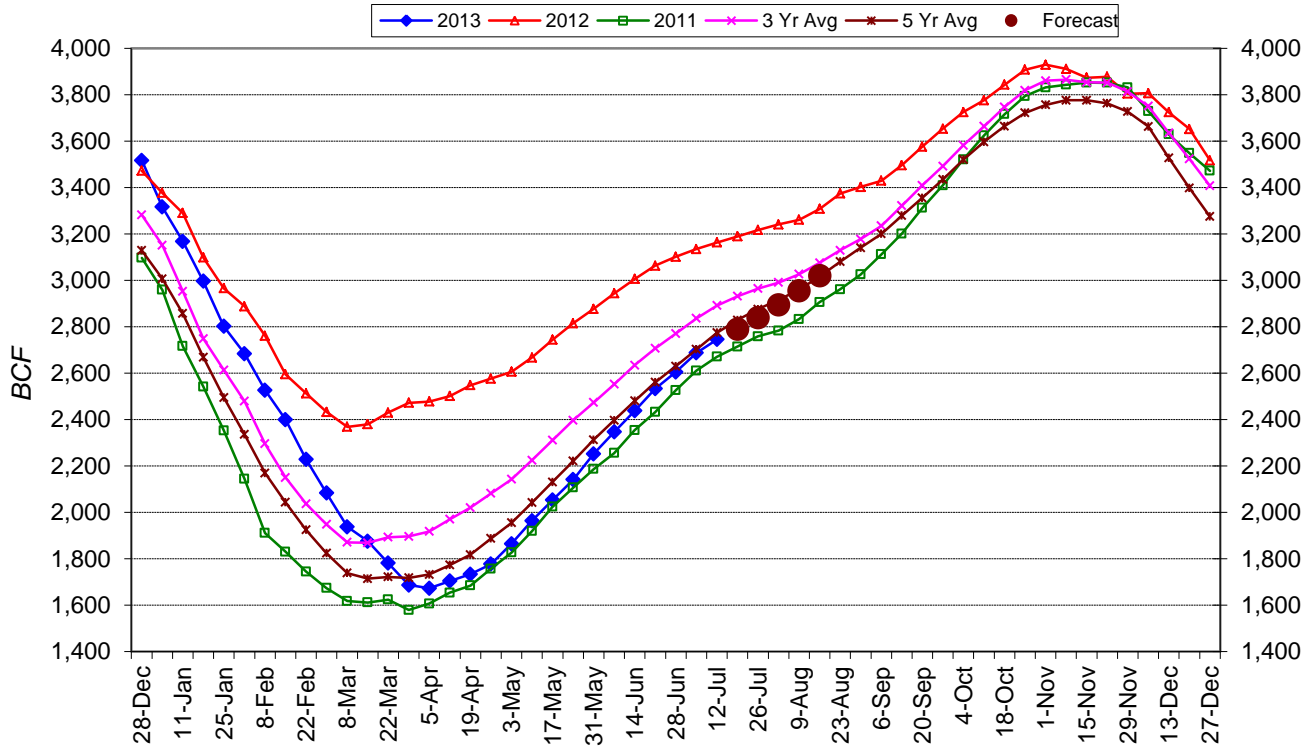
\$/MMBtu Ratio of NYMEX CL and NG



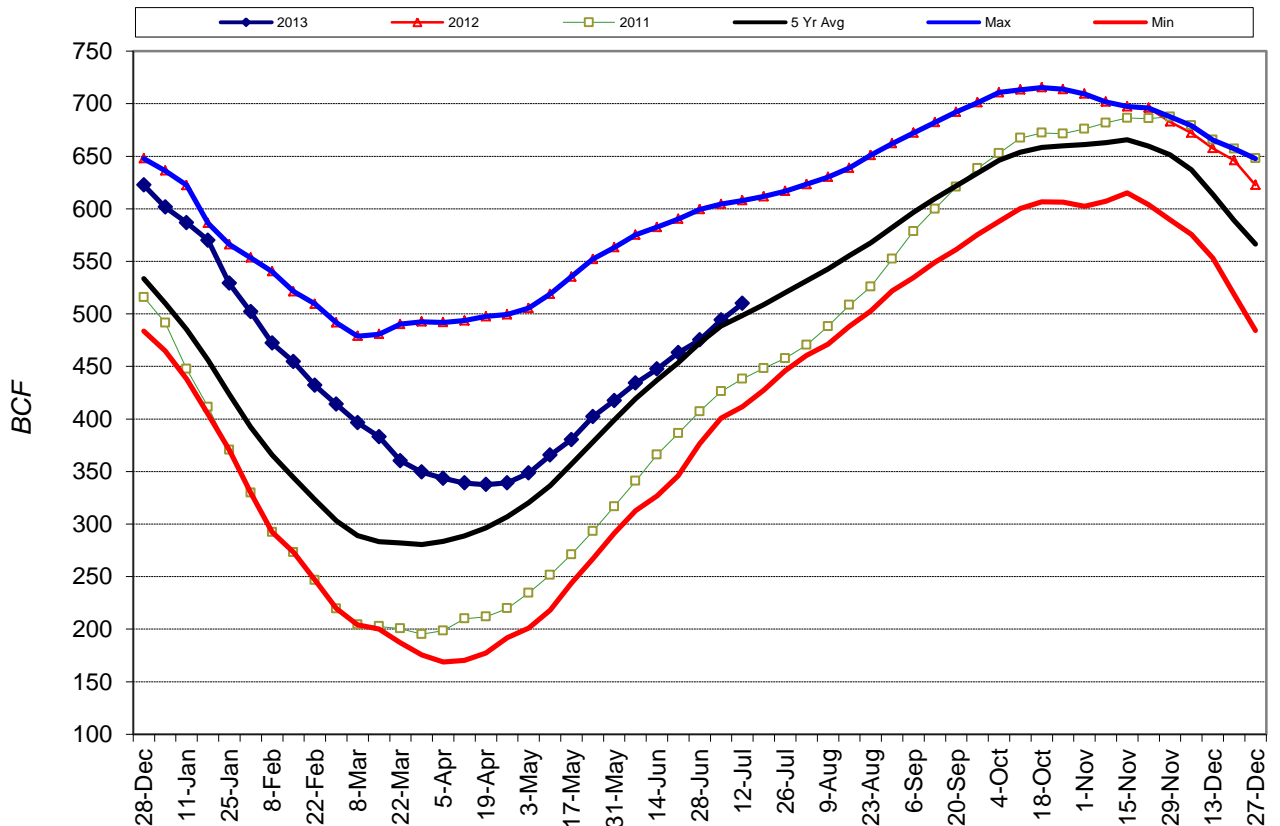
NYMEX Calendar Strips



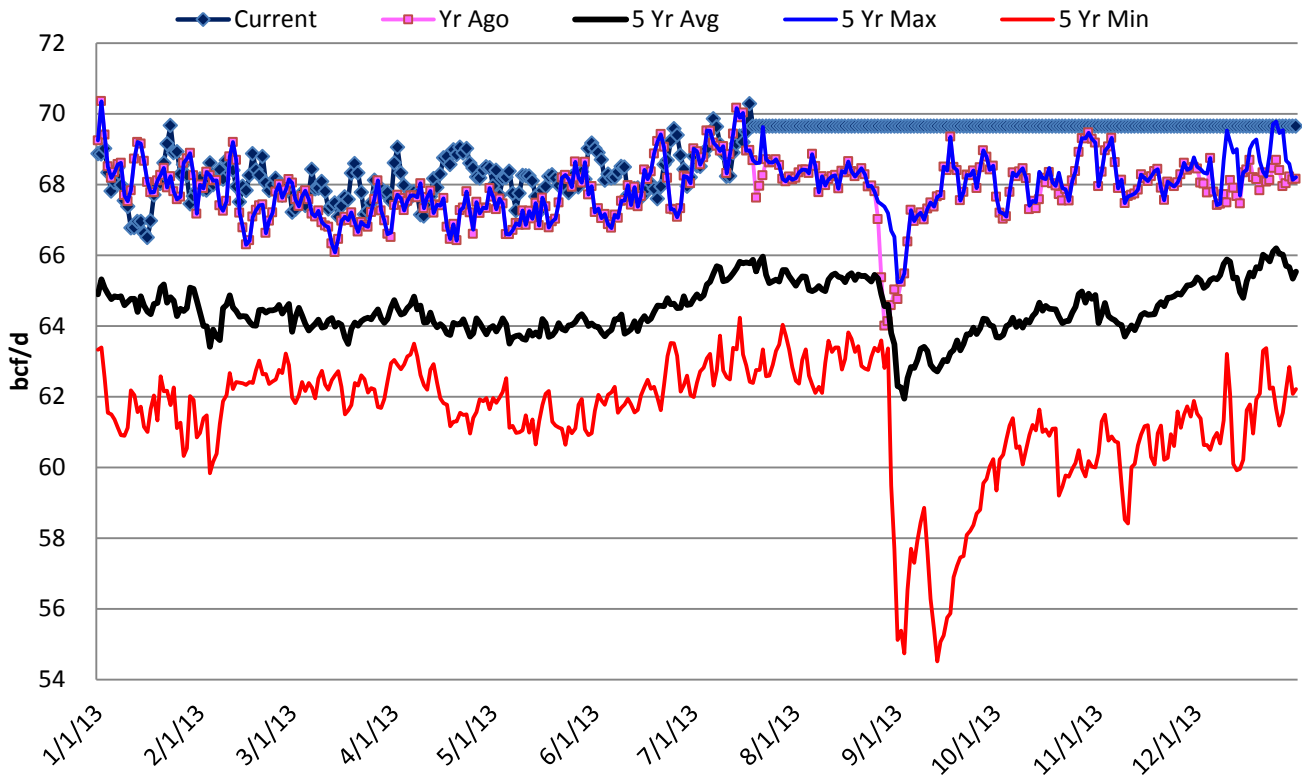
US Working Gas Storage - Source - EIA



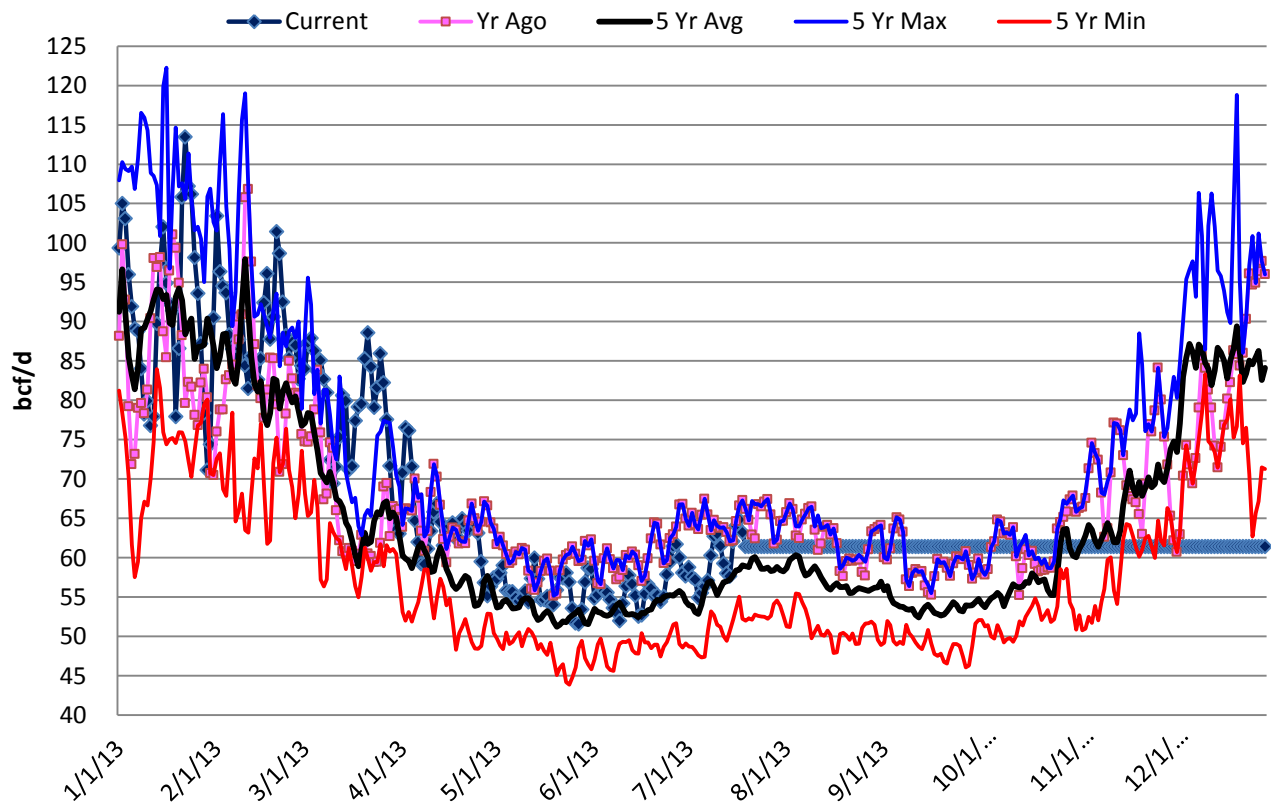
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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