

IAF Advisors  
Energy Market Outlook  
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September 20, 2013

**Price Action:** October contract prices were minimally higher, up 1.0 cent (0.3%) to \$3.687 on another small 19.5 cent range.

**Price Outlook:** The market established a new weekly high as the EIA reported a lower than expected injection. However, the market ended well below the weekly peak and a new low is considered the more likely path. The CFTC net speculative long position rose as prices were higher Tuesday to Tuesday. Across the complex, total open interest rose to 4.95 million as of September 17. CME open interest was barely lower at 1.31 million contracts as of September 19. The market complexion has changed little in recent weeks with plenty of room for increased buying or selling interest.

**Weekly Storage:** US working gas storage rose 46 bcf for the week ending September 13. Current inventory levels of 3,299 bcf now fall 197 bcf (5.6%) below last year and rise 20 bcf (0.6%) above the 5 year average. The EIA reported an injection of only 46 bcf for the week ending September 13. At the same time, one of the storage facilities reported a reclassification of 3 bcf from base to working gas. This falls beneath the EIA stated methodology of reporting revisions that are 7 bcf or larger. Thus, from a flowing gas perspective, it is our interpretation that the flowing gas change was only 43 bcf and considered quite bullish.

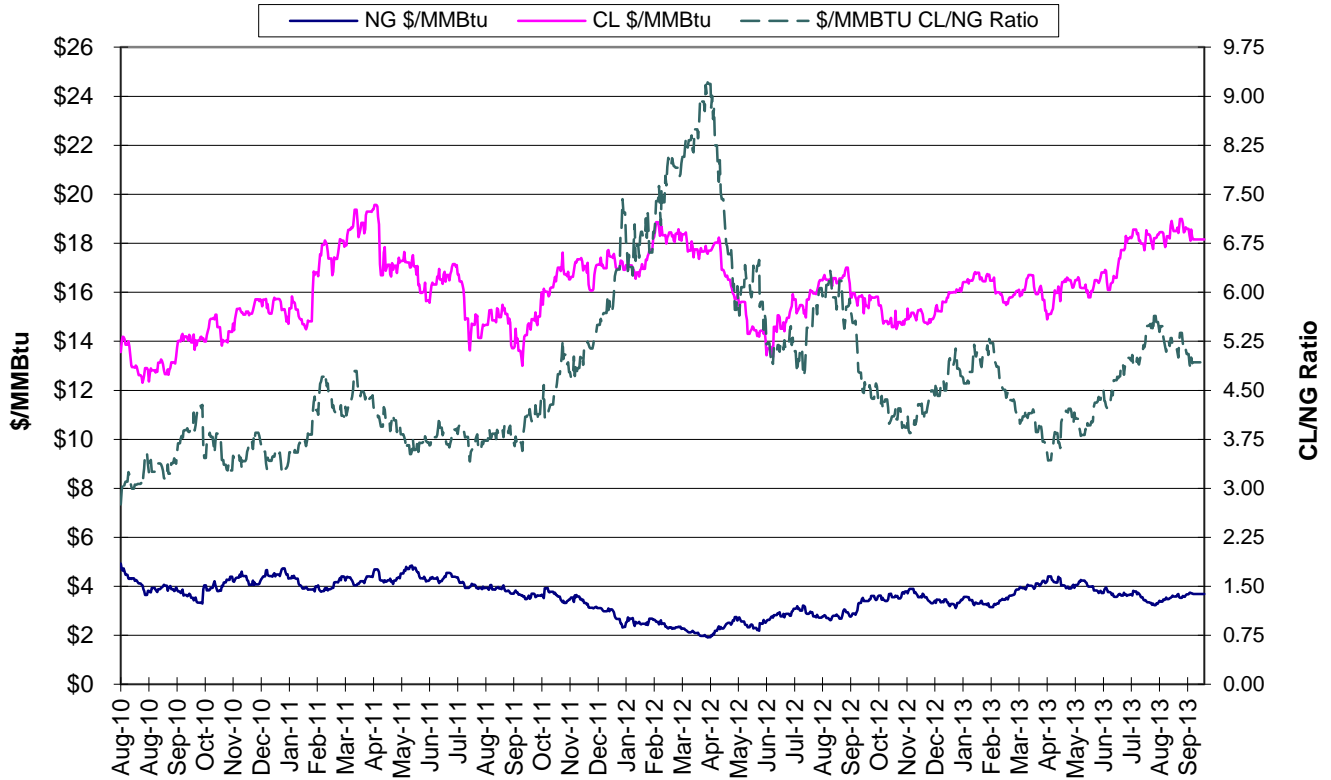
**Storage Outlook:** This week did break a string of 20 consecutive weeks where injections exceeded last year. As the week came to a close, temperature adjusted demand began to slide. Combined with moderating temperatures, injections are going to rise substantially. However, we do not think we will witness another triple digit injection in 2013. October temperatures will play a critical role in the ultimate peak storage level.

**Supply Trends:** Total supply rose 0.1 bcf/d to 68.9 bcf/d. Canadian imports were higher with all other components lower. The US Baker Hughes rig count slipped 7 with increased oil activity not overcoming a natural gas drop. Canadian activity rose 8. Thus the total North American rig count increased by 1 to 2,149 which now trails last year by 73. The higher efficiency US horizontal rig count rose 15 to 1,091 and falls 58 behind last year.

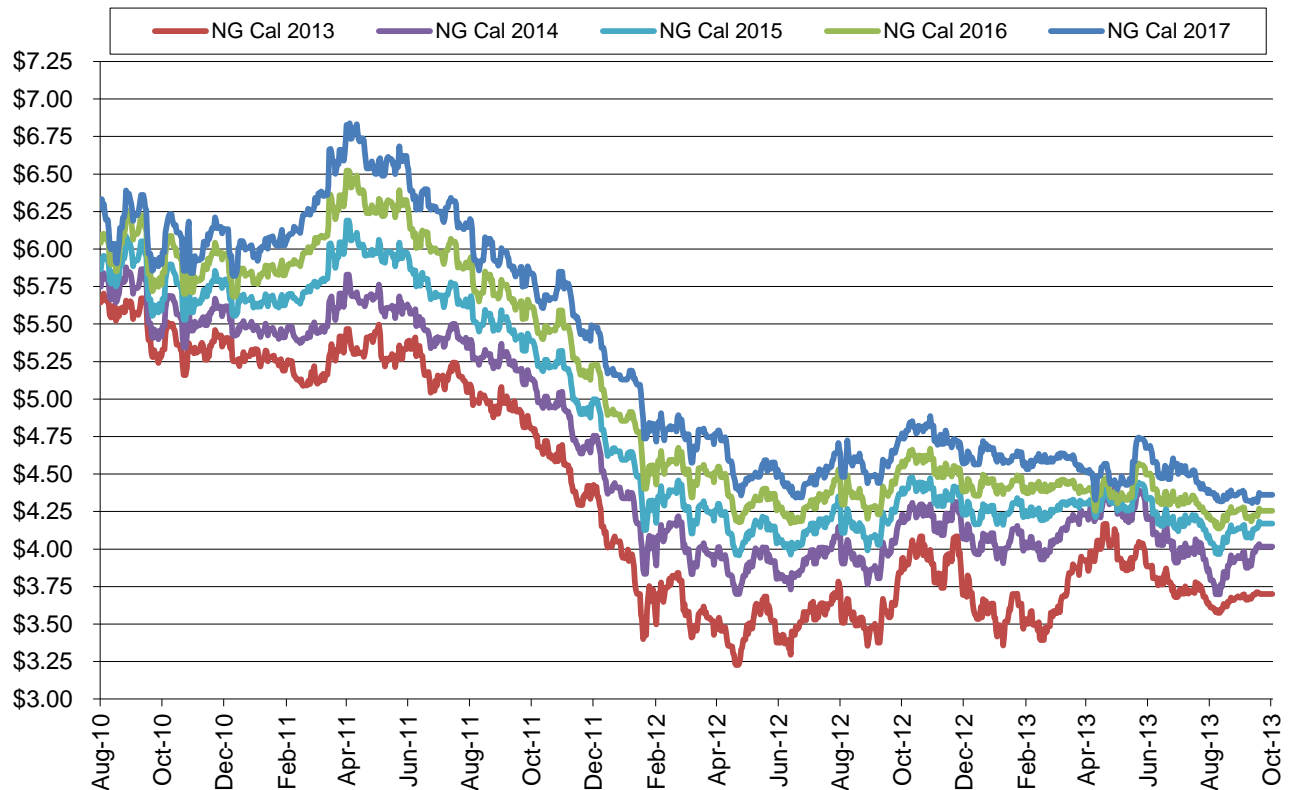
**Demand Trends:** Total demand rose 2.3 bcf/d to 60.6 bcf/d. All sectors were higher on the week. Electricity demand slipped 1,297 gigawatt-hrs to 81,463, which exceeds last year by 4,582 (6.0%) and the 5 year average by 3,926 (5.1%). Demand slipped quite dramatically as the week came to a close. Although associated with moderating temperatures, demand fell more than indicated by our models and this slide in temperature adjusted demand is considered a bearish development. The EIA reported a 5.5% July YOY total electricity demand drop with coal output down 3.7% and natural gas output down 17%. We consider electricity demand an important indicator of overall economic health and while increased efficiencies and distributed generation play a role in the YOY drop, this data suggests a very sluggish economy. This is taking into account the cooler July 2013 temperatures.

**Other Factors:** The S&P 500 surged to new all-time highs as the Fed delayed any tapering. However, it fell from those highs as the week came to a close.

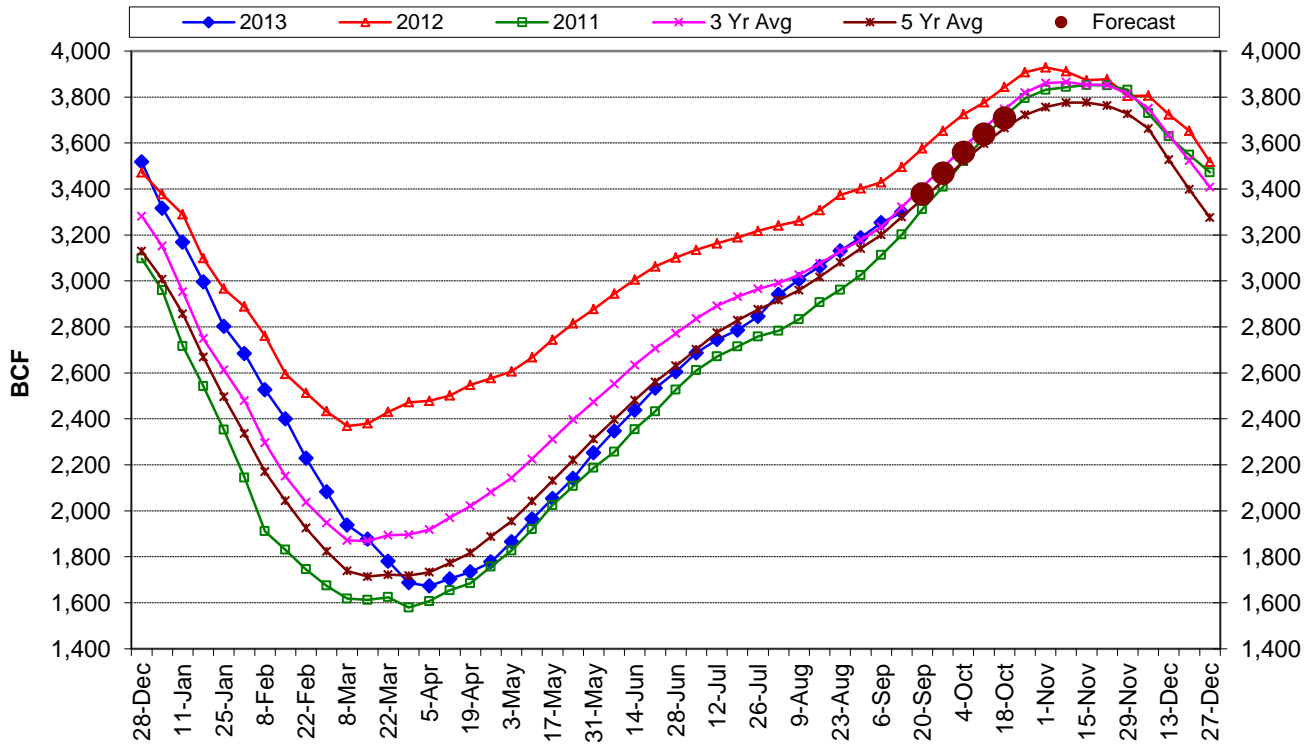
## \$/MMBtu Ratio of NYMEX CL and NG



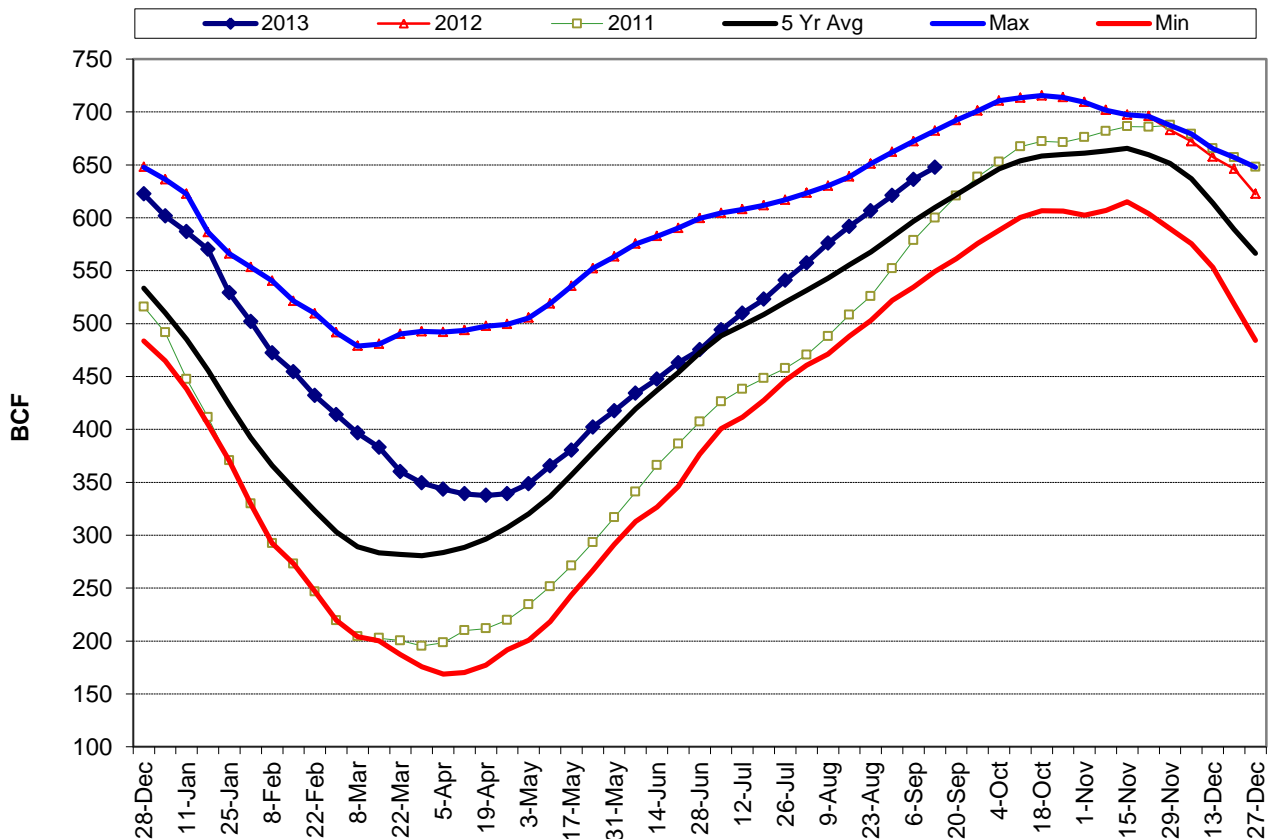
## NYMEX Calendar Strips



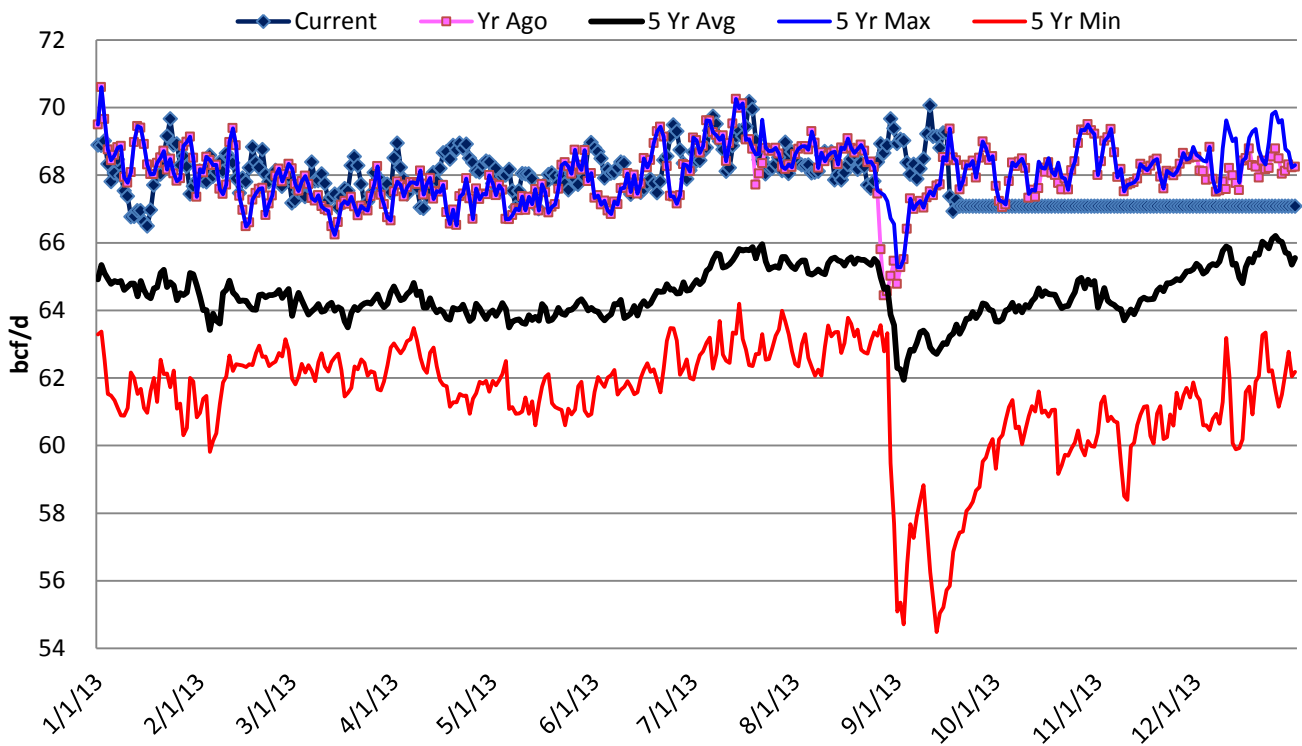
## US Working Gas Storage - Source - EIA



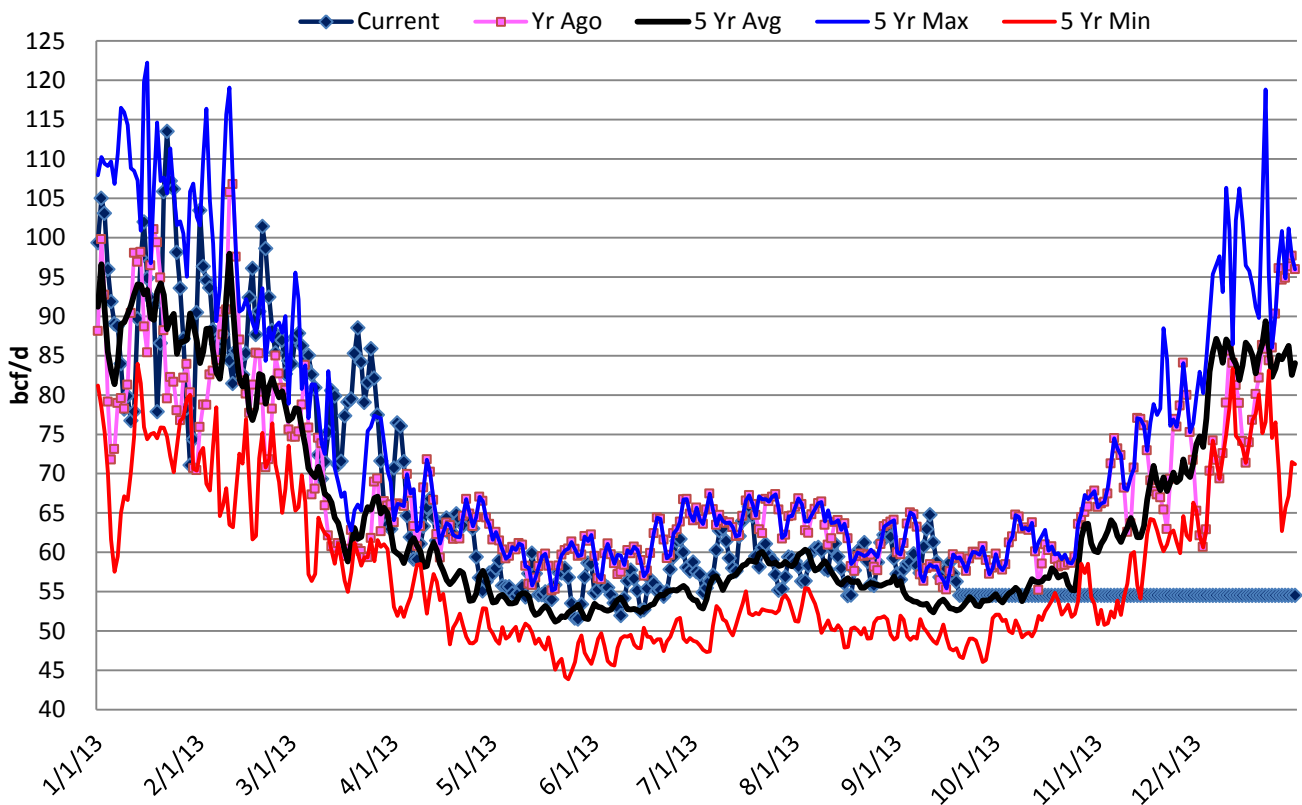
## Canadian Working Gas Storage - Enerdata



## US Total Supply



## US Total Demand



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

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