

IAF Advisors  
Energy Market Outlook  
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**Price Action:** October contract prices slipped 5.1 cents (1.4%) to \$3.530 on another well below average 20.2 cent range.

**Price Outlook:** The market did indeed rise with a new high established at \$3.719. The market has now risen for 4 consecutive weeks in a row. Since 2000 there have been 34 instances of the market advancing for exactly 4 weeks. Of these, 16 continued higher and ended at exactly 5 weeks. However, considering the weak close, still upcoming bearish storage reports and falling absolute demand levels, a bias is now held to a lower low next week. This would require a print of just \$3.516 and seems easily achievable. With a constricting range, a week where both a new high and low is witnessed is increasingly likely. The CFTC net speculative long position was again increased, although at a somewhat slower pace than last week. The position remains well shy of the May peak. Across the complex, total open interest fell to 4.88 million as of September 3. CME open interest has fallen to just to 1.33 million contracts as of September 5, which was a slight increase from the September 4 level of 1.32 million. The current speculative position leaves the market in the same situation as previously with plenty of room for more buying, or renewed selling interest.

**Weekly Storage:** US working gas storage rose 58 bcf for the week ending August 30. Current inventory levels of 3,188 bcf now fall 214 bcf (6.3%) below last year and rise 47 bcf (1.5%) above the 5 year average.

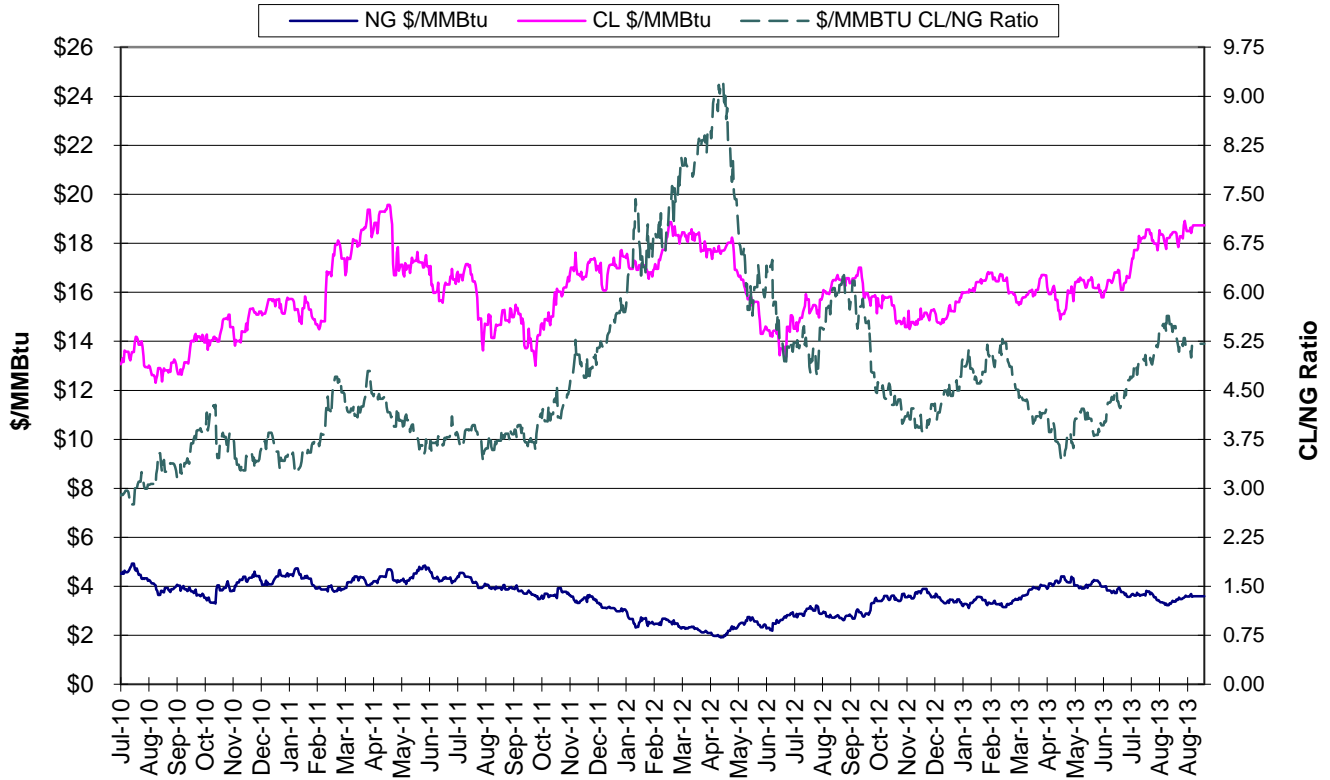
**Storage Outlook:** After becoming accustomed to large weekly reductions in the yearly storage deficit, September 2012 injections were much larger and it is at least possible that late September and October will experience an increase in the yearly storage deficit. Peak storage levels remain on track to reach approximately 3,900 bcf.

**Supply Trends:** Total supply rose 0.3 bcf/d to 68.4 bcf/d. US production rose with all other components basically little changed this week. The US Baker Hughes rig count fell 9 with a drop in oil activity rose overcoming a natural gas increase. Canadian activity fell 10. Thus the total North American rig count slipped by 19 to 2,156 which now trails last year by 53. This is the first increase in the YOY deficit since June. The higher efficiency US horizontal rig count fell 3 to 1,075 and falls 60 behind last year. Multiple expansion infrastructure projects are scheduled for completion in the next few months and physical flows will be closely monitored for changes in the distribution and movement of the physical molecules as these new facilities commence operation.

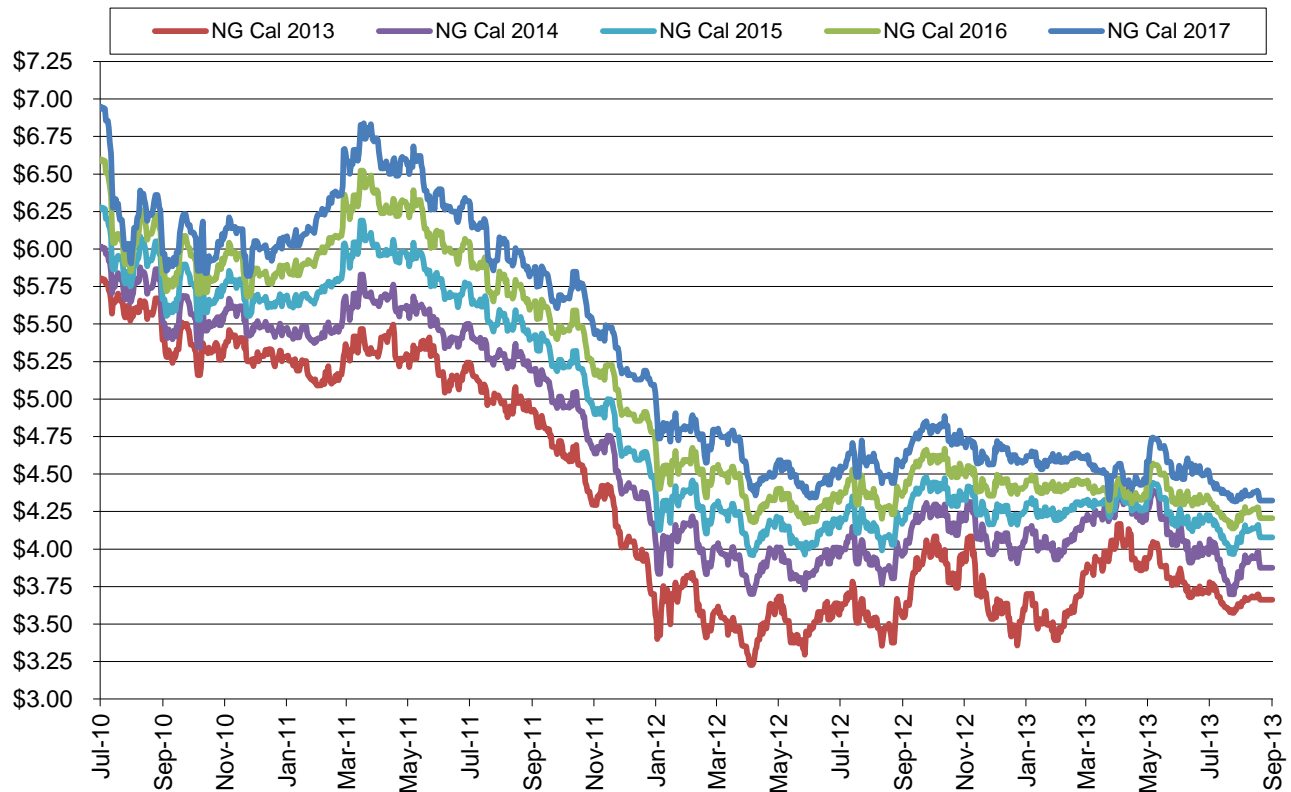
**Demand Trends:** Total demand rose 1.6 bcf/d to 59.8 bcf/d. Higher power demand offset lower R&C and industrial consumption. Electricity demand rose 5,157 gigawatt-hrs to 89,751, which exceeds last year by 2,744 (3.2%) and the 5 year average by 3,585 (4.2%). Coal prices remain subdued and with still tepid overall electricity demand, natural gas fired power generation remains well below 2012. At the same time, nuclear generation has recently surged to multi-month highs and this autumn's maintenance schedule projects fewer units off line than normal. Thus, power generation demand is forecast to remain in a bearish YOY comparison situation.

**Other Factors:** The S&P 500 rose despite Syrian concerns and a disappointing US jobs report. However, this may be interpreted as reason for the Fed to not begin tapering.

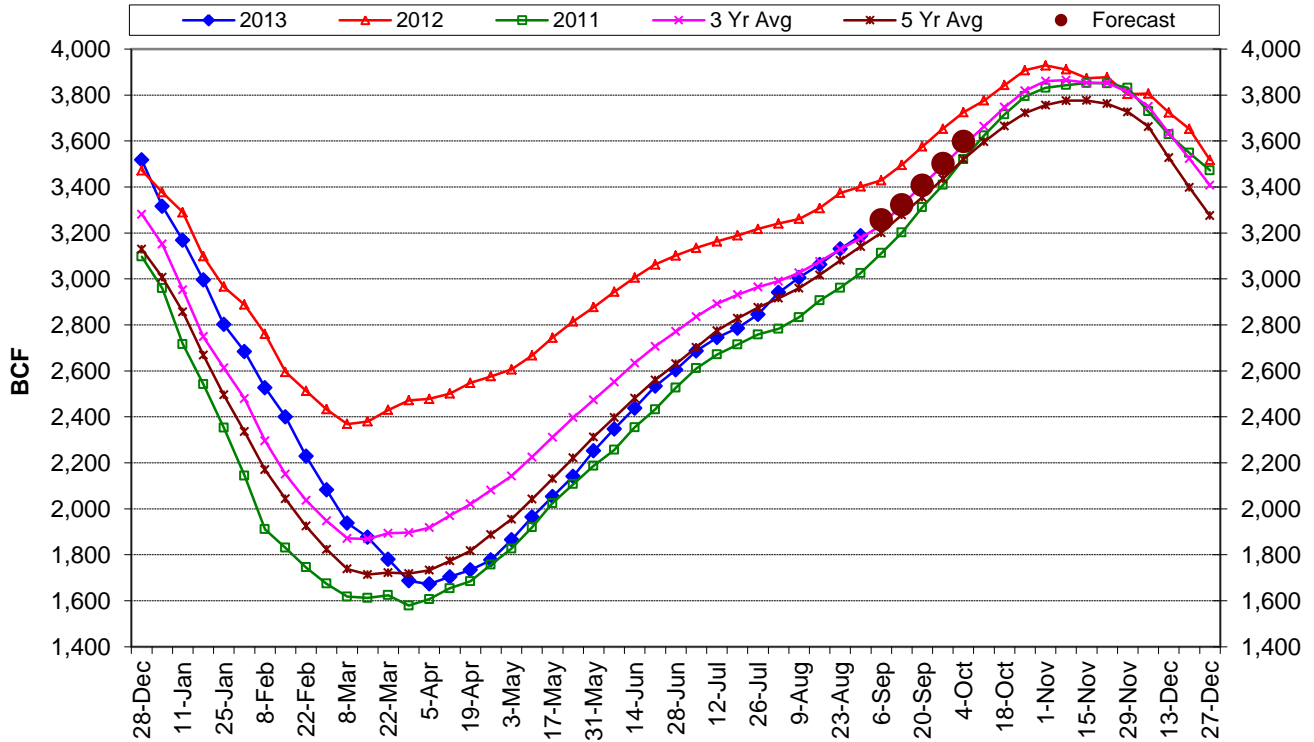
## \$/MMBtu Ratio of NYMEX CL and NG



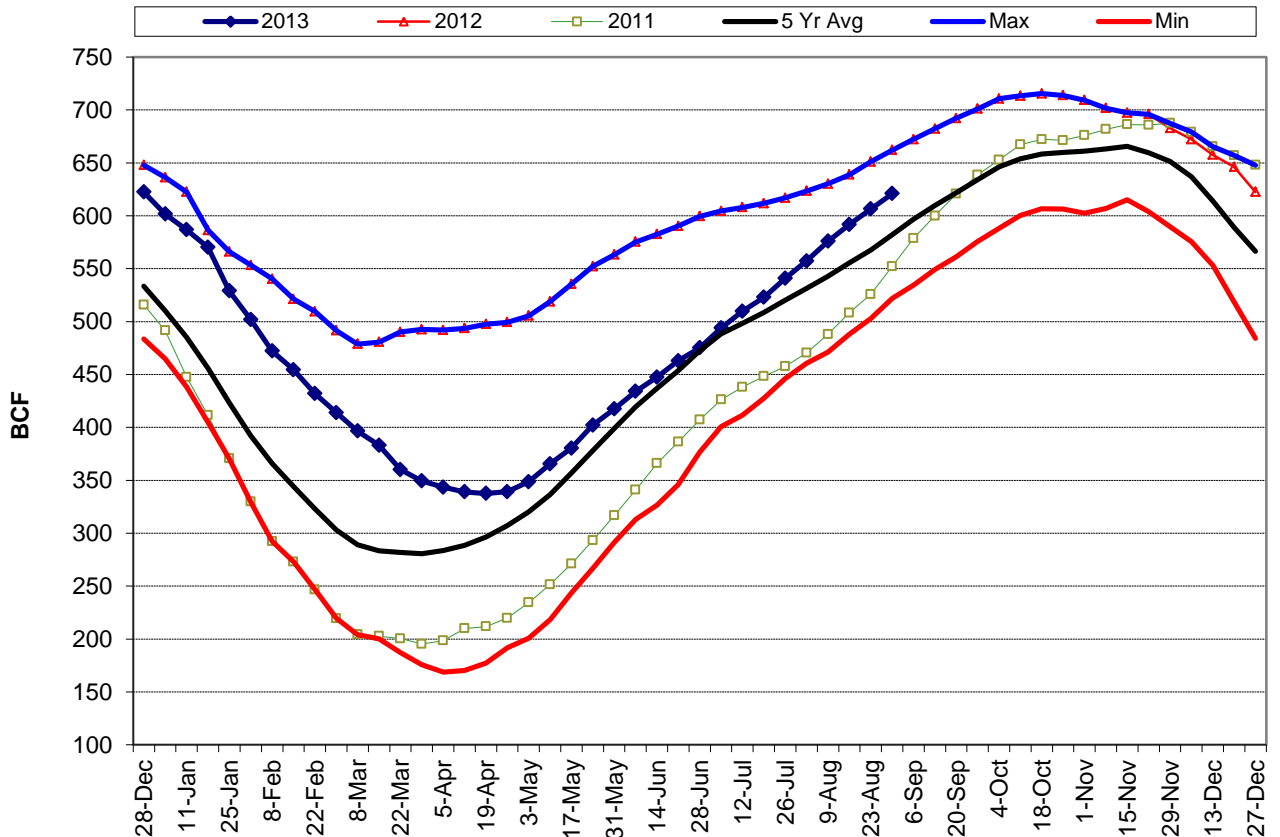
## NYMEX Calendar Strips



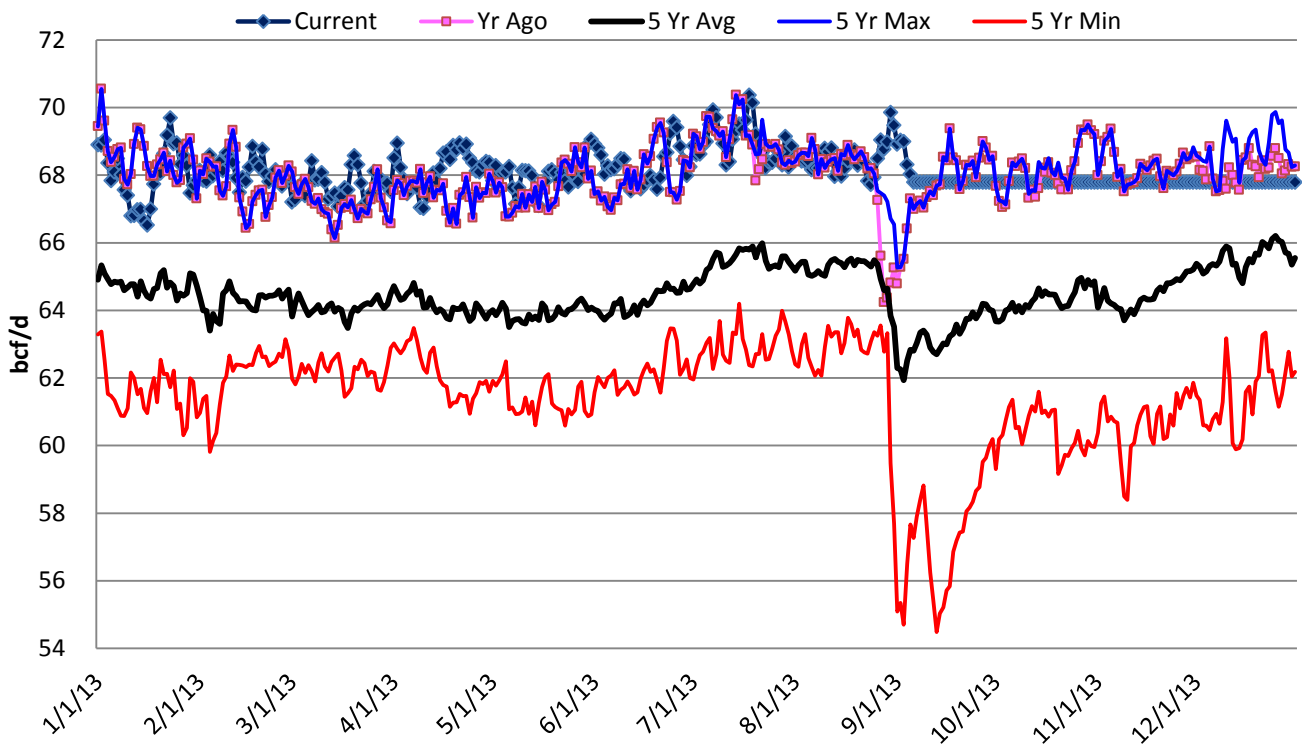
## US Working Gas Storage - Source - EIA



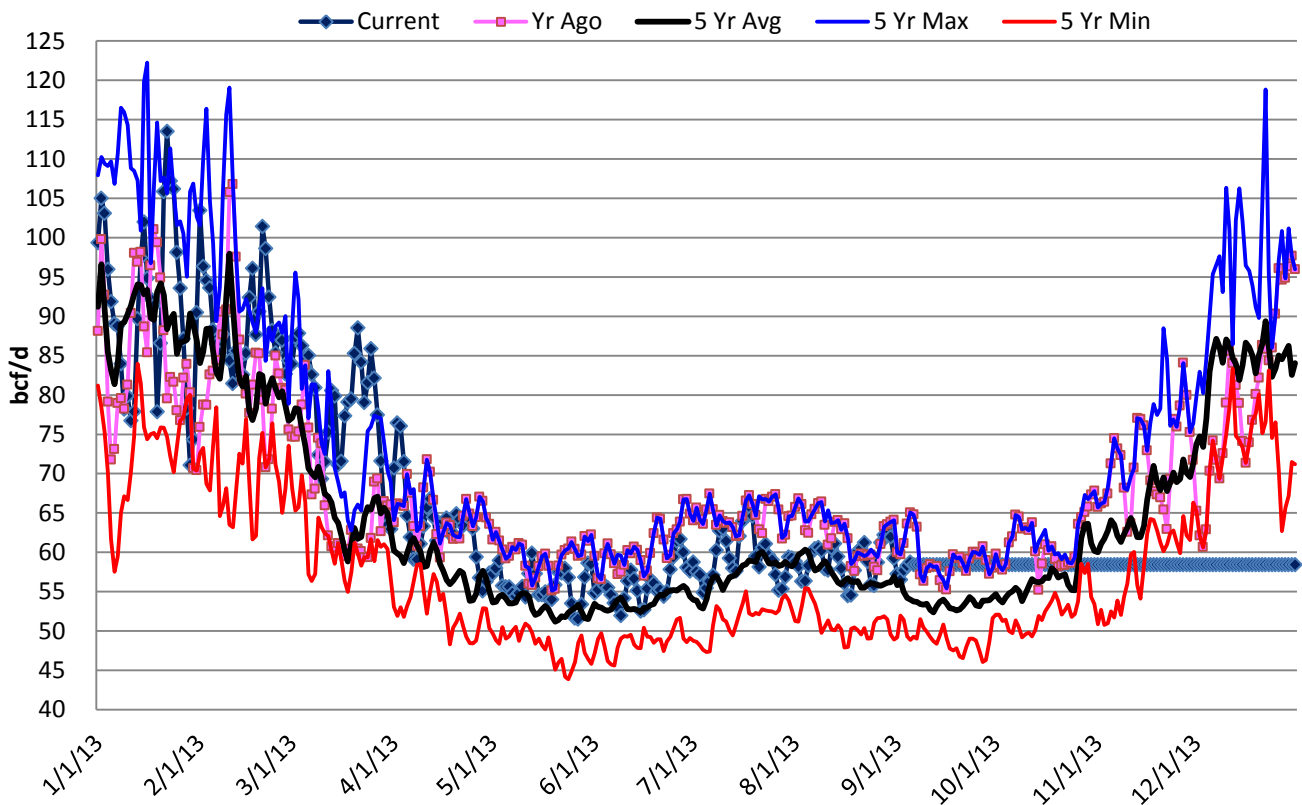
## Canadian Working Gas Storage - Enerdata



## US Total Supply



## US Total Demand



#### **ADDITIONAL INFORMATION AVAILABLE UPON REQUEST**

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