

IAF Advisors
Energy Market Outlook
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Price Action: Prices basis the now prompt September contract plummeted 21.6 cents (6.1%) to \$3.347 on a still below average 21.3 cent range.

Price Outlook: The market easily established a new low with prices dropping to levels not seen since March. With prices near the weekly low already and still moderate temperature forecasts, another new weekly low is expected. Mother Nature remains bearish and while there are indications that demand is picking up on a temperature adjusted basis, absolute demand levels are falling and when the 15 day forecast is included, the summer is now largely over. Thus, although a price bounce is always possible after a roughly 50 cent drop since the middle of July, a sustained upward price move is considered unlikely in the near term. The CFTC data indicated a rather substantial reduction in the still sizable net long position. There is certainly a possibility that further liquidation could drive prices even lower. Across the complex total open interest stood at 5.01 million as of July 30. CME open interest was 1.36 million contracts as of July 25. This is the lowest total futures open interest since March 20, 2013.

Weekly Storage: US working gas storage rose 59 bcf for the week ending July 26. Current inventory levels of 2,845 bcf now fall 372 bcf (11.6%) below last year and 31 bcf (1.1%) behind the 5 year average.

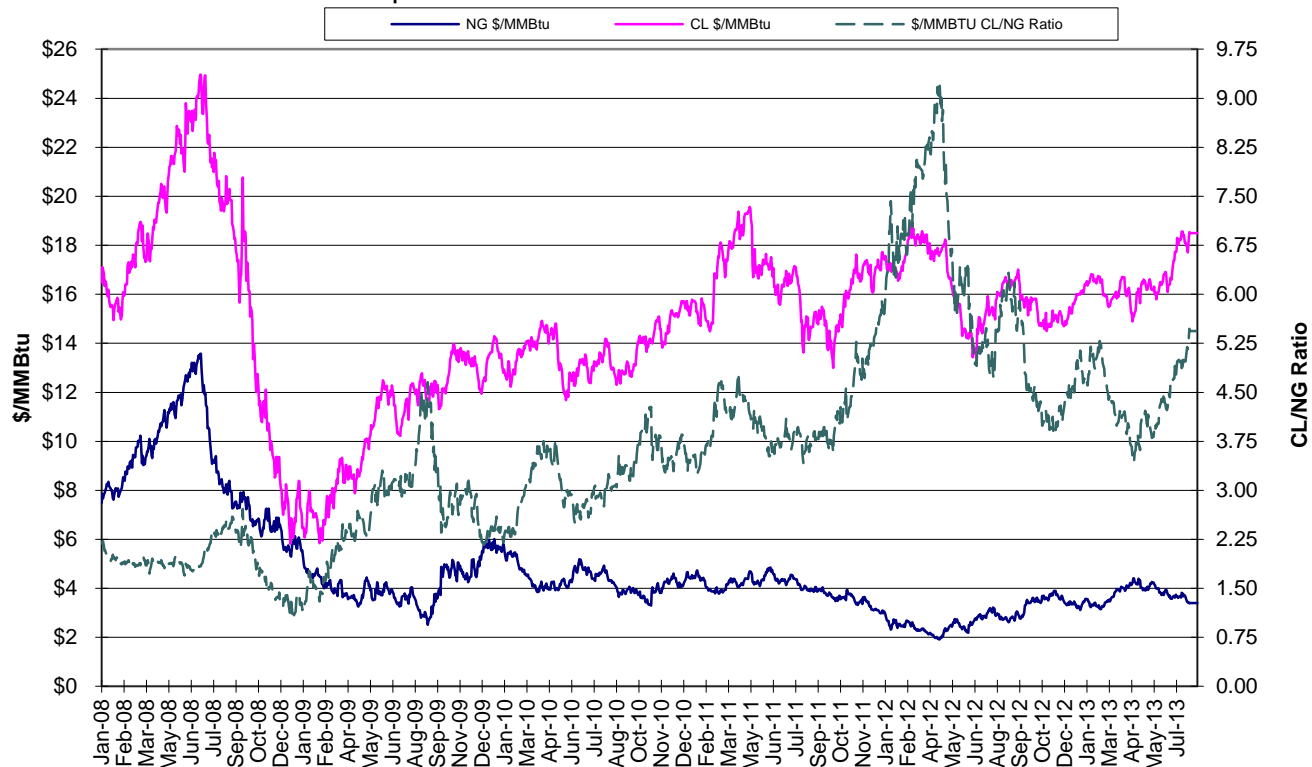
Storage Outlook: With updated forecasts and the recent injection, it is increasingly likely that inventories reach 3.9 tcf, and possibly higher. Below normal temperatures are not considered bullish until mid-September when northern tier cities would begin to experience early overnight heating requirements. Until then, below normal temperatures are bearish.

Supply Trends: Total supply dropped 0.9 bcf/d to 68.5 bcf/d. US production and Mexican exports were higher this week, with Canadian imports off substantially and LNG imports down slightly. The US Baker Hughes rig count rose 6 with oil dropping and natural gas advancing. Canadian activity rose 12. Thus the total North American rig count expanded by 18 to 2,123 which now trails last year by 110. This is the smallest YOY deficit since July 2012. The higher efficiency US horizontal rig count rose 6 to 1,073 and falls 82 behind last year. The monthly EIA data continues to show high production levels with output near the November 2012 peak despite a much lower rig count. With the gas rig count at the highest level since March and the total rig count the highest since December, new production records are projected. US production remains a bearish factor.

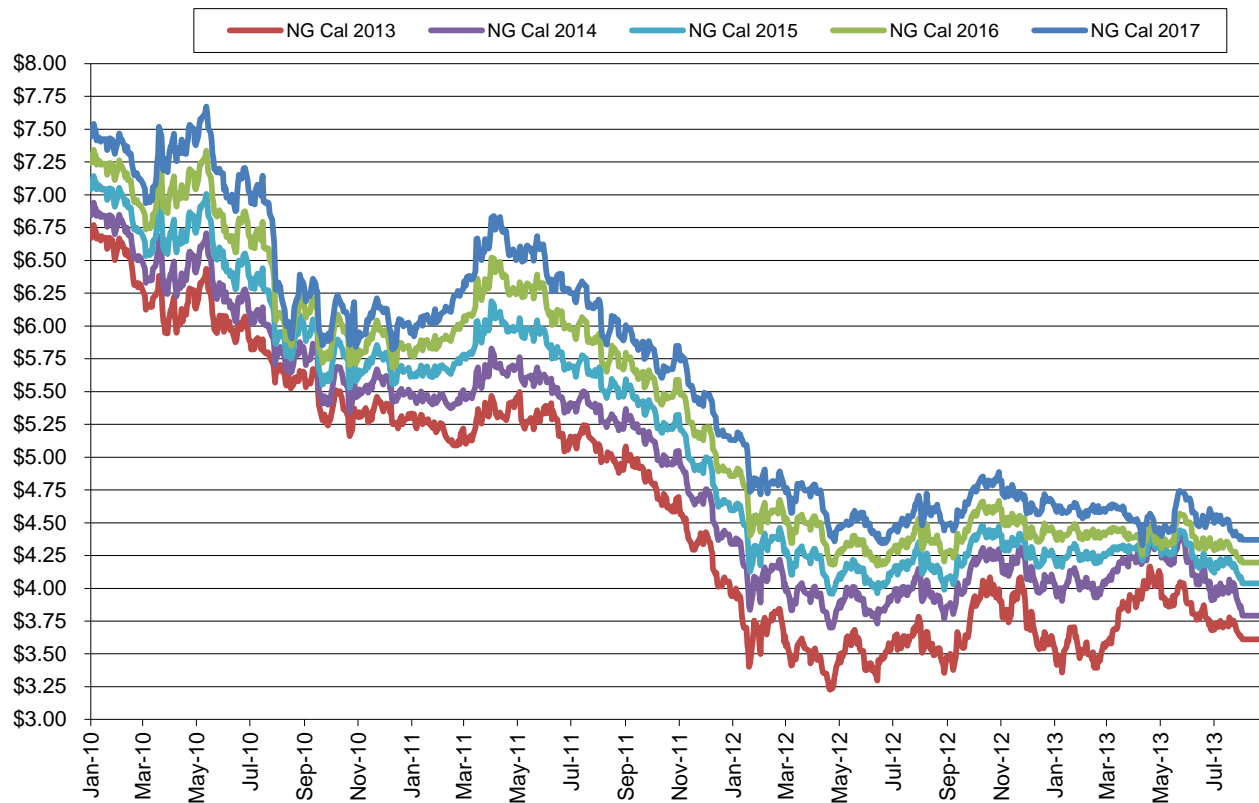
Demand Trends: Total demand fell 3.1 bcf/d to 59.3 bcf/d. Power consumption dropped while R&C and industrial demand were both marginally higher. Electricity demand fell 6,296 gigawatt-hrs to 86,289, which trails last year by 7,974 (8.5%) and the 5 year average by 5,728 (6.2%).

Other Factors: The S&P 500 surged above 1,700 for the first time ever with the lower than expected US jobs number removing any fear of imminent Fed tapering.

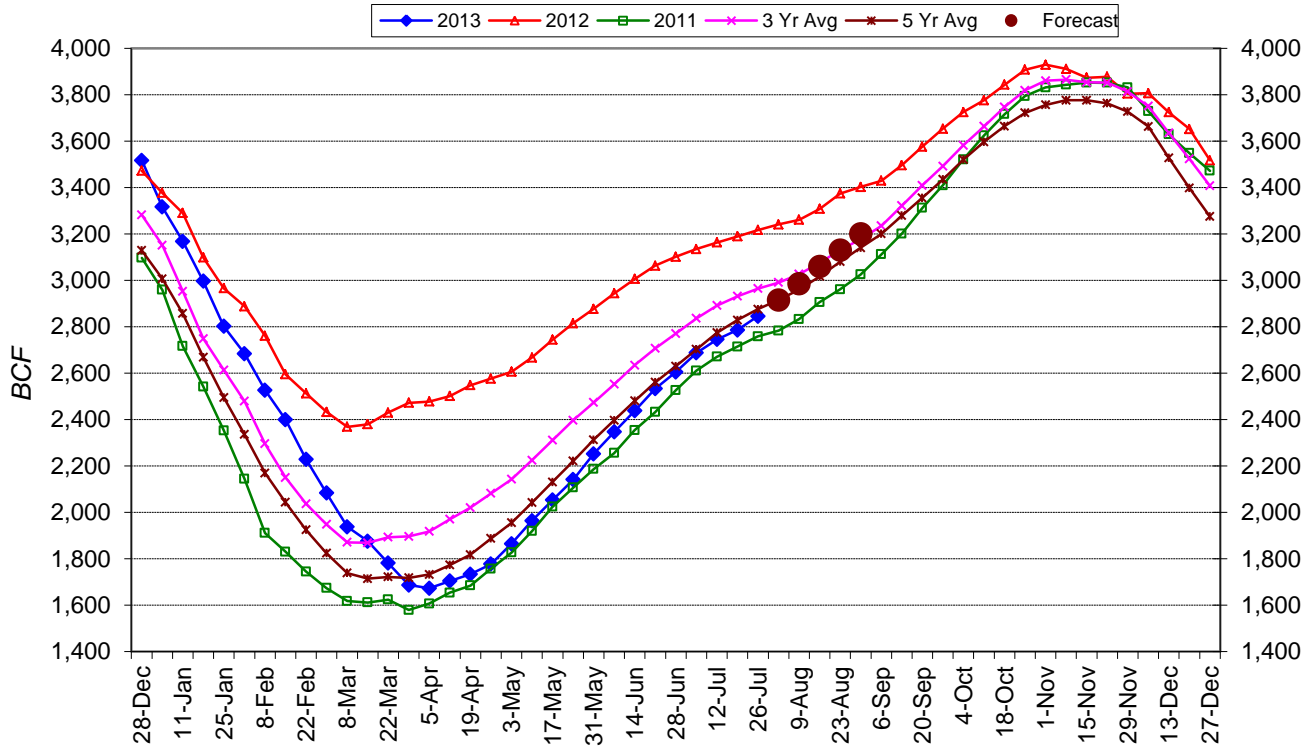
\$/MMBtu Ratio of NYMEX CL and NG



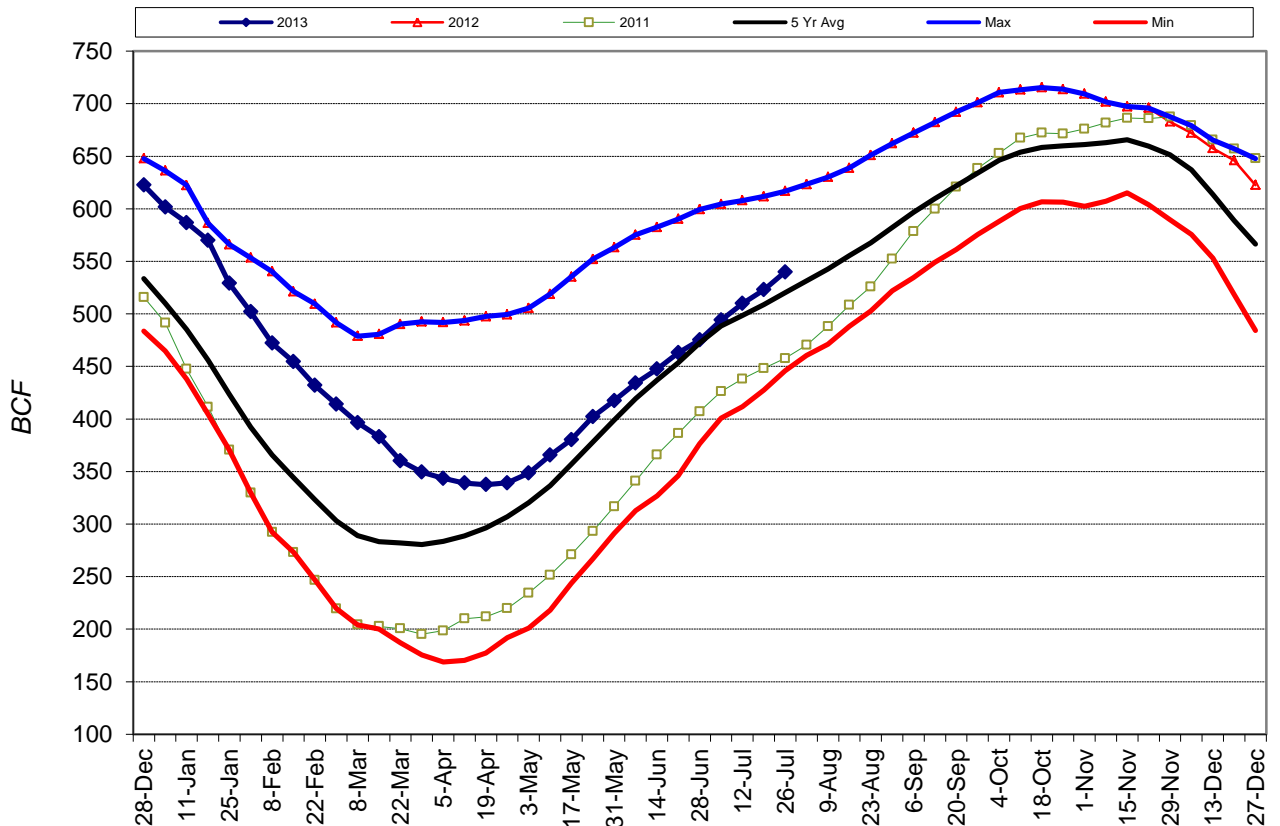
NYMEX Calendar Strips



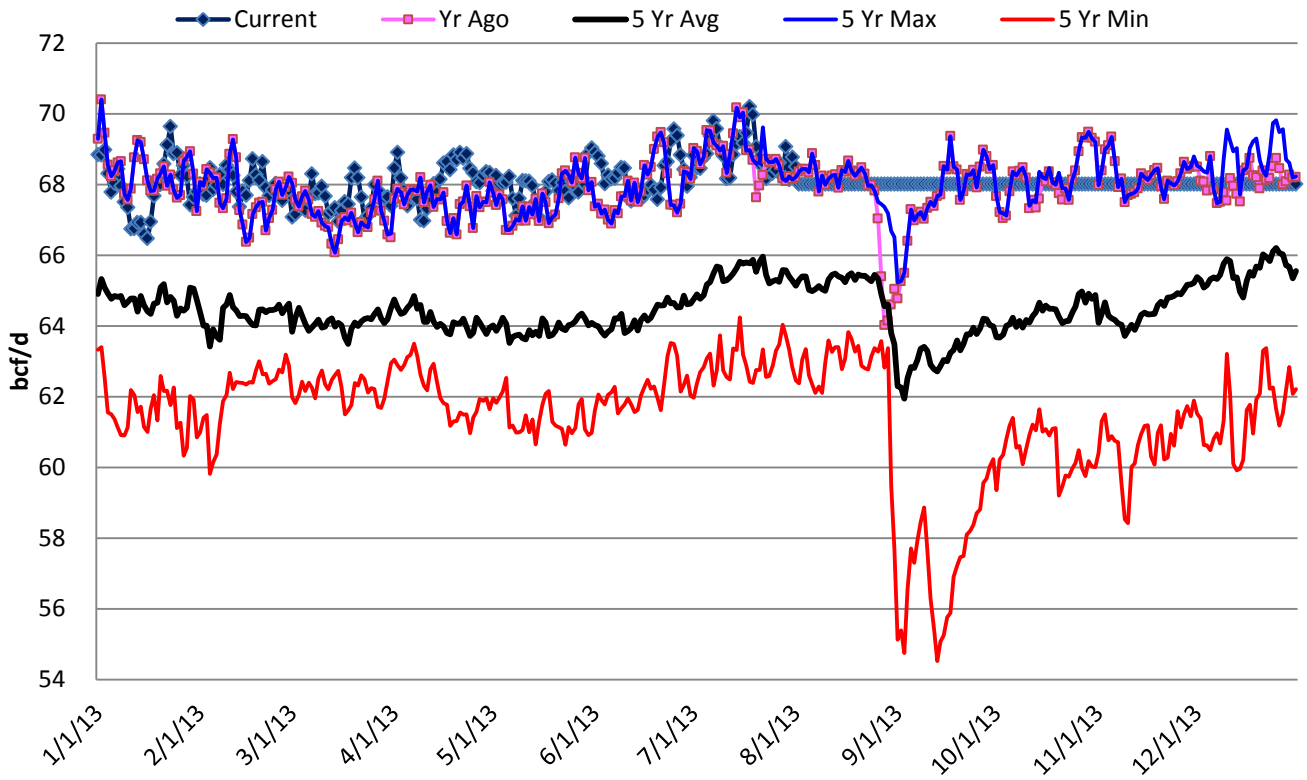
US Working Gas Storage - Source - EIA



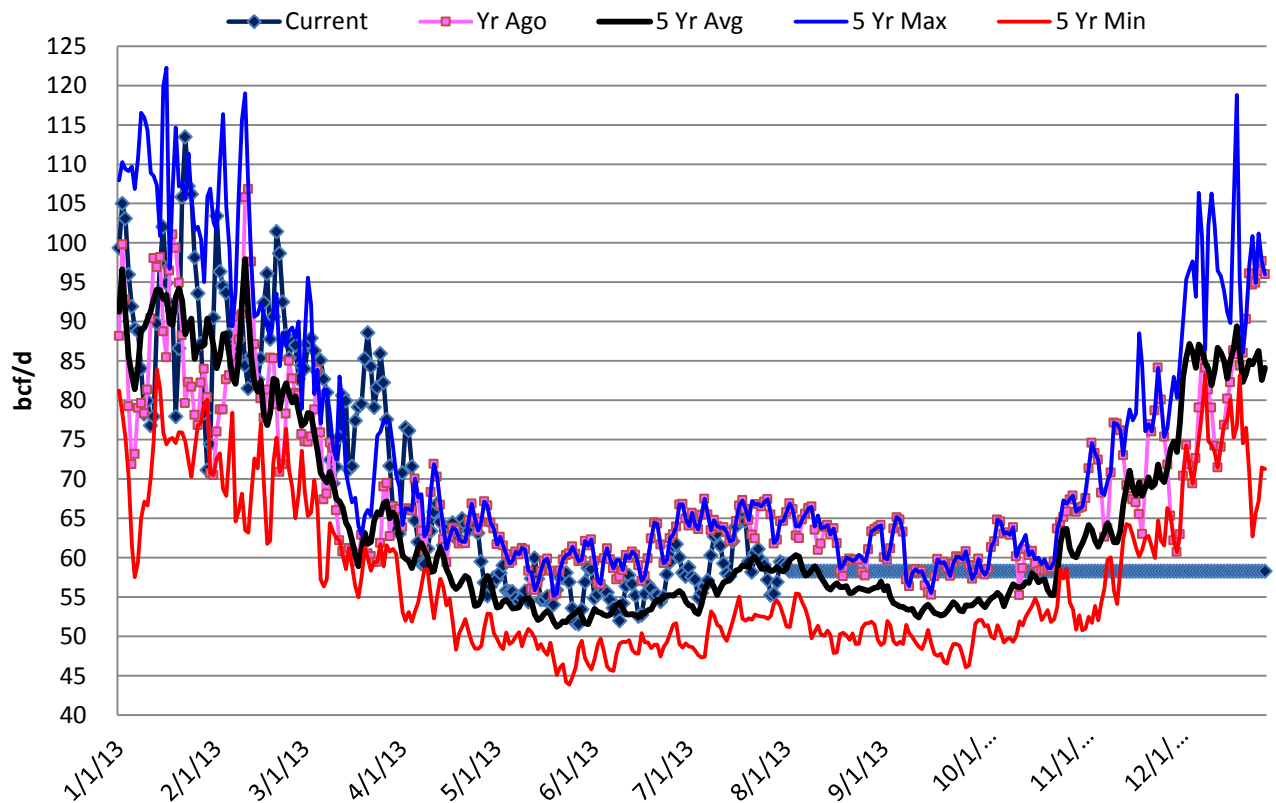
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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