

IAF Advisors
Energy Market Outlook
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Price Action: October contract prices rose 14.7 cents (4.2%) to \$3.677 on a very small 16.4 cent range.

Price Outlook: The market did nothing that we expected as prices were not able to establish a new low, missing that mark by 9 ticks and recording a very rare inside week instead. Since 2000 there have been only 64 inside weeks with 82 where both a new high and low have been notched. The constricting range does still lead to a circumstance where both a new high and low is witnessed is increasingly likely. The CFTC net speculative long position slipped despite the rising price. However, it should be remembered this position is calculated on Tuesday and prices were lower compared to the end of the week. Across the complex, total open interest was barely lower at 4.88 million as of September 3. CME open interest has fallen to just to 1.31 million contracts as of September 12 which was a slight increase from the September 11 level of 1.31 million. The current speculative position once again leaves the market in the same situation as recent weeks with plenty of room for more buying, or renewed selling interest.

Weekly Storage: US working gas storage rose 65 bcf for the week ending September 6. Current inventory levels of 3,253 bcf now fall 176 bcf (5.1%) below last year and rise 53 bcf (1.6%) above the 5 year average.

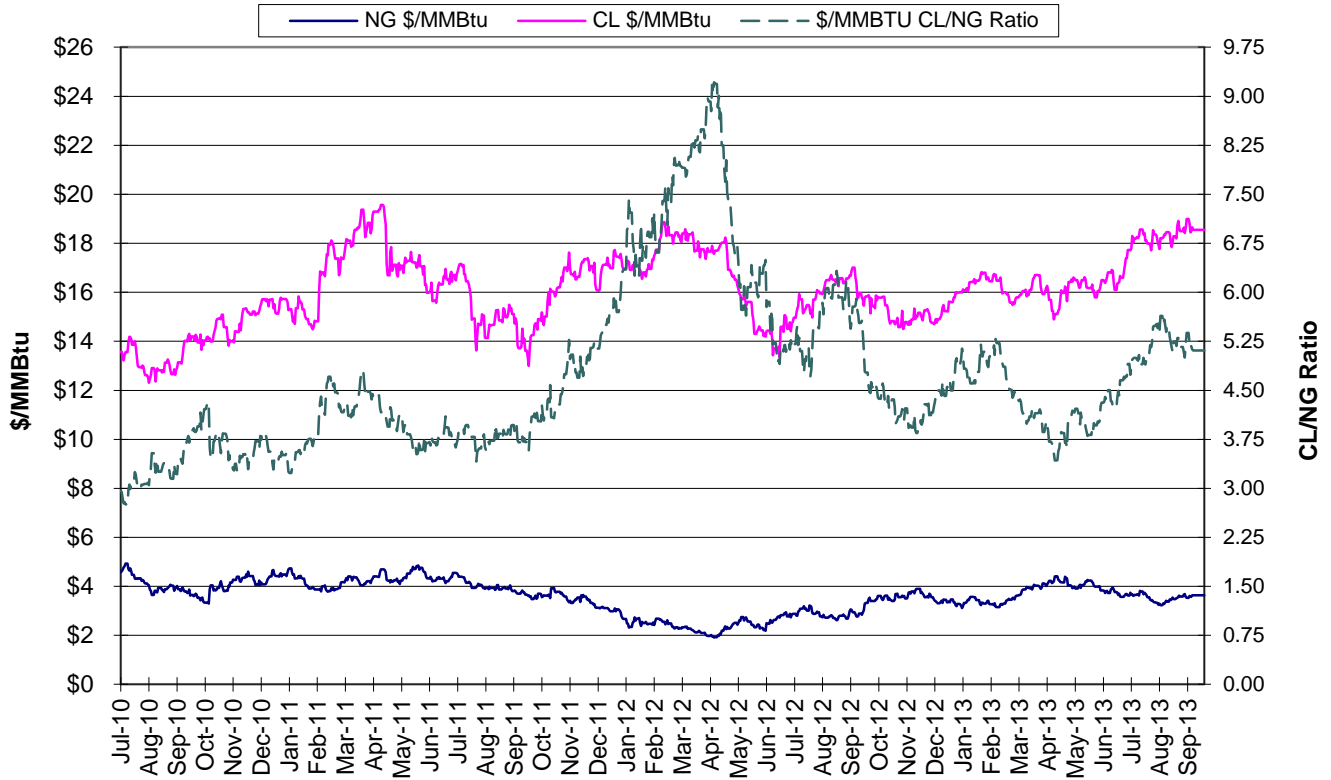
Storage Outlook: The storage deficit reduction from the 814 bcf (31.9%) deficit of April 19 remains impressive and the deficit was reduced for 20 consecutive weeks. However, that streak is likely to end this week and September 2012 injections were much larger. Due to increased demand, peak storage levels are on track to reach between 3,850 and 3,900 bcf.

Supply Trends: Total supply rose 0.2 bcf/d to 68.7 bcf/d. US production and Mexican exports fell while LNG imports recorded a rare increase. The US Baker Hughes rig count rose 1 with increased natural gas activity overcoming an oil drop. Canadian activity fell 9. Thus the total North American rig count slipped by 8 to 2,148 which now trails last year by 70. The higher efficiency US horizontal rig count rose 1 to 1,076 and falls 57 behind last year. US oil production reached yet another multi-decade high this week and with petroleum prices still comfortably above \$100, still higher US oil production is expected in coming months. Associated natural gas production remains crucial to overall US natural gas production and key to meeting projected higher demand levels.

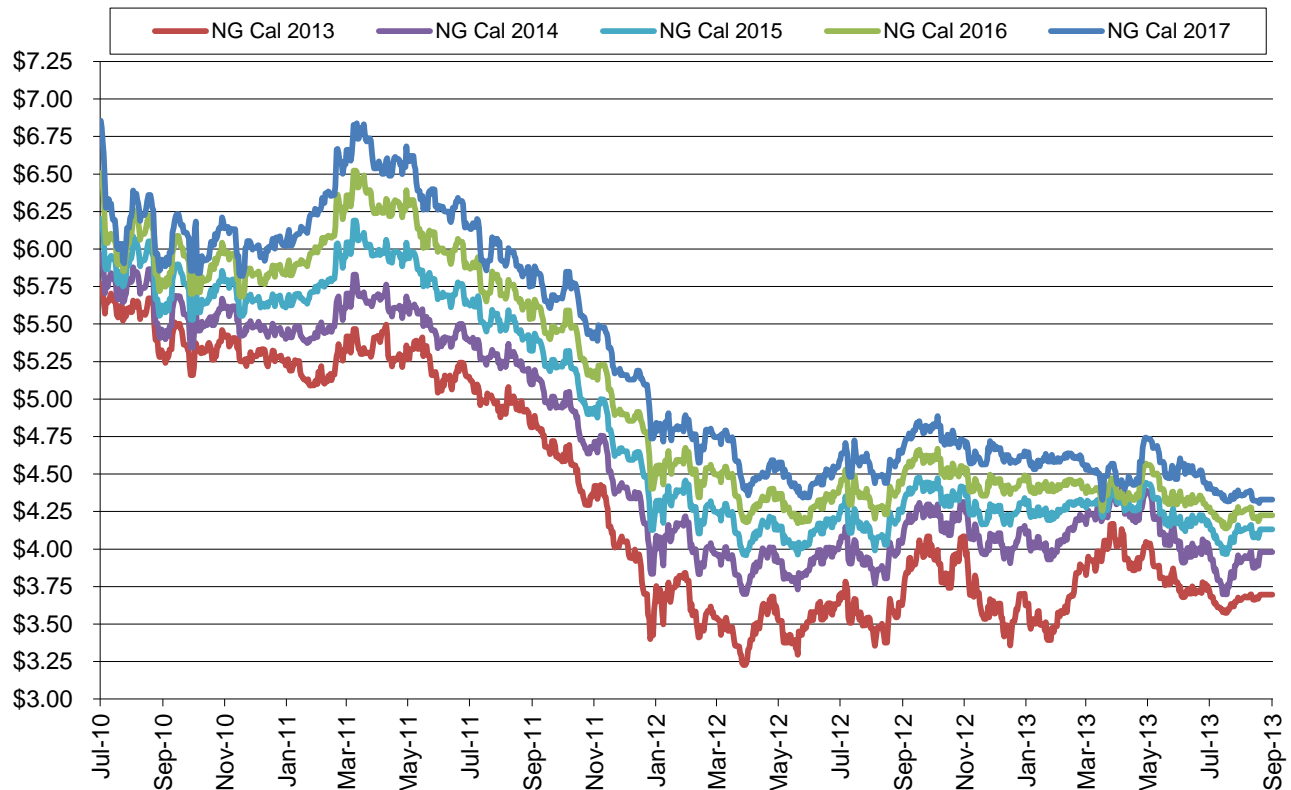
Demand Trends: Total demand fell 1.6 bcf/d to 58.3 bcf/d. Lower power demand offset a rise in R&C and industrial consumption. Electricity demand slipped 6,991 gigawatt-hrs to 82,760, which trails last year by 1,941 (2.3%) while exceeding the 5 year average by 324 (0.4%). The DOE approved LNG exports for non FTA countries from another LNG export facility and while not occurring any time soon, continues to tilt the longer-term supply/demand balance bullishly. While the geological resources are clearly available to deliver significantly higher volumes of natural gas, we remain dubious of whether those much higher volumes can be delivered at current forward prices.

Other Factors: The S&P 500 rose as any US strike against Syria has been delayed. Upcoming Fed announcements will likely have significant impact on the financial markets.

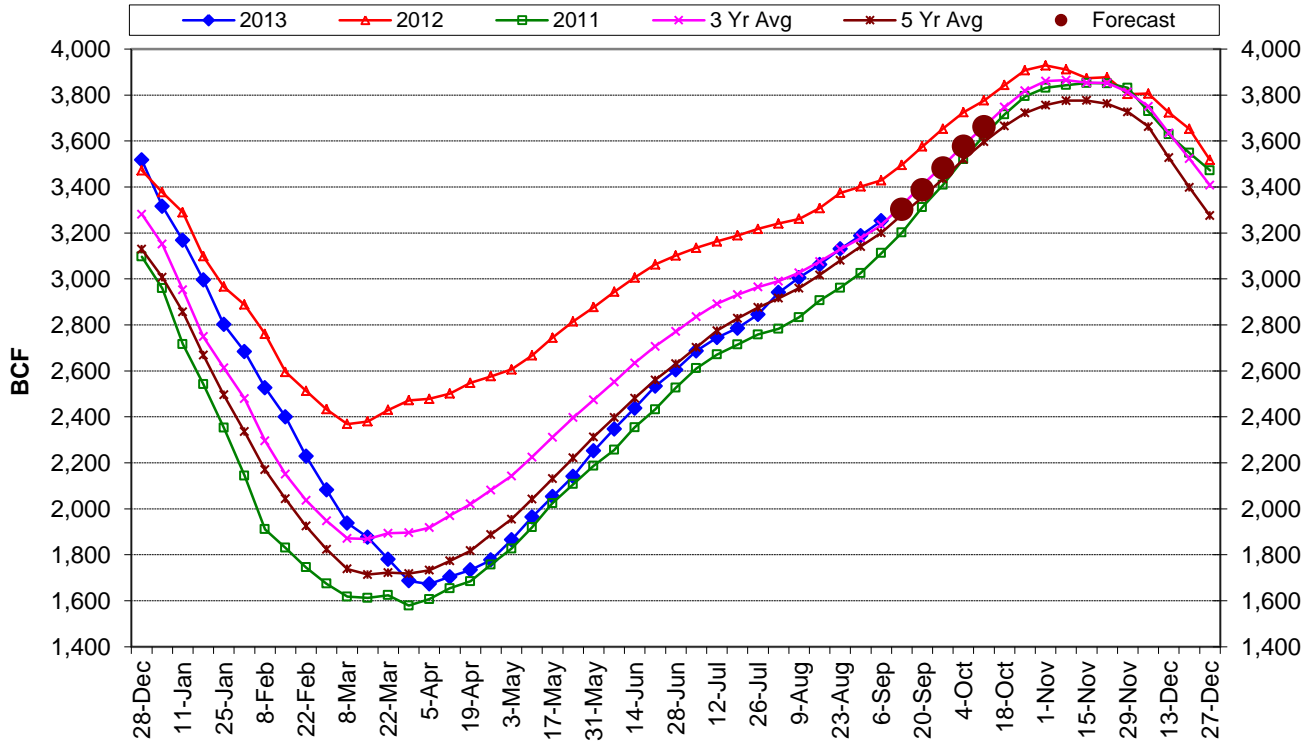
\$/MMBtu Ratio of NYMEX CL and NG



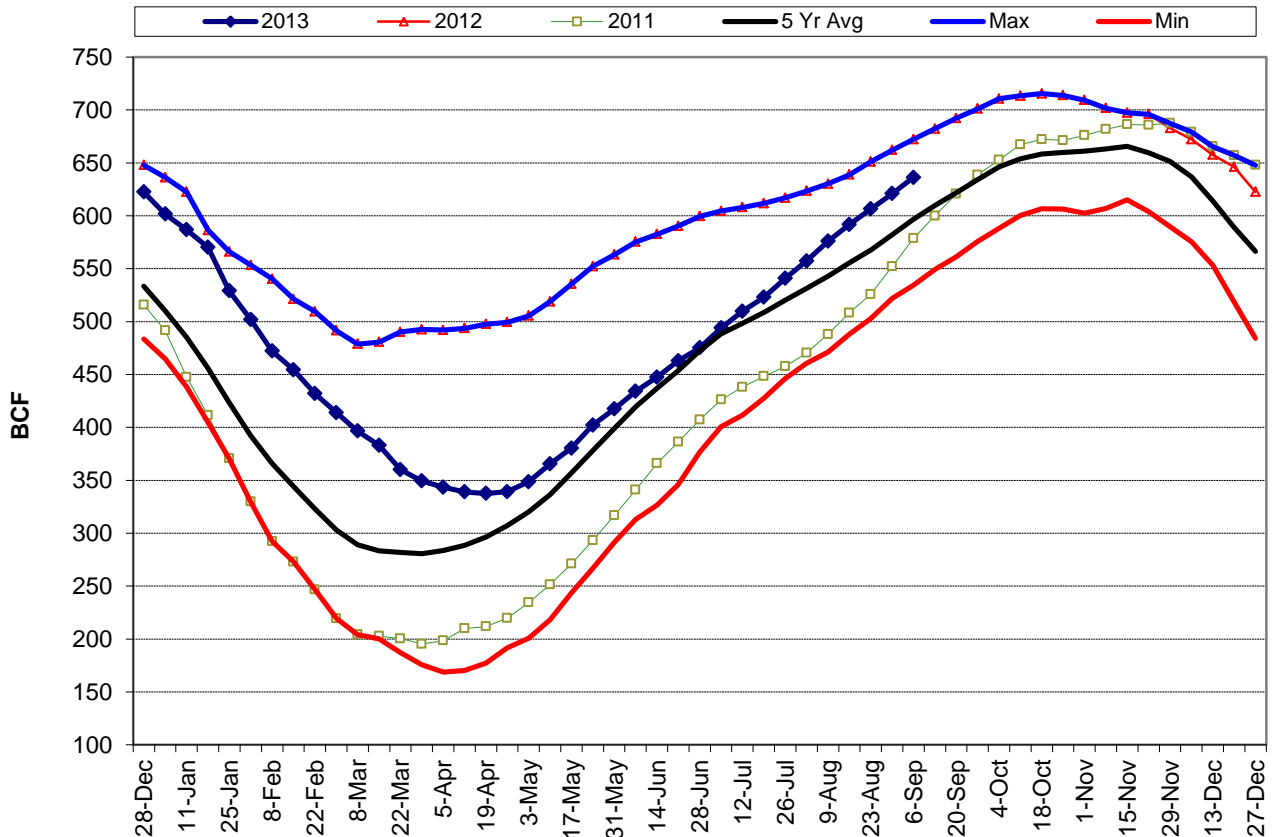
NYMEX Calendar Strips



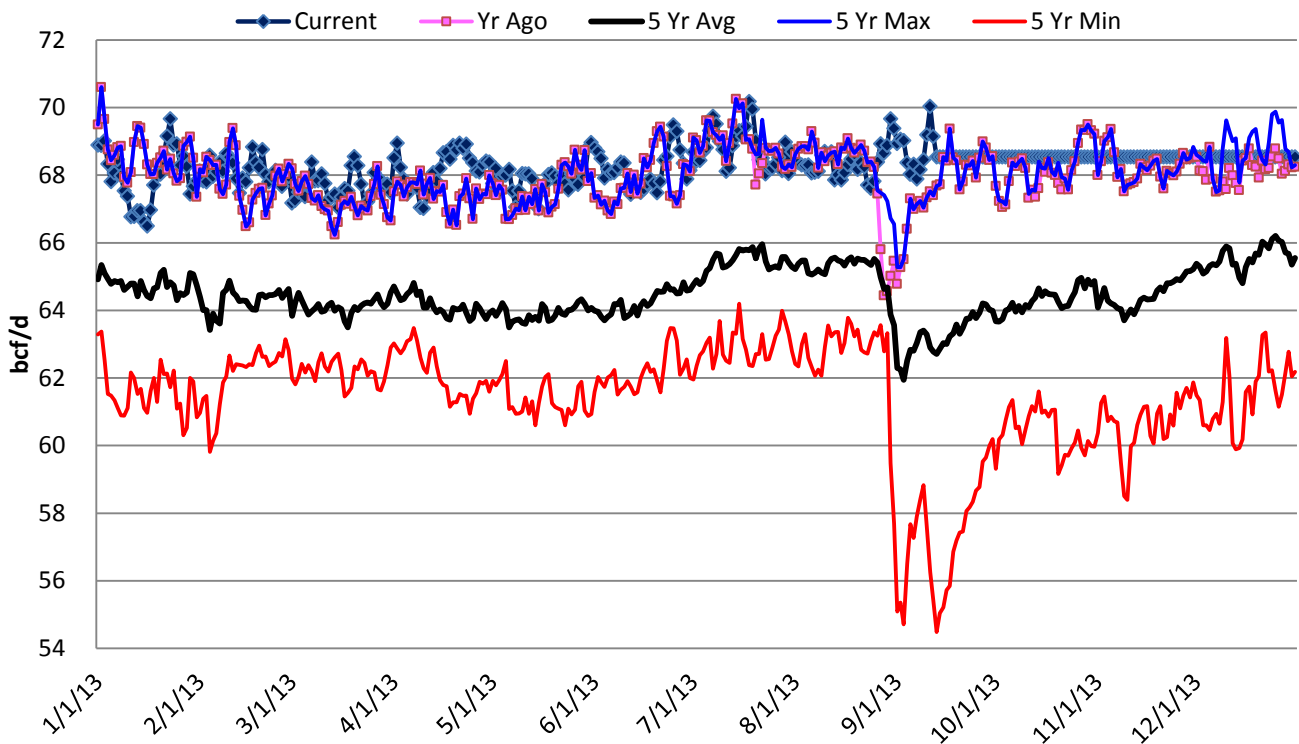
US Working Gas Storage - Source - EIA



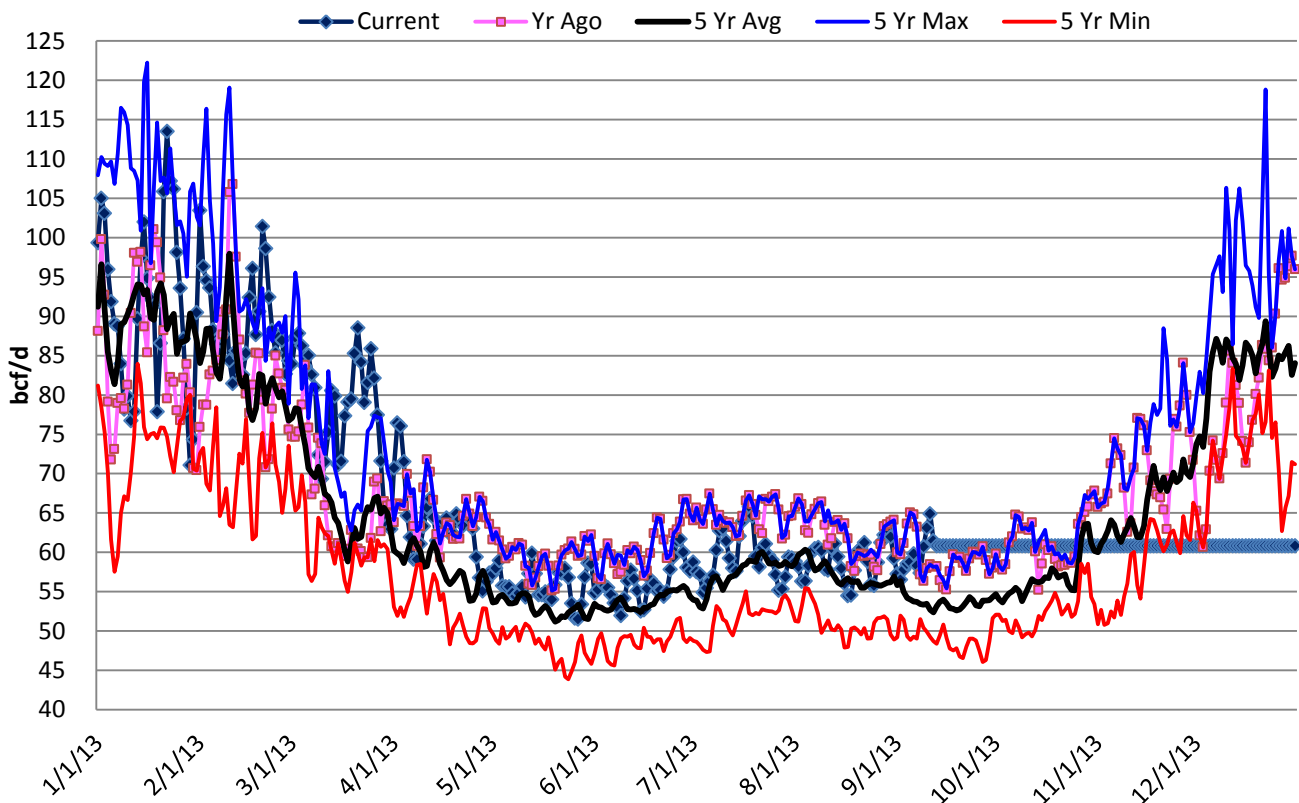
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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