IAF Advisors
Energy Market Outlook

Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com

July 26, 2013

Price Action: Prices plummeted 23.2 cents (6.2%) to $3.555 on a still below average 23.2 cent range.

Price Outlook: **The market tried vainly to establish a new low and avoid a rare inside week. However, prices remained 2 ticks above last week and indeed a rare inside week occurred. Since 2000, only 63 inside weeks have been recorded. With prices ending near the weekly low and temperatures moderating, a new low next week is expected. Temperature forecasts are now stretching into the middle of August and currently those outlooks do not indicate a return to the recent peaks. Thus, it seems increasing likely that the weekly summer demand peak has occurred and that demand will be falling in coming weeks. The CFTC data indicated a rise in the net long speculative position. Considering price action, this is somewhat surprising. However, futures open interest continues to fall while total open interest, on a delta adjusted basis, rose. Across the complex total open interest stood at 5.22 million as of July 23. CME open interest was 1.37 million contracts as of July 25. This is the lowest futures open interest since March 21, 2013.**

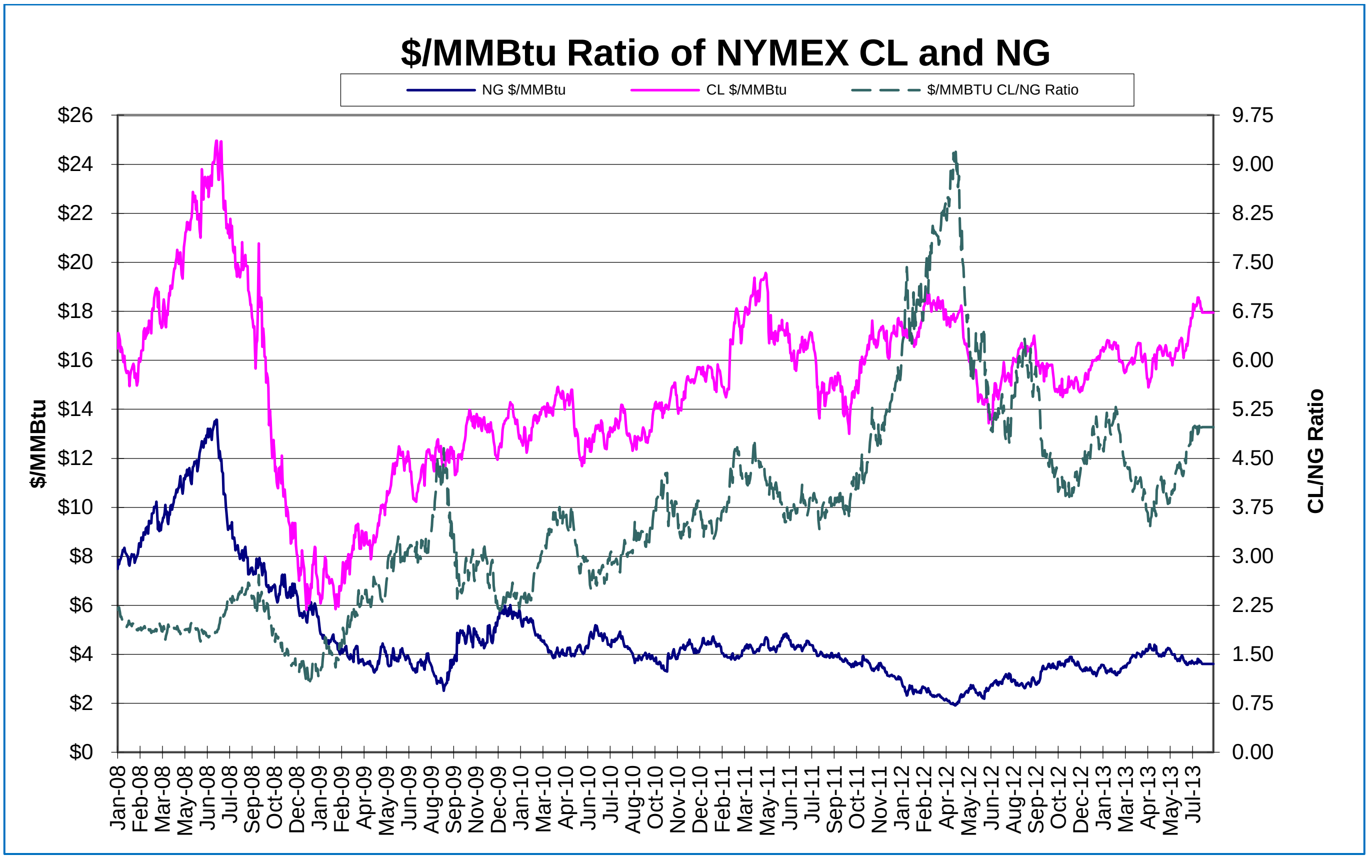
Weekly Storage: US working gas storage rose 41 bcf for the week ending July 19. Current inventory levels of 2,786 bcf now fall 403 bcf (12.6%) below last year and 42 bcf (1.5%) behind the 5 year average.

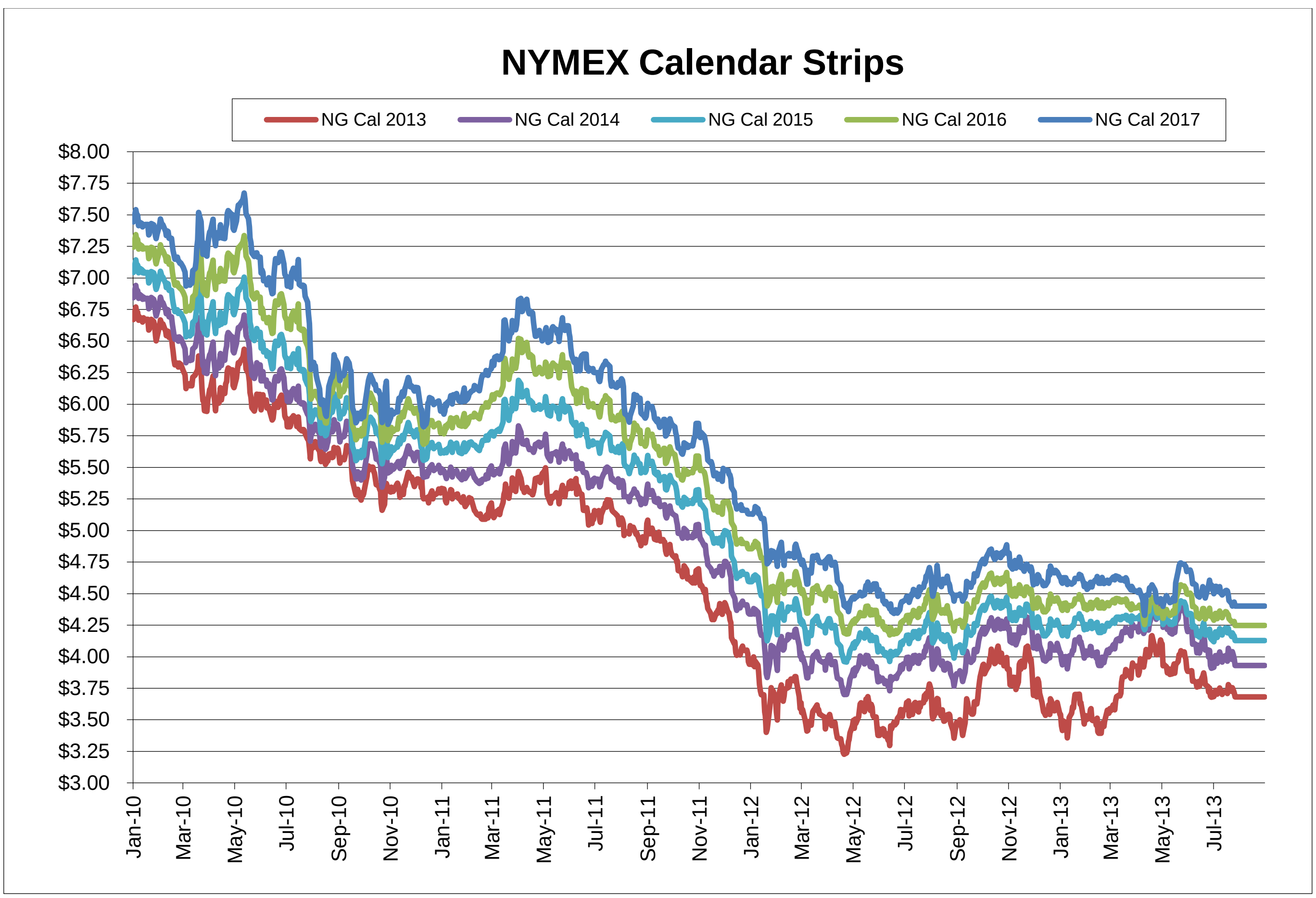
Storage Outlook: **This week's injection continued to contract the yearly deficit while it rose compared to the five year average for only the second time since May. It seems increasingly likely that the injection just witnessed will be the smallest of the summer. Inventories remain on pace to reach the mid to upper 3.8 tcf range, possibly 3.9 tcf.**

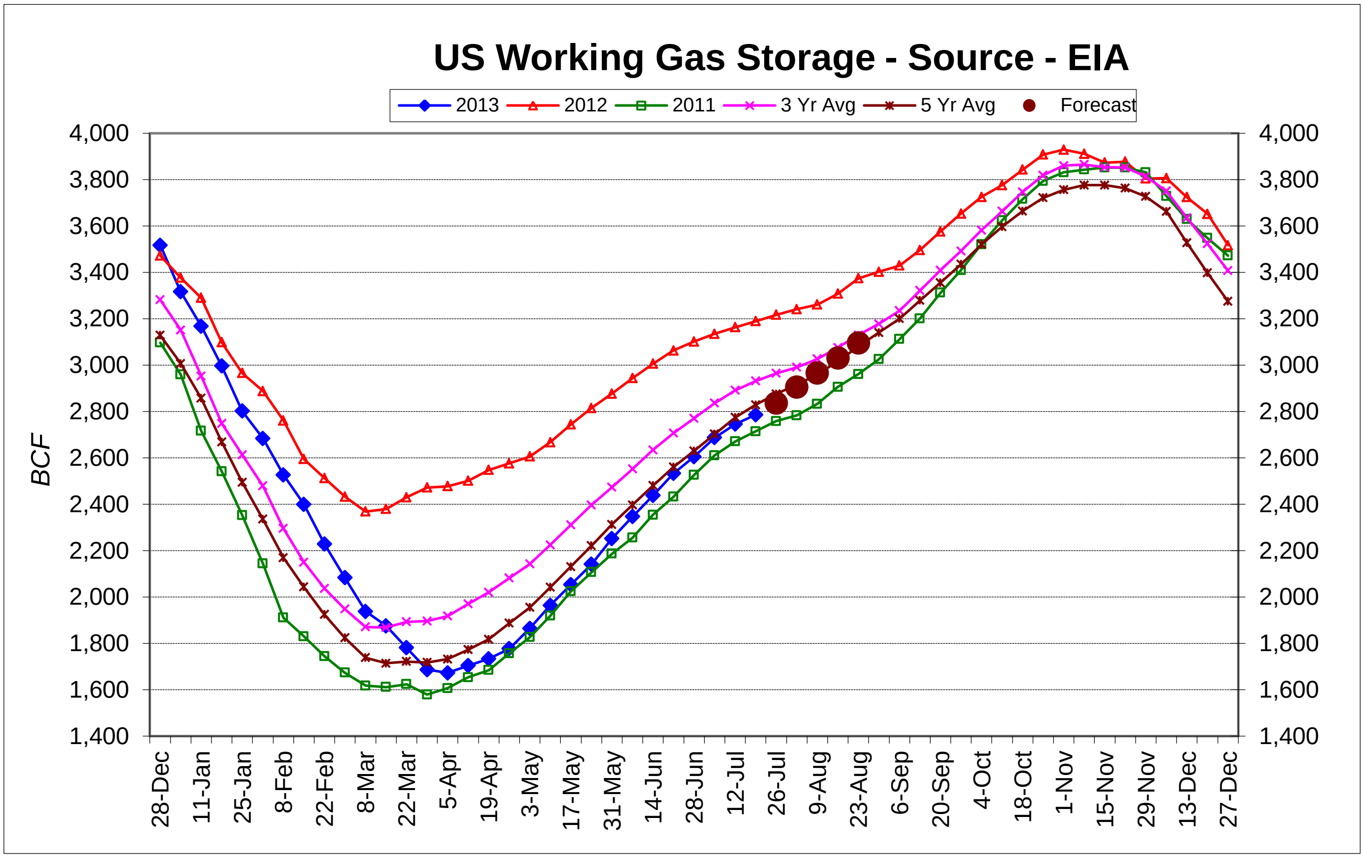
Supply Trends: Total supply rose 0.5 bcf/d to 69.4 bcf/d. All sectors were higher this week, a rarity. The US Baker Hughes rig count rose 6 with oil advancing and natural gas unchanged. Canadian activity rose 5. Thus the total North American rig count expanded by 11 to 2,105 which now trails last year by 157. This is the smallest YOY deficit since August 2012. **The higher efficiency US horizontal rig count rose 9 to 1,067 and falls 84 behind last year. Recent pipeline data indicates an uptick in natural gas production, while still below all-time peaks. Continued efficiency gains, infrastructure debottlenecking and associated gas production are highlights of the Q2 E&P reports.**

Demand Trends: Total demand rose 2.4 bcf/d to 62.4 bcf/d. Power and R&C demand rose while industrial consumption slipped. Electricity demand rose 3,028 gigawatt-hrs to 92,585, which surpasses last year by 56 (0.1%) and the 5 year average by 375 (0.4%). **Temperature adjusted electricity demand is suggesting a slight uptick, but remains unimpressive. At the same time, with higher nuclear output and still relatively low coal prices, natural gas power demand remains lackluster.**

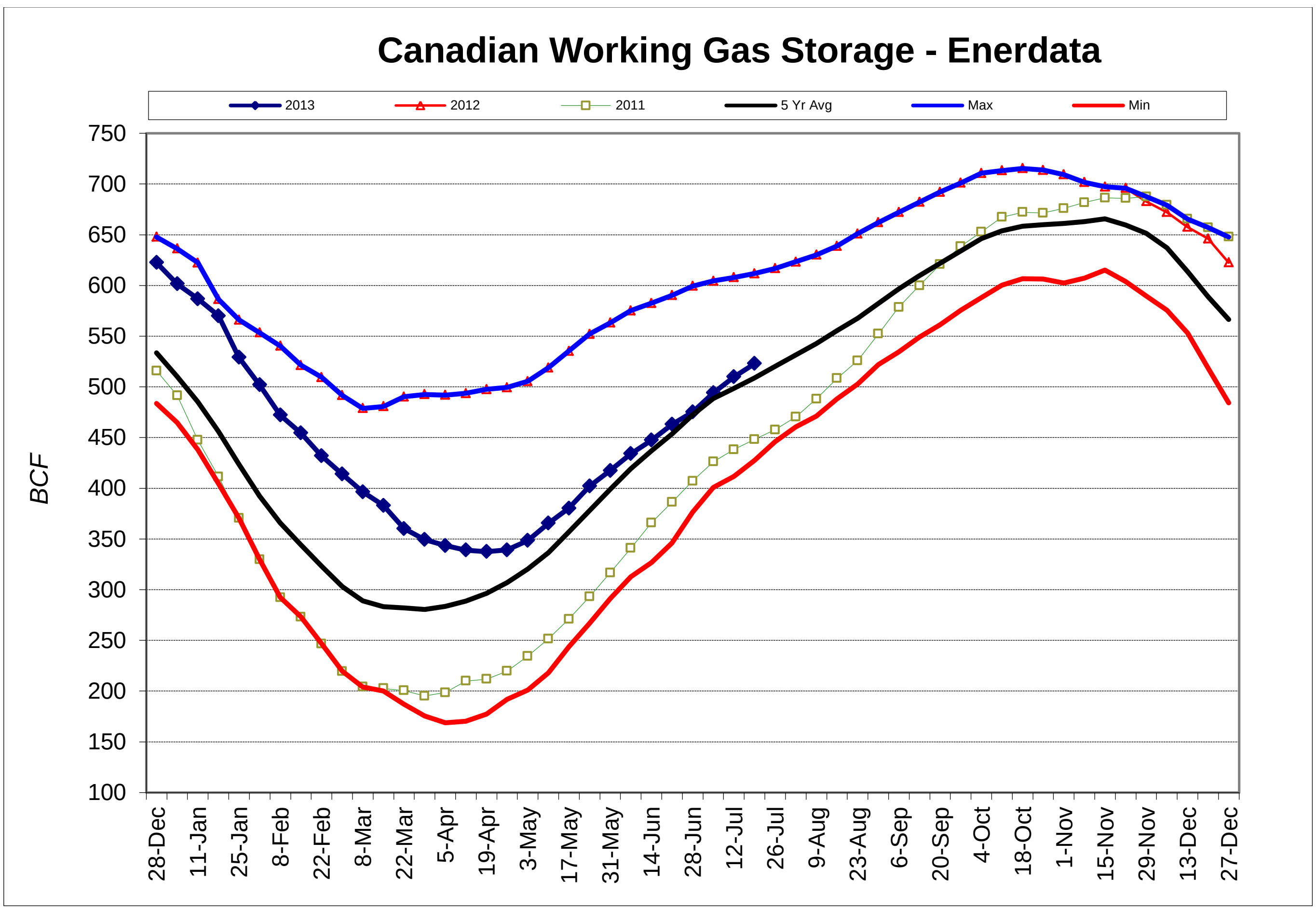
Other Factors: The S&P 500 reached a new intraday high, but settled slightly lower on the week.


$/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
Jul-08
Sep-08
Oct-08
Dec-08
Jan-09
Feb-09
Apr-09
May-09
Jun-09
Aug-09
Sep-09
Nov-09
Dec-09
Jan-10
Mar-10
Apr-10
Jun-10
Jul-10
Aug-10
Oct-10
Nov-10
Dec-10
Feb-11
Mar-11
May-11
Jun-11
Jul-11
Sep-11
Oct-11
Nov-11
Jan-12
Feb-12
Apr-12
May-12
Jun-12
Aug-12
Sep-12
Oct-12
Dec-12
Jan-13
Mar-13
Apr-13
May-13
Jul-13

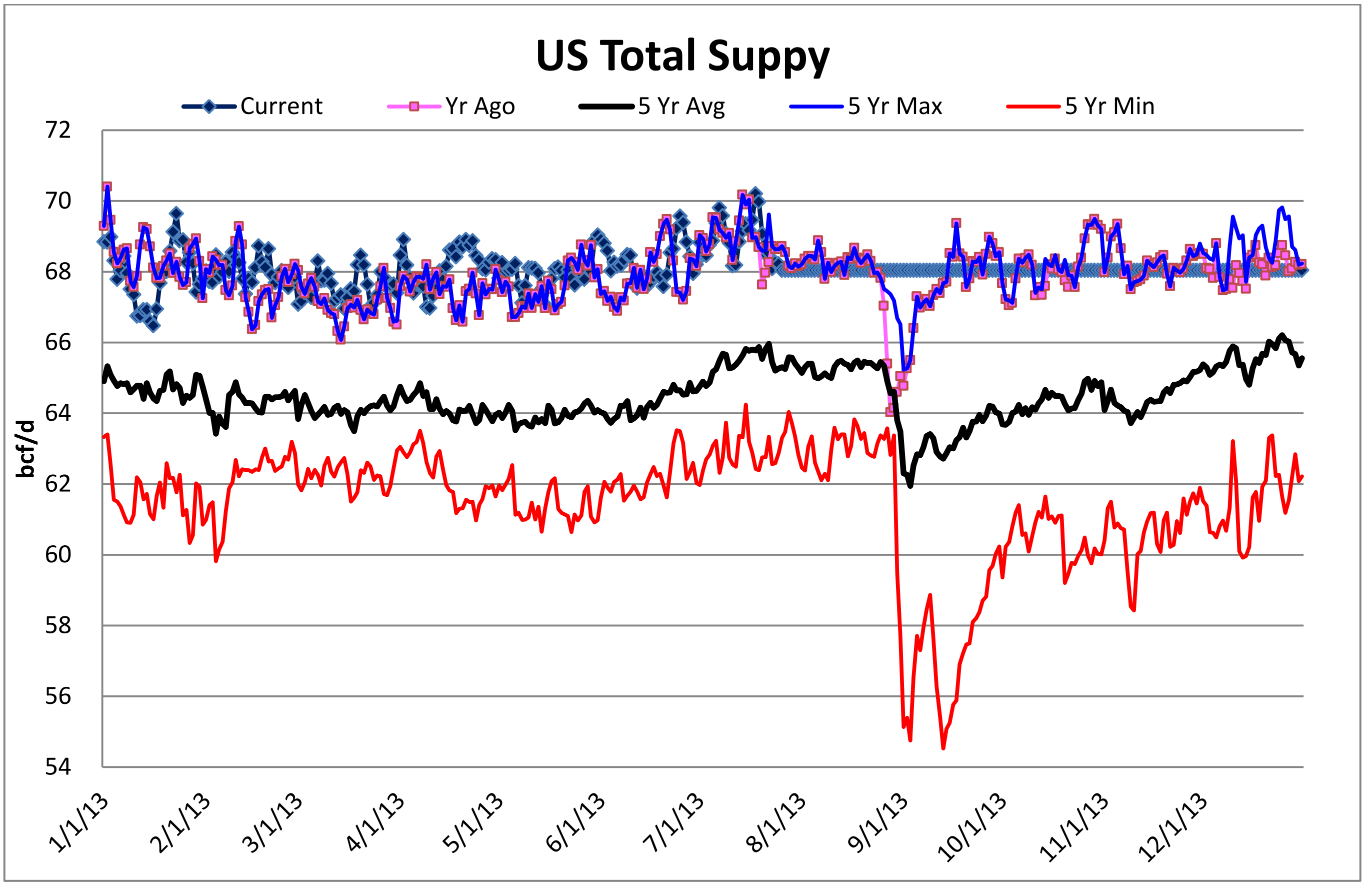

NYMEX Calendar Strips
NG Cal 2013
NG Cal 2014
NG Cal 2015
NG Cal 2016
NG Cal 2017
$8.00
$7.75
$7.50
$7.25
$7.00
$6.75
$6.50
$6.25
$6.00
$5.75
$5.50
$5.25
$5.00
$4.75
$4.50
$4.25
$4.00
$3.75
$3.50
$3.25
$3.00
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
Sep-11
Nov-11
Jan-12
Mar-12
May-12
Jul-12
Sep-12
Nov-12
Jan-13
Mar-13
May-13
Jul-13

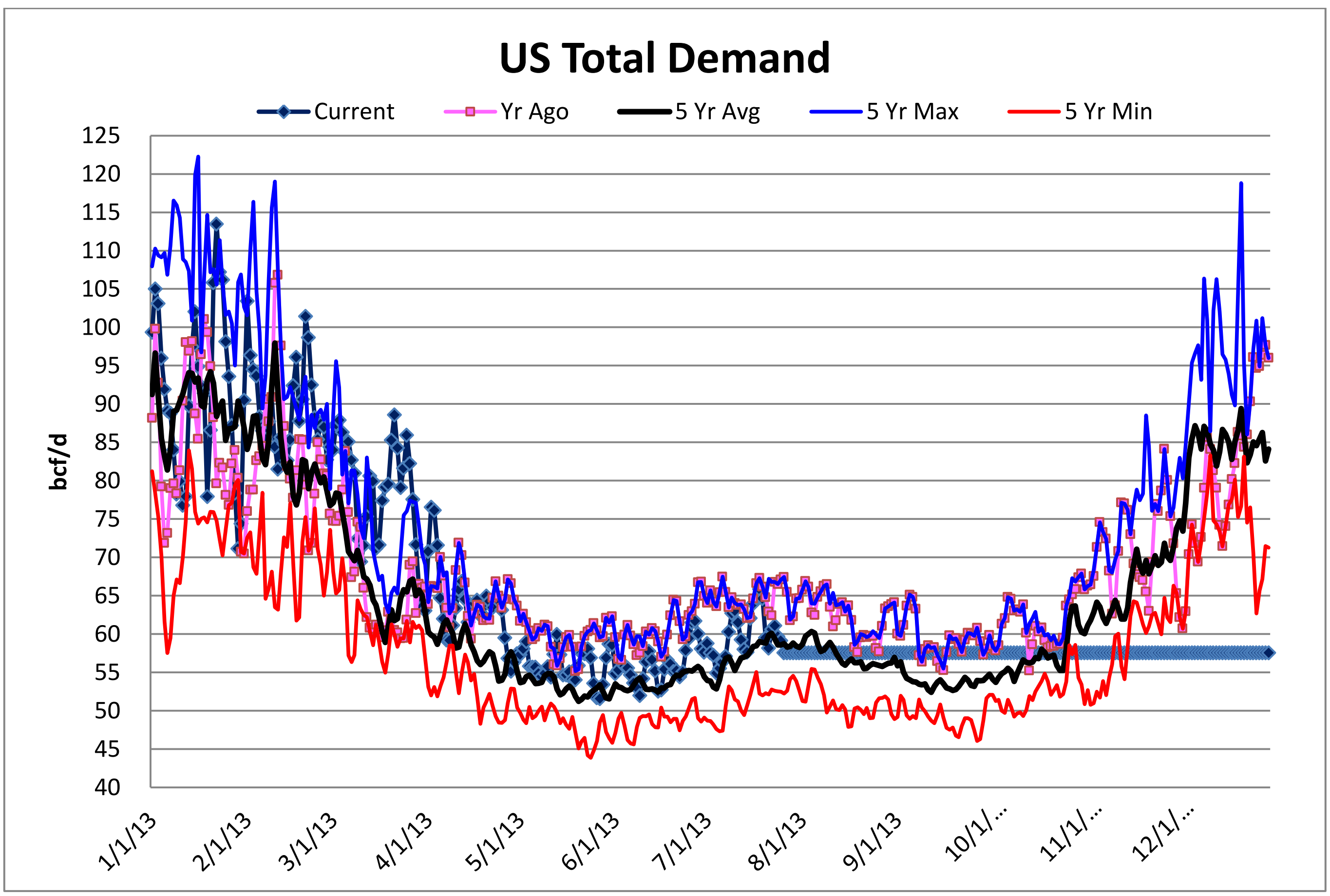


US Working Gas Storage - Source - EIA
2013
2012
2011
3 Yr Avg
5 Yr Avg
Forecast
BCF
4,000
3,800
3,600
3,400
3,200
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
28-Dec
11-Jan
25-Jan
8-Feb
22-Feb
8-Mar
22-Mar
5-Apr
19-Apr
3-May
17-May
31-May
14-Jun
28-Jun
12-Jul
26-Jul
9-Aug
23-Aug
6-Sep
20-Sep
4-Oct
18-Oct
1-Nov
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
9-Aug
23-Aug
6-Sep
20-Sep
4-Oct
18-Oct
1-Nov
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
