

IAF Advisors
Energy Market Outlook
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Price Action: September futures prices fell another 11.8 cents (3.5%) to \$3.257 on a still below average 23.2 cent range.

Price Outlook: The market again easily established a new low with prices dropping to levels not seen since January. With prices near the middle of the weekly range, there is not a clear cut bias from this perspective. However, weather remains moderate and the momentum is for clearly lower prices to be seen. The CFTC data indicated a continued substantial reduction in the still sizable net long position. Considering price action and the approach of summer's end, further liquidation could drive prices even lower. Across the complex, total open interest stabilized at 5.01 million as of August 6. CME open interest was 1.37 million contracts as of August 8. This is an increase from the recent lows.

Weekly Storage: US working gas storage rose 96 bcf for the week ending August 2. Current inventory levels of 2,941 bcf now fall 300 bcf (9.3%) below last year and now rise 25 bcf (0.9%) above the 5 year average. The 96 bcf was accompanied with a 14 bcf revision from base gas to working gas in the West. Thus, only 82 bcf of gas was physically injected. However, the reclassification does mean this volume is now available for delivery and remains bearish.

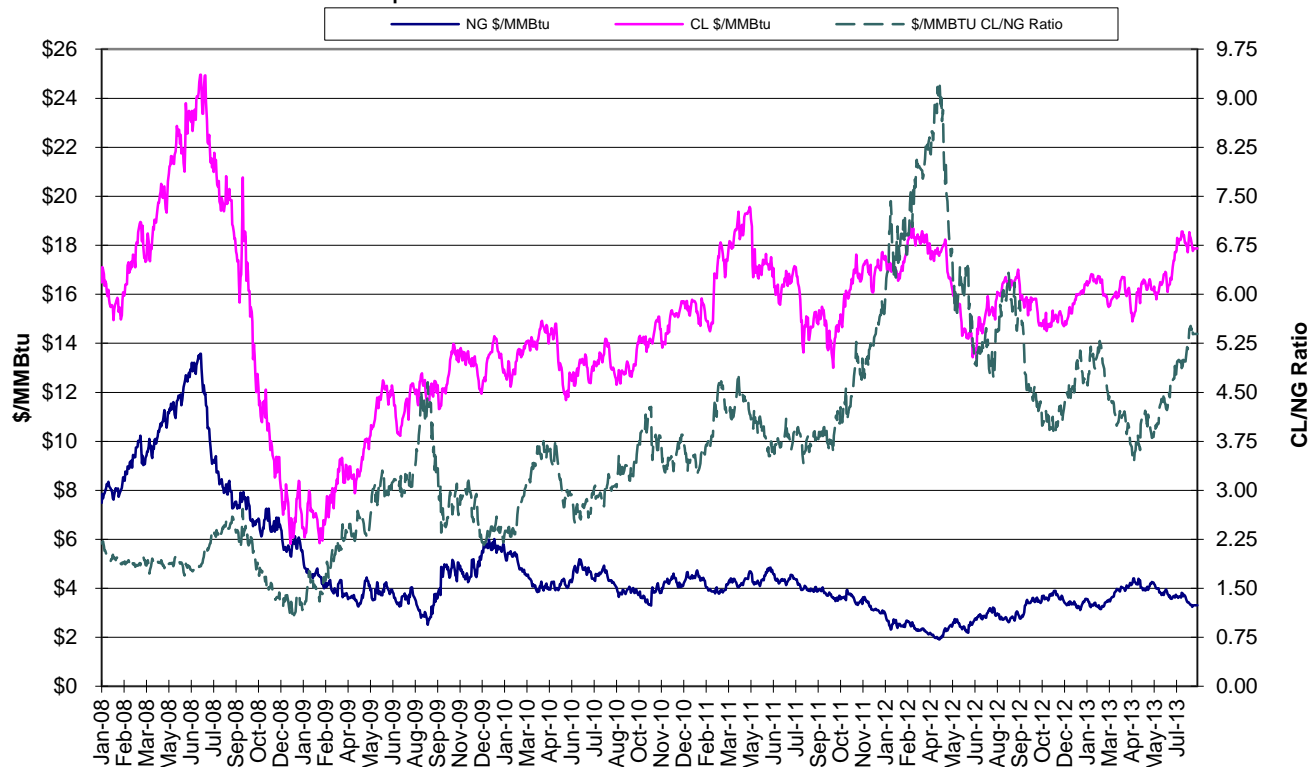
Storage Outlook: With weather forecasts now stretching into late August, peak storage levels are now projected to be in the mid 3.9 tcf range.

Supply Trends: Total supply rose 0.1 bcf/d to 68.6 bcf/d. US production slipped with Canadian imports rising. Mexican exports and LNG imports were little changed. The US Baker Hughes rig count fell 4 with both oil and natural gas slipping. Canadian activity rose 17. Thus the total North American rig count expanded by 13 to 2,136 which now trails last year by 94. This is the smallest YOY deficit since July 2012. The higher efficiency US horizontal rig count fell 8 to 1,065 and falls 96 behind last year.

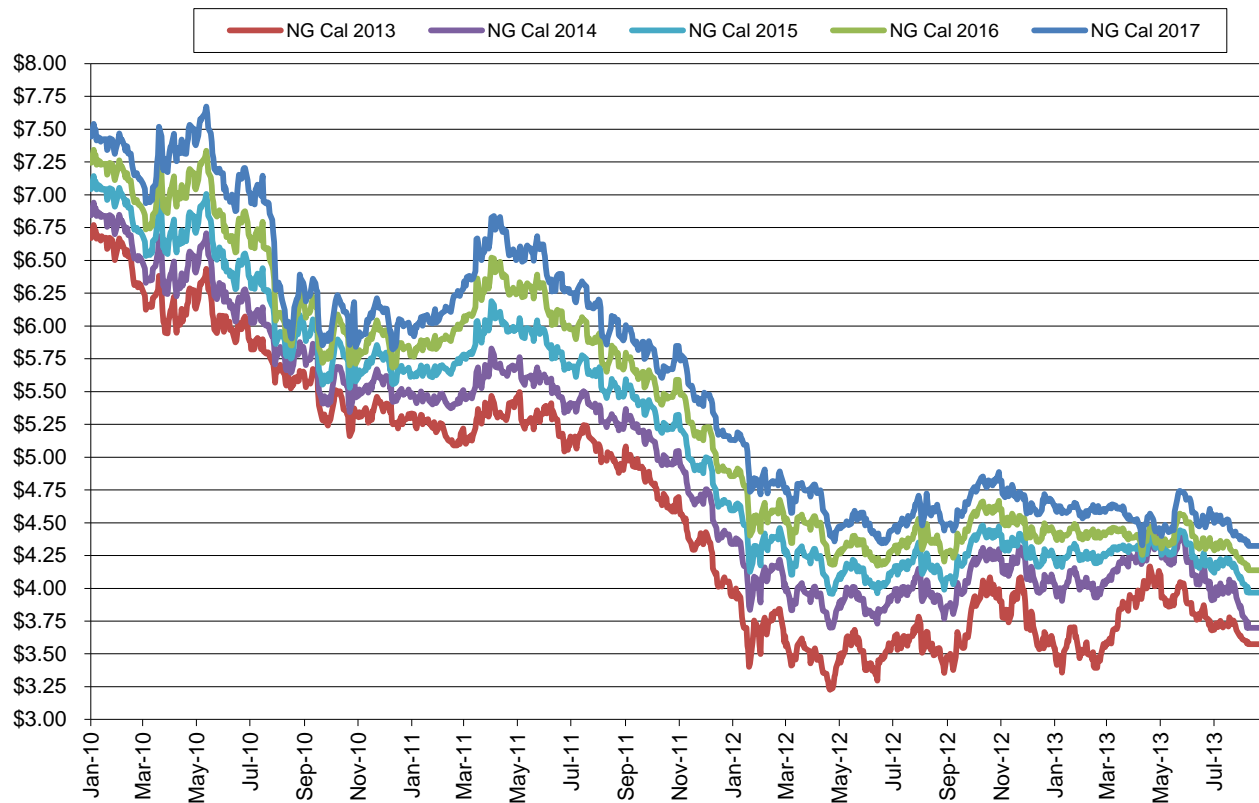
Demand Trends: Total demand fell 1.7 bcf/d to 57.6 bcf/d. Power consumption dropped while R&C and industrial demand were both marginally higher. Electricity demand fell 2,385 gigawatt-hrs to 83,904, which trails last year by 10,145 (10.8%) and the 5 year average by 8,839 (6.2%). Electricity demand remains rather weak on a temperature adjusted basis and along with natural gas demand, has likely peaked for the summer. There is evidence that natural gas is beginning to recoup some market share from coal. However, the absolute demand levels remain low due to the moderate temperatures.

Other Factors: The S&P 500 slipped back below 1,700 despite generally positive economic data.

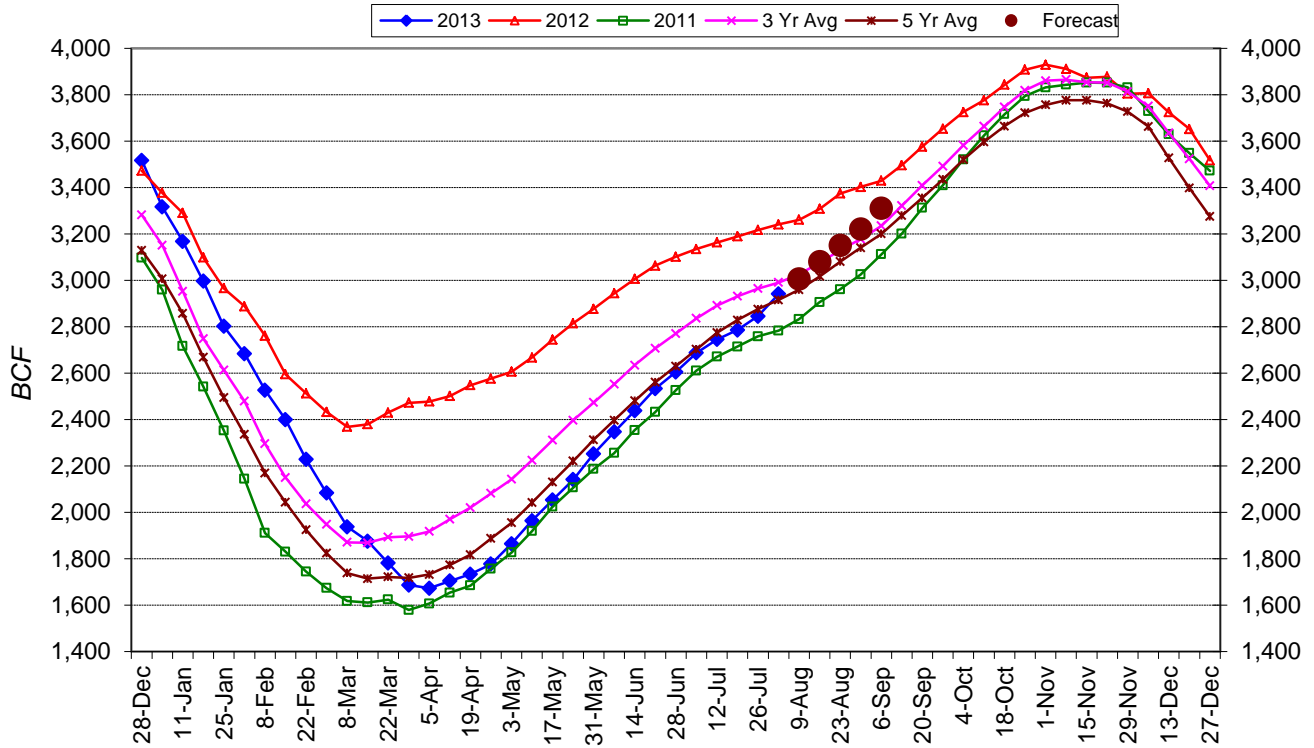
\$/MMBtu Ratio of NYMEX CL and NG



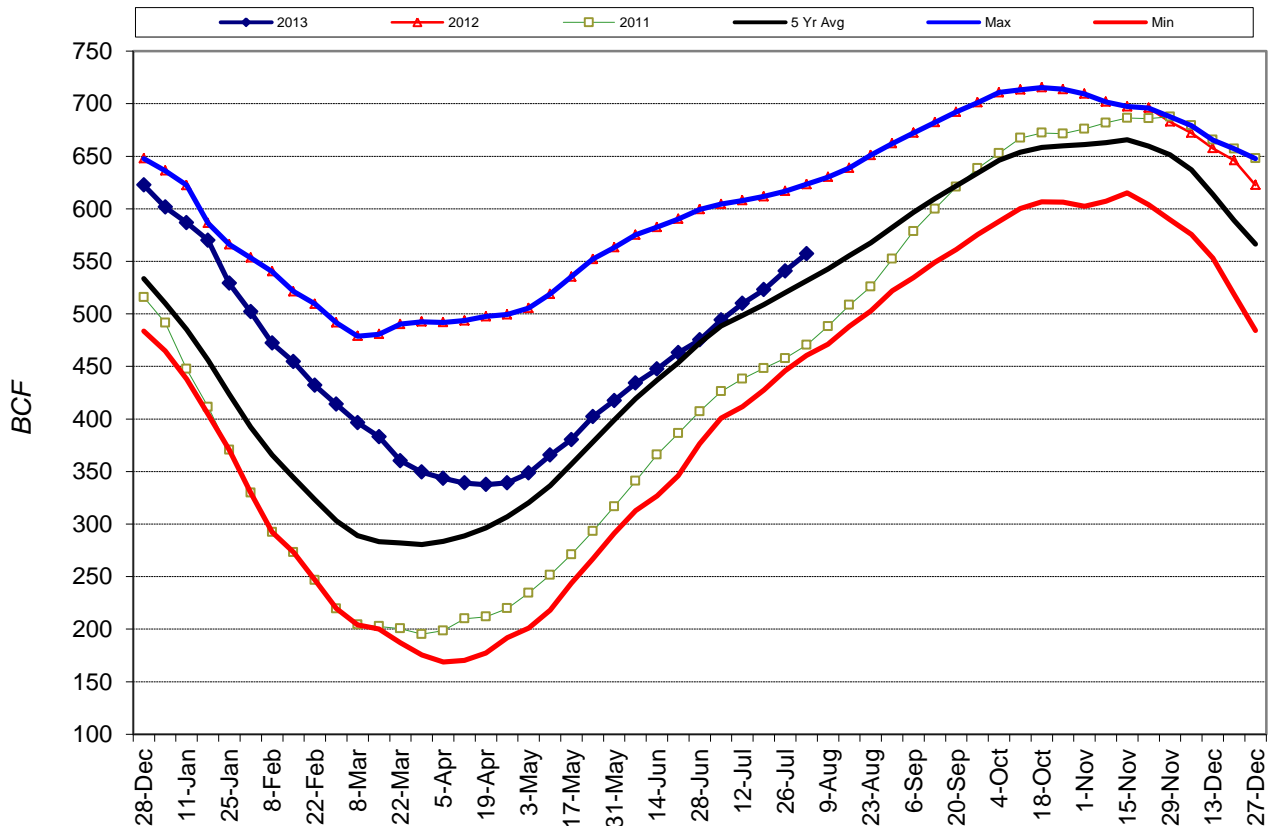
NYMEX Calendar Strips



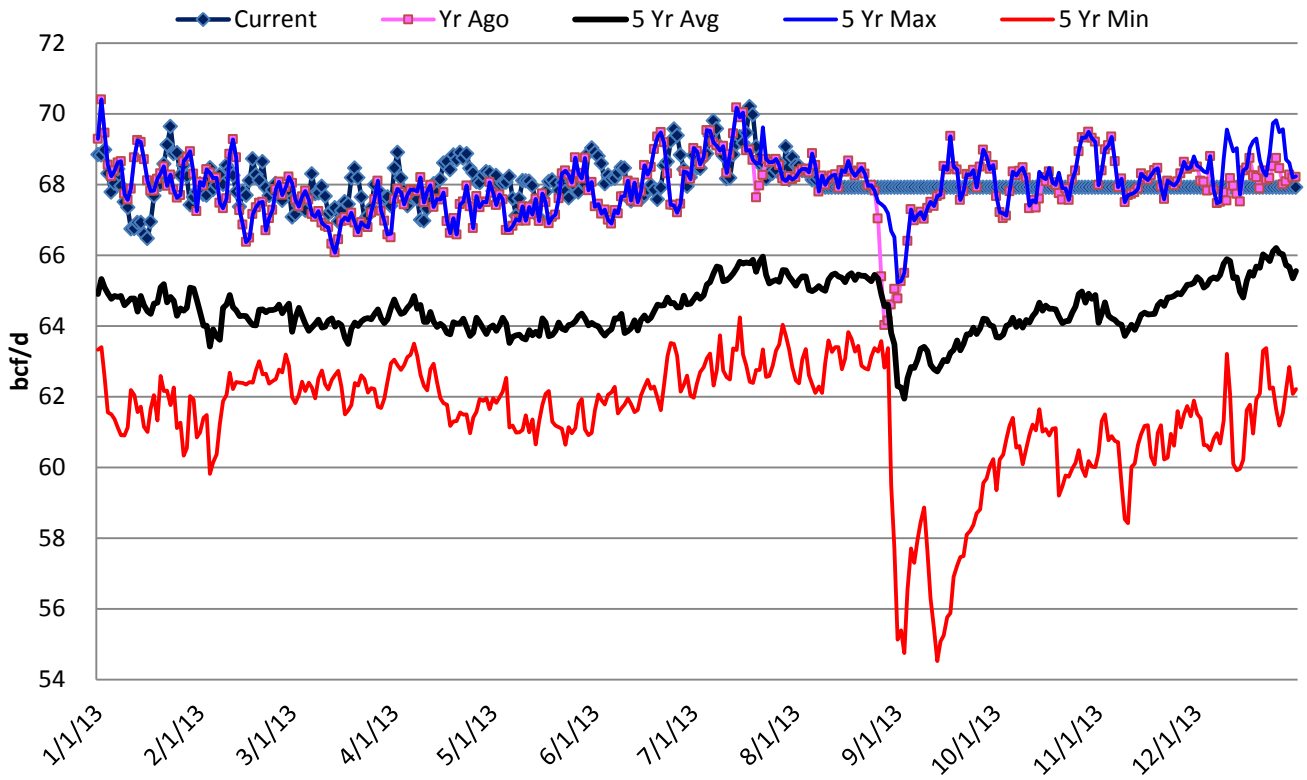
US Working Gas Storage - Source - EIA



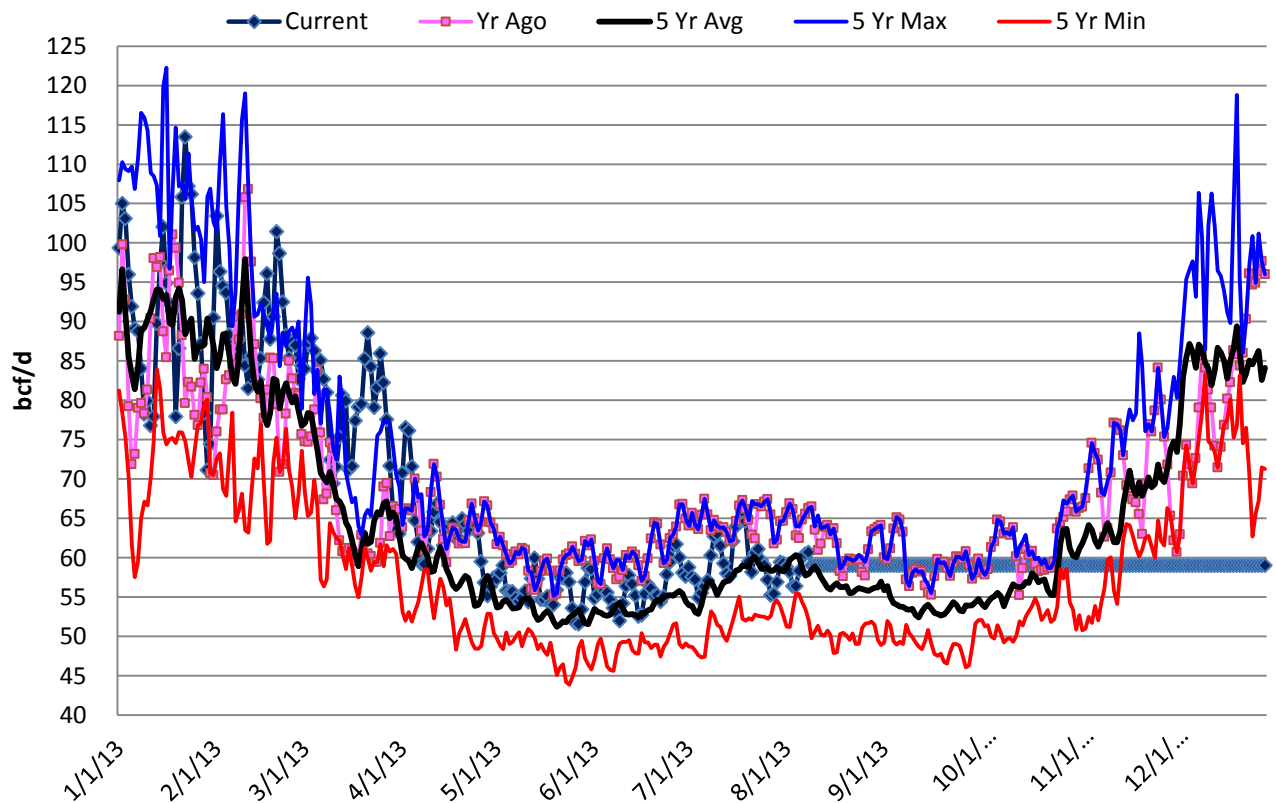
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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