

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
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Price Action: September futures rebounded and rose 13.8 cents (4.3%) to \$3.368 on a well below average 19.0 cent range.

Price Outlook: Although a new weekly low was not established as was the bias, the market did hold to historical norms and rose enough instead to reach a new weekly high. Although prices ended in the upper half of the weekly range, the market ended on a weak note and with demand still forecast to remain lackluster, the outlook is slightly to establish a new low next week. This could easily be impacted and altered with weather forecasts or tropical storm activity. The reduction in the CFTC net speculative long position continued with only one week since the end of May peak recording an increase. Still, the net long position remains sizable and further liquidation could drive prices even lower. Across the complex, total open interest rose to 5.05 million as of August 13. CME open interest rose slightly to 1.38 million contracts as of August 15. This is a continued increase from the recent lows and would suggest new shorts coming into the market.

Weekly Storage: US working gas storage rose 65 bcf for the week ending August 9. Current inventory levels of 3,006 bcf now fall 255 bcf (7.8%) below last year and now rise 46 bcf (1.6%) above the 5 year average.

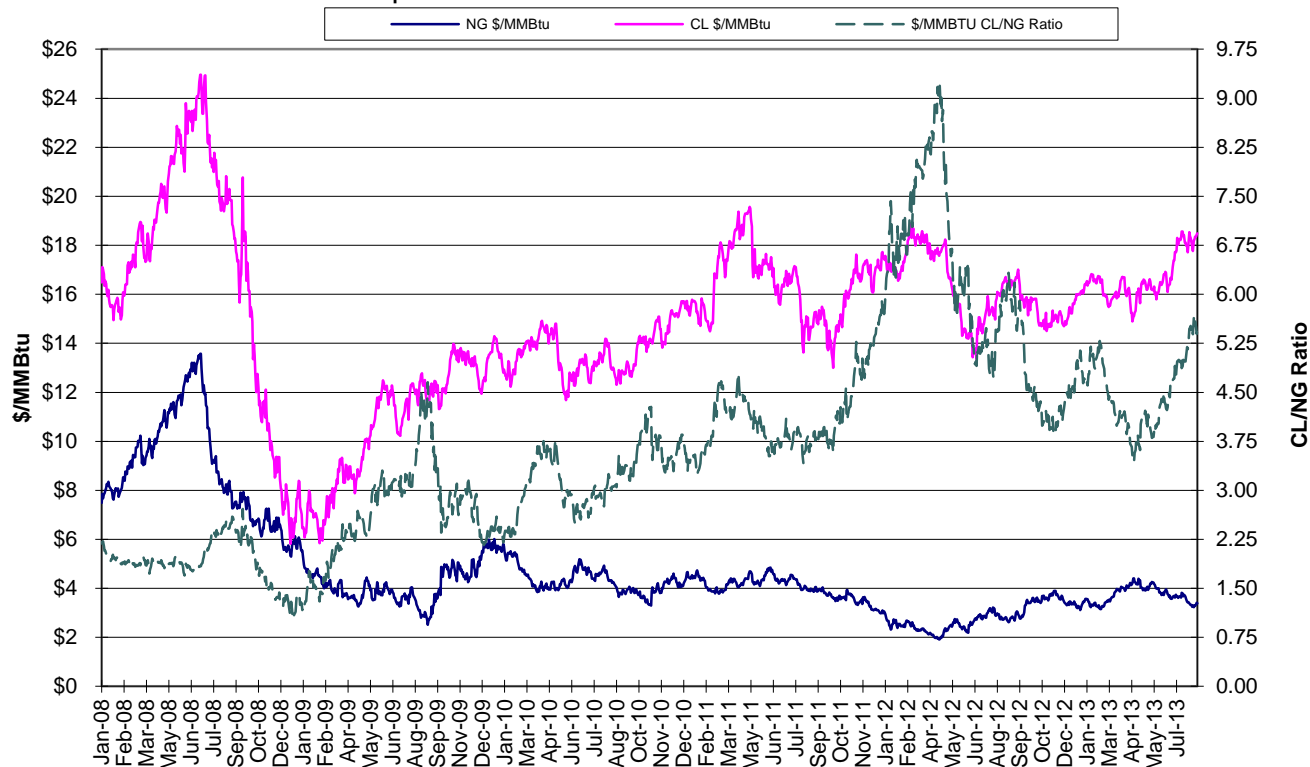
Storage Outlook: The dramatic reduction in the yearly storage deficit remains a significant bearish market factor. After peaking at 814 bcf on April 19, that shortfall will likely fall below 200 bcf by early September and possibly be completely eliminated this year. However, early cold could alter that view. The EIA did not report any storage reclassifications this week with the report considered "clean." Inventories crossed the 3 tcf level and are roughly equal to 2010 while still trailing 2009 and 2012. From a longer term perspective, inventories are approximately 900 bcf higher than the 2000 level. The storage landscape has changed significantly and that fact is mentioned only as a historical note with little current market relevance.

Supply Trends: Total supply fell 0.3 bcf/d to 68.4 bcf/d. US production, Canadian imports and Mexican exports all slipped. Lower exports add to US supply. The US Baker Hughes rig count rose 13 with both oil and natural gas increasing. Canadian activity was unchanged. Thus the total North American rig count expanded by 13 to 2,149 which now trails last year by 91. This remains the smallest YOY deficit since July 2012. The higher efficiency US horizontal rig count rose 12 to 1,077 and falls 76 behind last year.

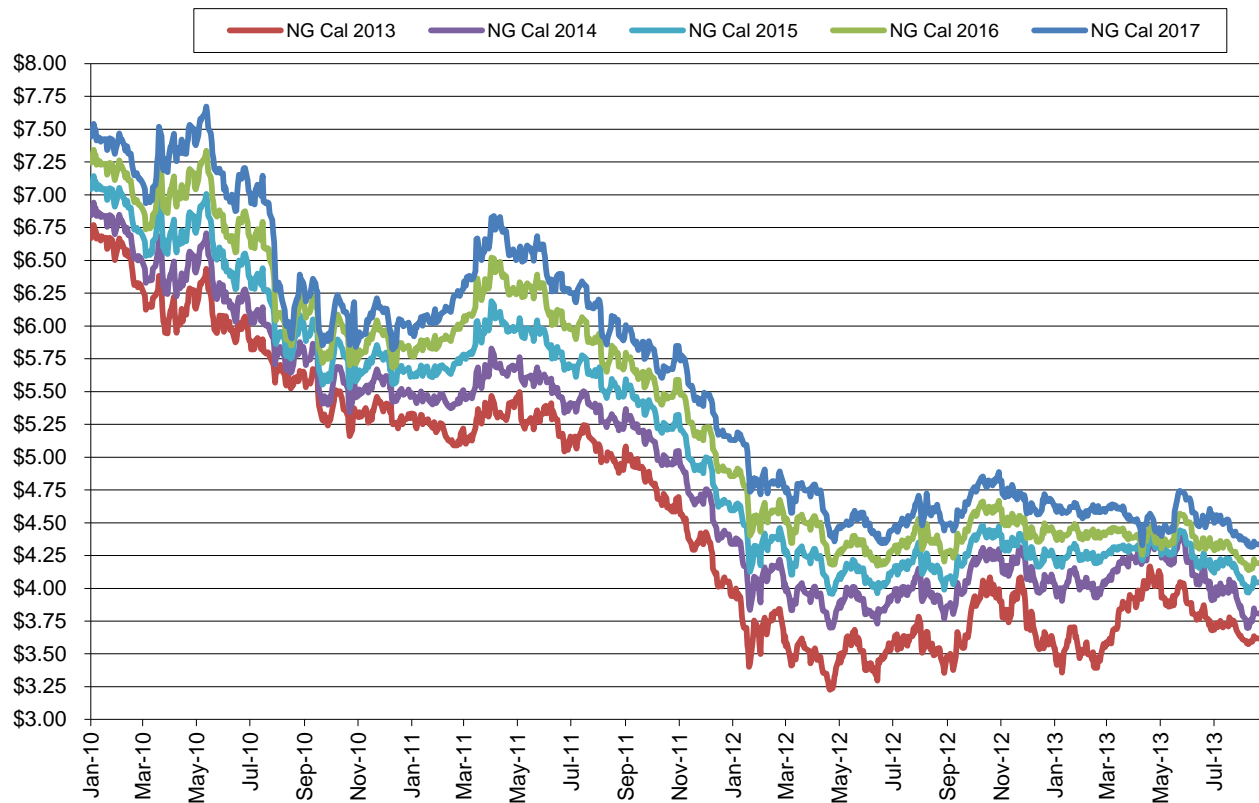
Demand Trends: Total demand rose 1.3 bcf/d to 58.9 bcf/d. Power consumption rose while R&C and industrial demand were both marginally lower. Electricity demand rose 2,070 gigawatt-hrs to 85,974, which trails last year by 5,562 (6.1%) and the 5 year average by 4,677 (5.2%). Electricity demand continues to remain rather weak on a temperature adjusted basis at the same a gradual increase in temperature adjusted natural gas power consumption apparent in recent weeks has also faltered. Thus, the absolute demand outlook in coming weeks remains tepid.

Other Factors: The S&P 500 continued to slide despite generally positive economic data.

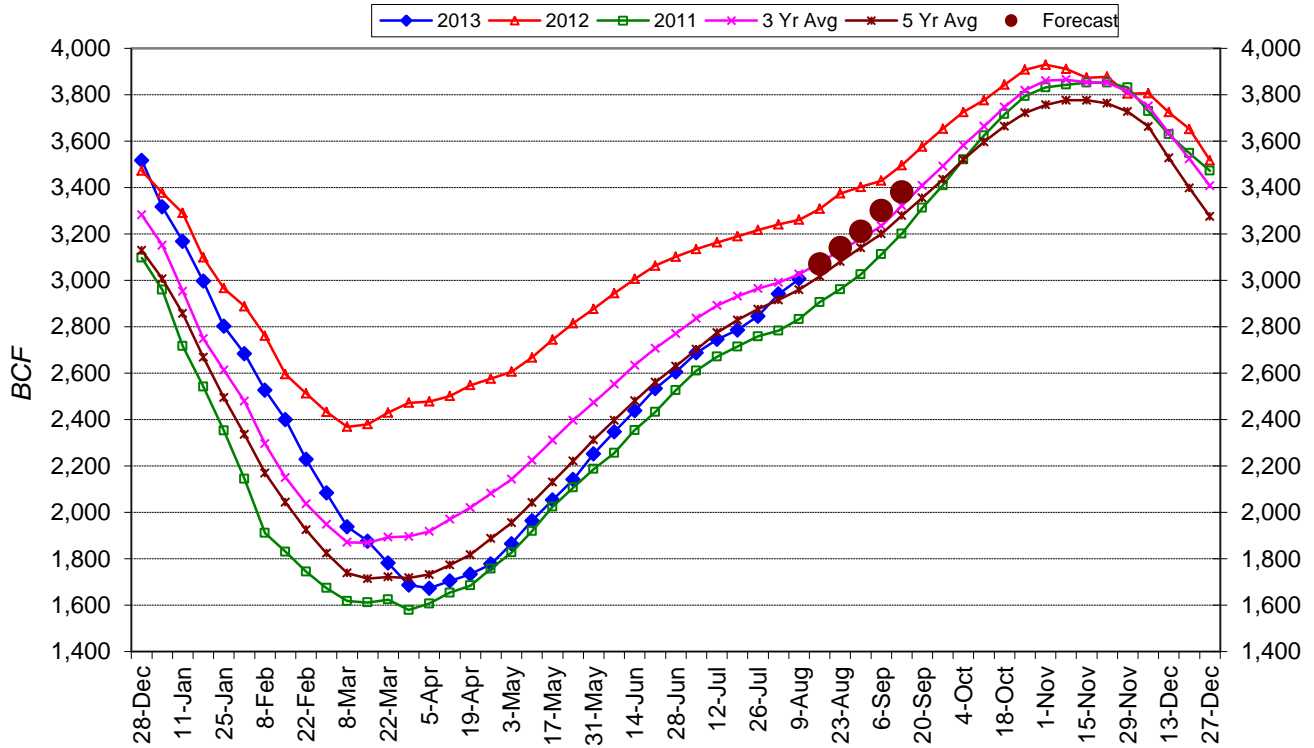
\$/MMBtu Ratio of NYMEX CL and NG



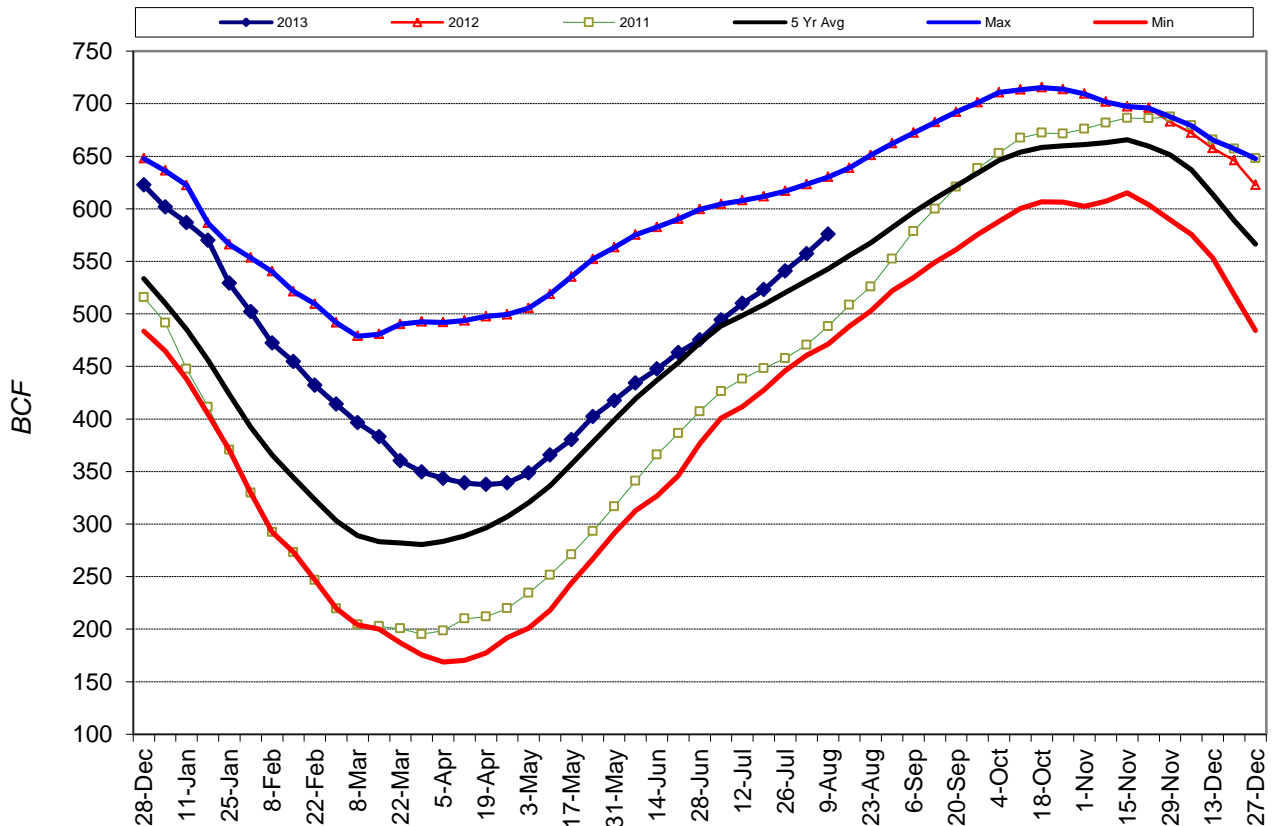
NYMEX Calendar Strips



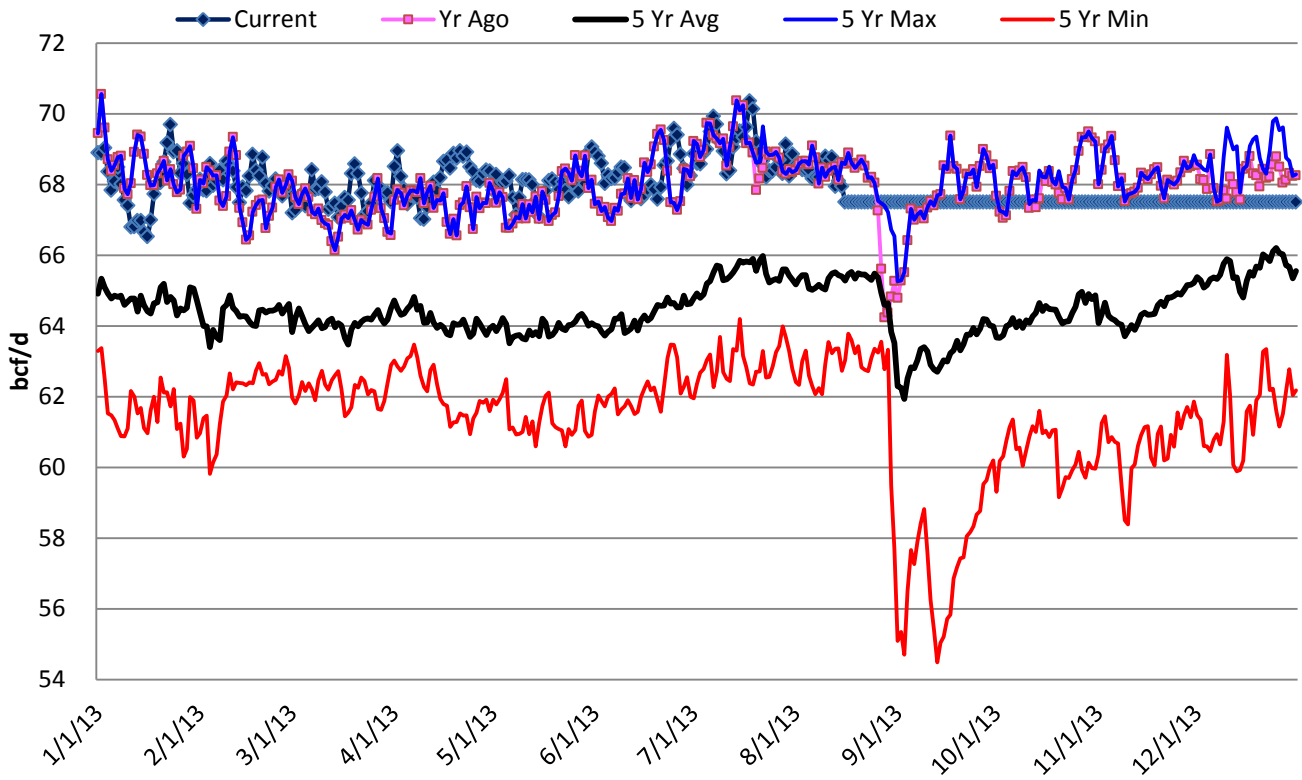
US Working Gas Storage - Source - EIA



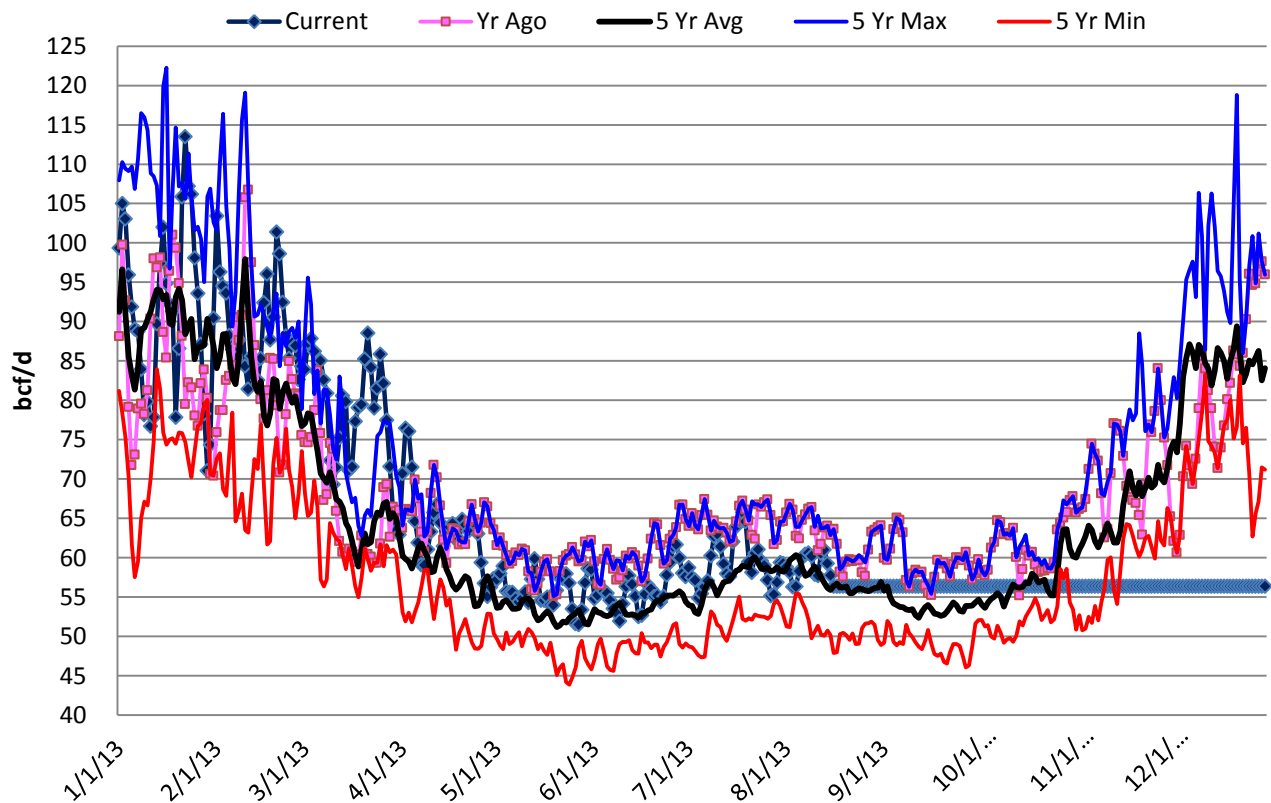
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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