

IAF Advisors
Energy Market Outlook
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Price Action: Prices basis the prompt October contract rose 6.0 cents (1.7%) to \$3.581 on another well below average 17.2 cent range.

Price Outlook: We had maintained a slight bias to a new low last week. However, despite a bearish EIA storage report, the market rose as speculators continued the recent net buying. While we fundamentally remain slightly bearish in the near term, the market's resilience has been impressive and now a slight bias to a new high is favored. The CFTC net speculative long position was increased at a rather healthy pace. However, the position remains well shy of the May peak and thus the funds have ample room to continue buying. Across the complex, total open interest fell to 4.98 million as of August 27. CME open has fallen to just to 1.33 million contracts as of August 29. This is the lowest level of open interest since March 18, 2013. The current speculative position leaves the market in the same situation as previously with plenty of room for more buying, or renewed selling interest. Confidence remains low.

Weekly Storage: US working gas storage rose 67 bcf for the week ending August 23. Current inventory levels of 3,130 bcf now fall 244 bcf (7.2%) below last year and rise 50 bcf (1.6%) above the 5 year average.

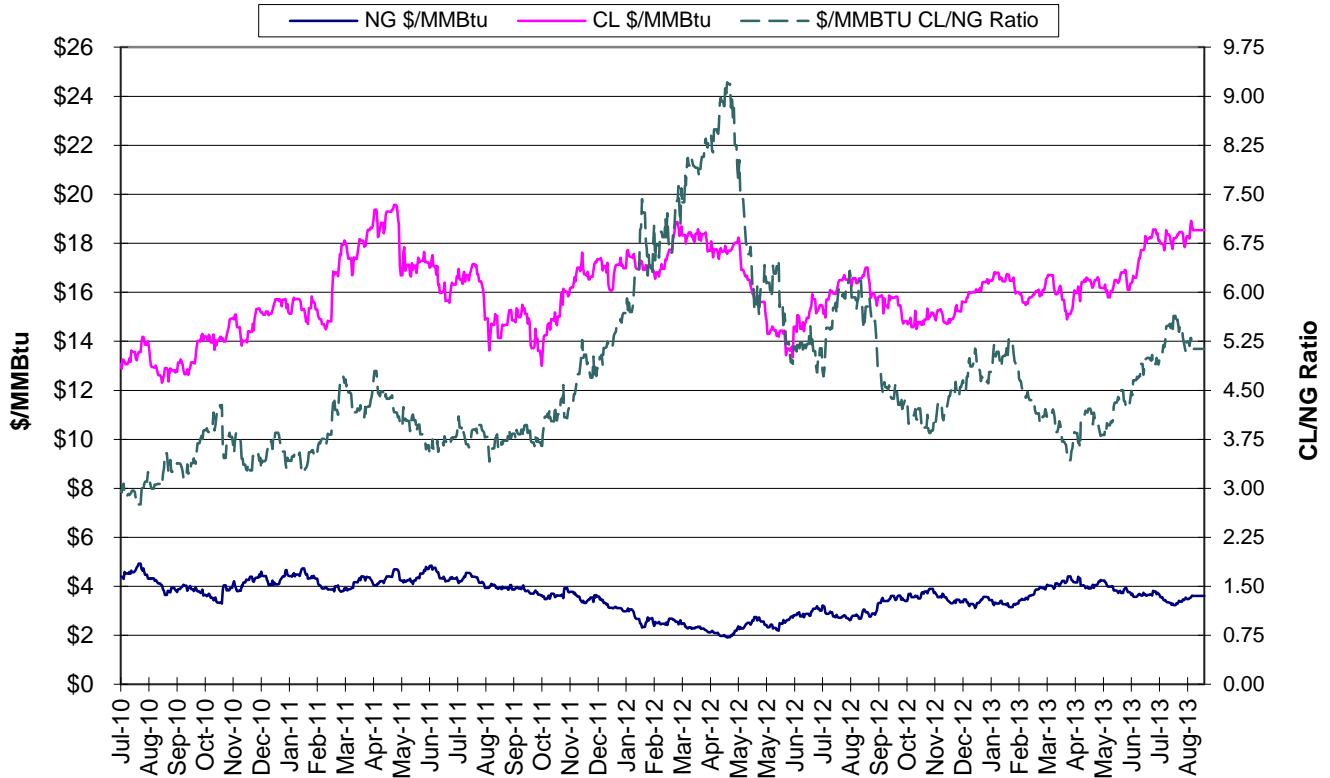
Storage Outlook: Weekly storage injections have exceeded last year for 18 consecutive weeks and are likely to extend that streak to at least 20. Peak storage levels remain on track to reach approximately 3,900 bcf.

Supply Trends: Total supply was unchanged at 68.4 bcf/d. All components were basically unchanged this week. The US Baker Hughes rig count was unchanged as oil activity rose and natural gas slipped. Canadian activity rose 16. Thus the total North American rig count expanded by 16 to 2,175 which now trails last year by 35. This remains the smallest YOY deficit since July 2012. The higher efficiency US horizontal rig count rose 3 to 1,078 and falls 71 behind last year. Highlights from the EIA Monthly Natural Gas Report focus clearly on production. While impacted by some maintenance issues, Gulf of Mexico gross withdrawals fell to just 3.43 bcf/d. This compares to a 1998 peak of 14.77 bcf/d. Despite this collapse, lower 48 onshore gross withdrawals surged to an all-time record of 70.18. The shale revolution and subsequent production has truly been phenomenal and is not expected to change. While natural gas and petroleum prices have diverged, the surge in US oil production with output recently surpassing 7.6 million barrels per day is noteworthy. This is important as associated gas production is a major contributor to overall natural gas production and despite a relatively low natural gas rig count; US natural gas production growth is expected to continue in part due to higher US oil production.

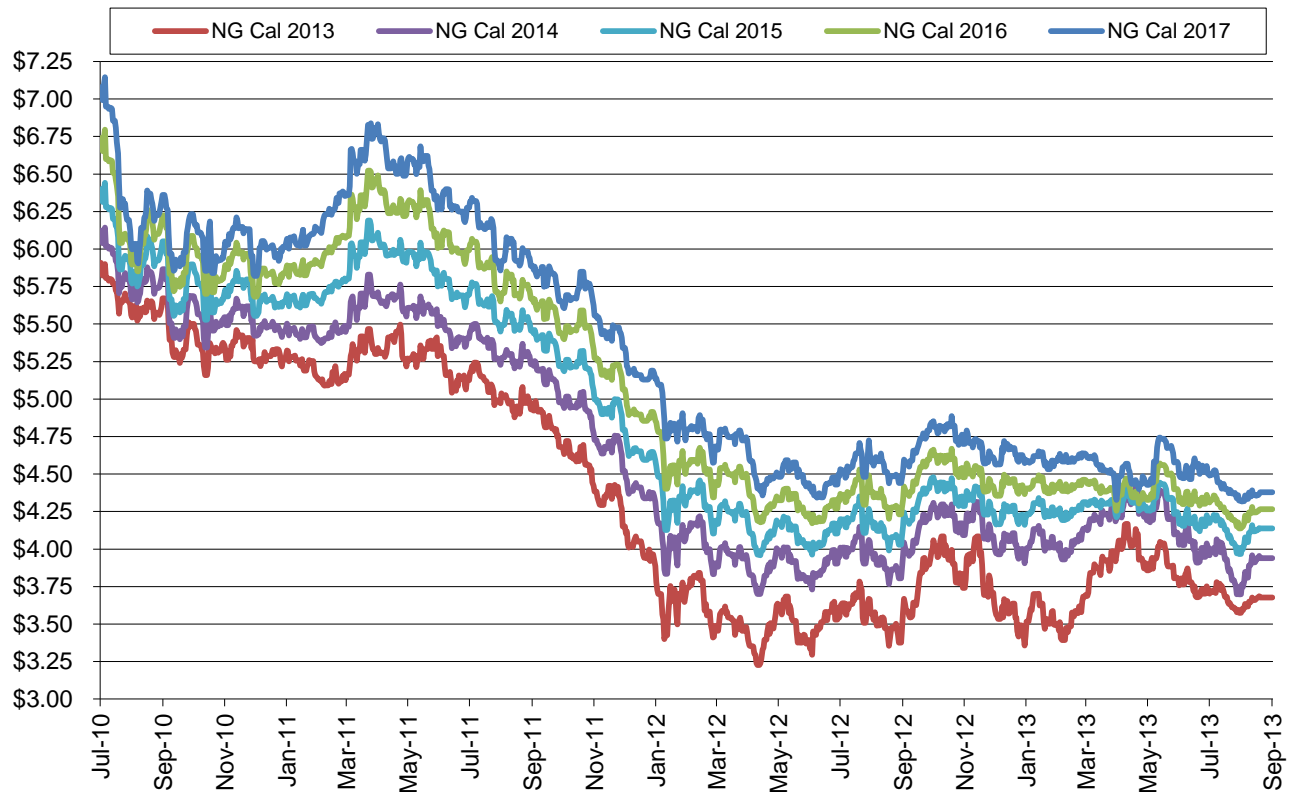
Demand Trends: Total demand fell 0.5 bcf/d to 58.2 bcf/d. Higher power demand was offset by lower R&C and industrial consumption. Electricity demand rose 2,706 gigawatt-hrs to 84,594, which exceeds last year by 2,238 (2.7%) while trailing the 5 year average by 3,380 (3.8%). Demand will continue to fall until late September or early October.

Other Factors: The S&P 500 resumed the recent slide to the lowest weekly close since early July. Housing data was disappointing with jobless claims still supportive.

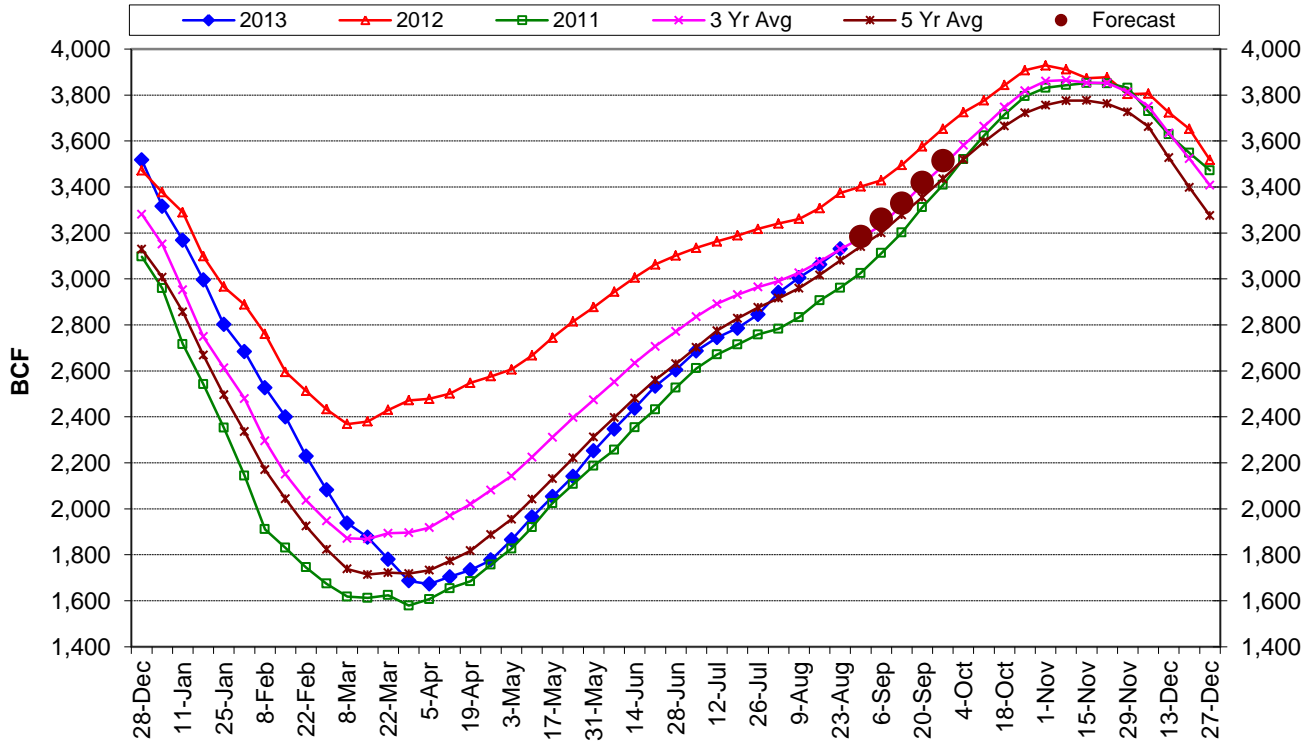
\$/MMBtu Ratio of NYMEX CL and NG



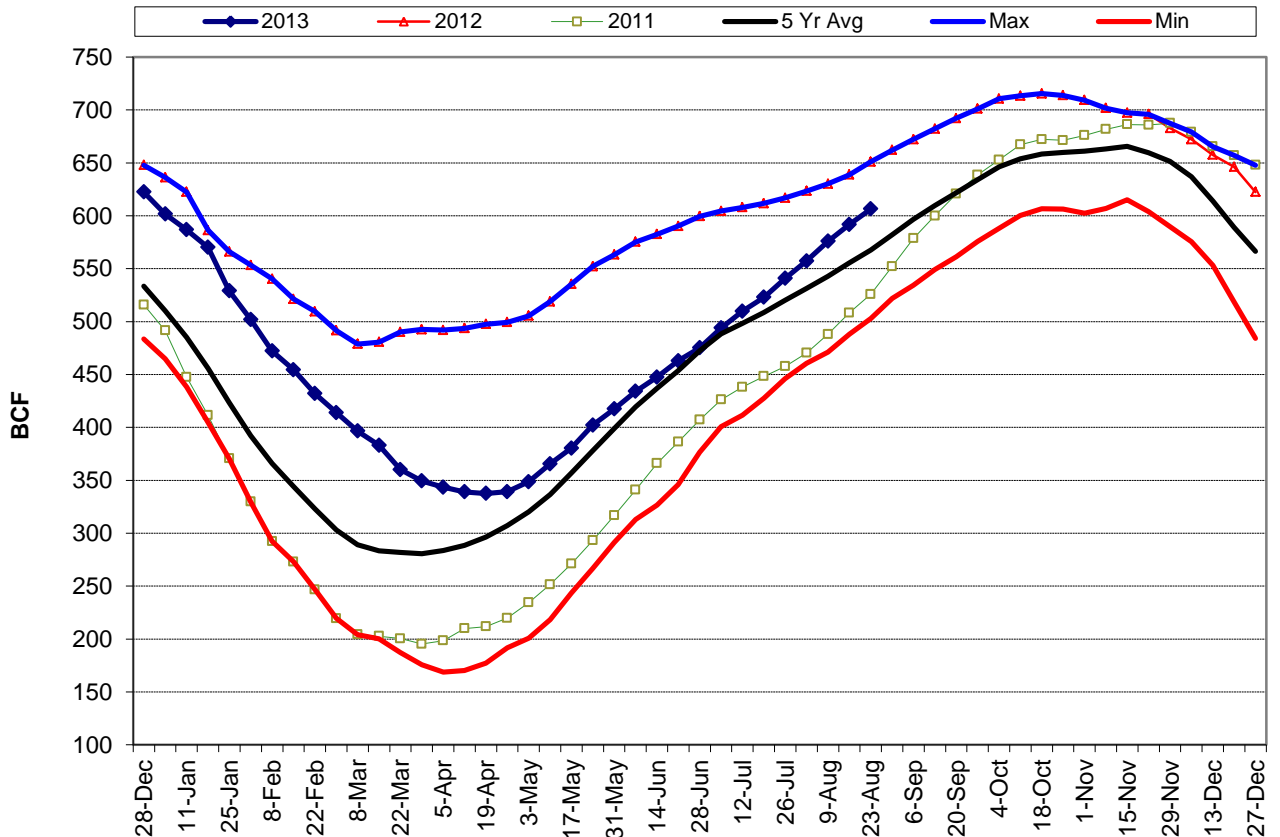
NYMEX Calendar Strips



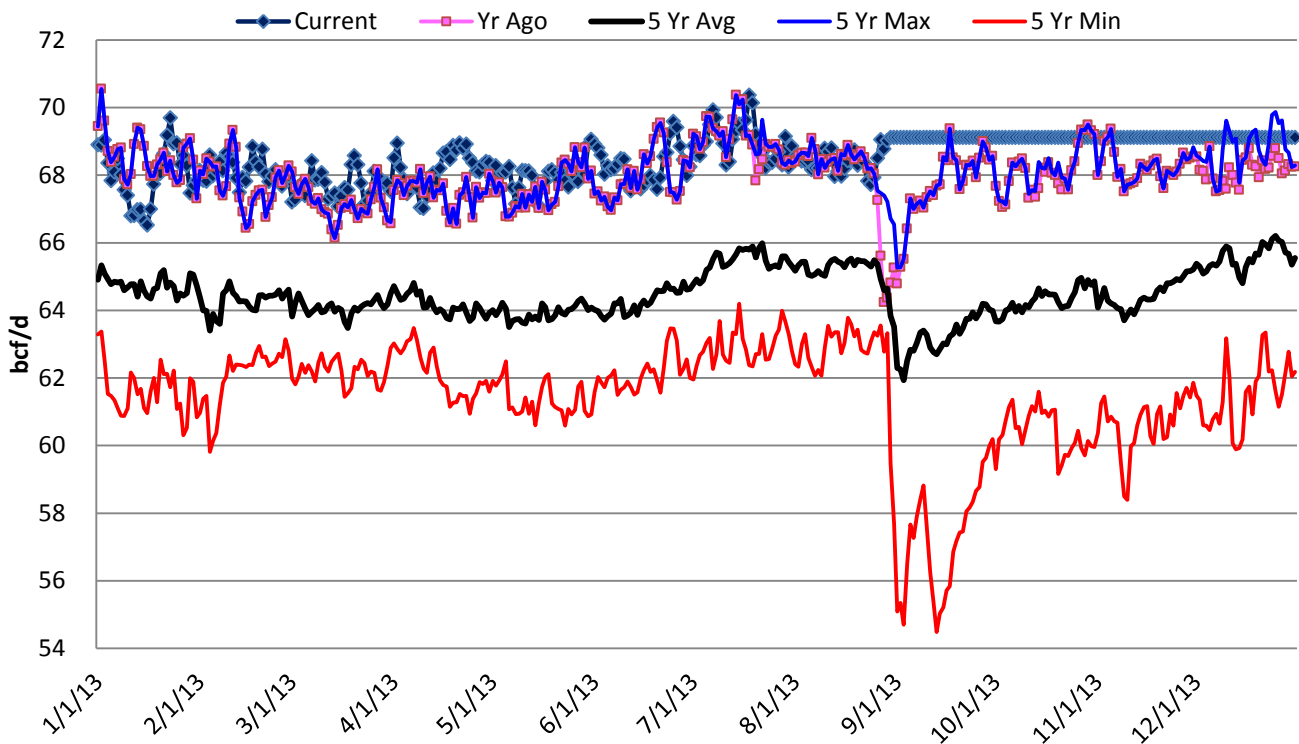
US Working Gas Storage - Source - EIA



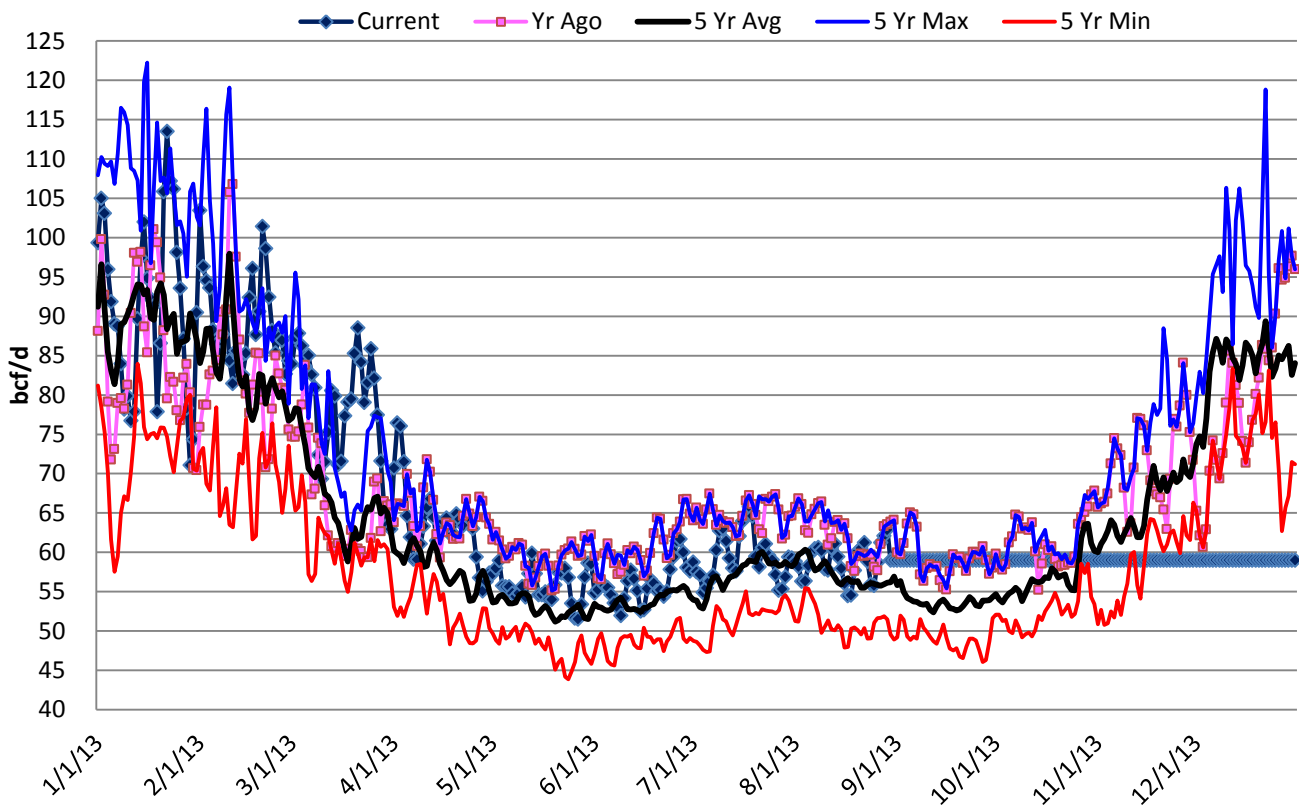
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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