

IAF Advisors
Energy Market Outlook
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Price Action: Prices rose 27.0 cents (7.7%) to \$3.776 on an expanded 27.6 cent range.

Price Outlook: Natural gas did not establish a new low as expected, but maintained its' historical tendency and instead soared higher to establish a new high at \$3.795. In a complete reversal of last week, based on the closing price and proximity to last week's high, a new high seems the most likely path. The CFTC will not release data during the US government shutdown. Open interest fell to 1.25 million contracts as of October 10. Despite the recent rally, the risk/reward bias seems to still be to higher levels with market moves focused nearly entirely on the 11-15 day forecast.

Weekly Storage: US working gas storage rose 90 bcf for the week ending October 4. Current inventory levels of 3,577 bcf now fall 148 bcf (4.0%) below last year and rise 57 bcf (1.6%) above the 5 year average. Although not a fundamental market factor, the EIA had to shut down on Friday due to the US government budget debacle. There will not be any more weekly storage reports until the impasse is resolved. The EIA indicated that companies should continue submitting reports and that all data would be compiled and thus weekly storage levels and not just one lump new storage level would be reported once funding was restored.

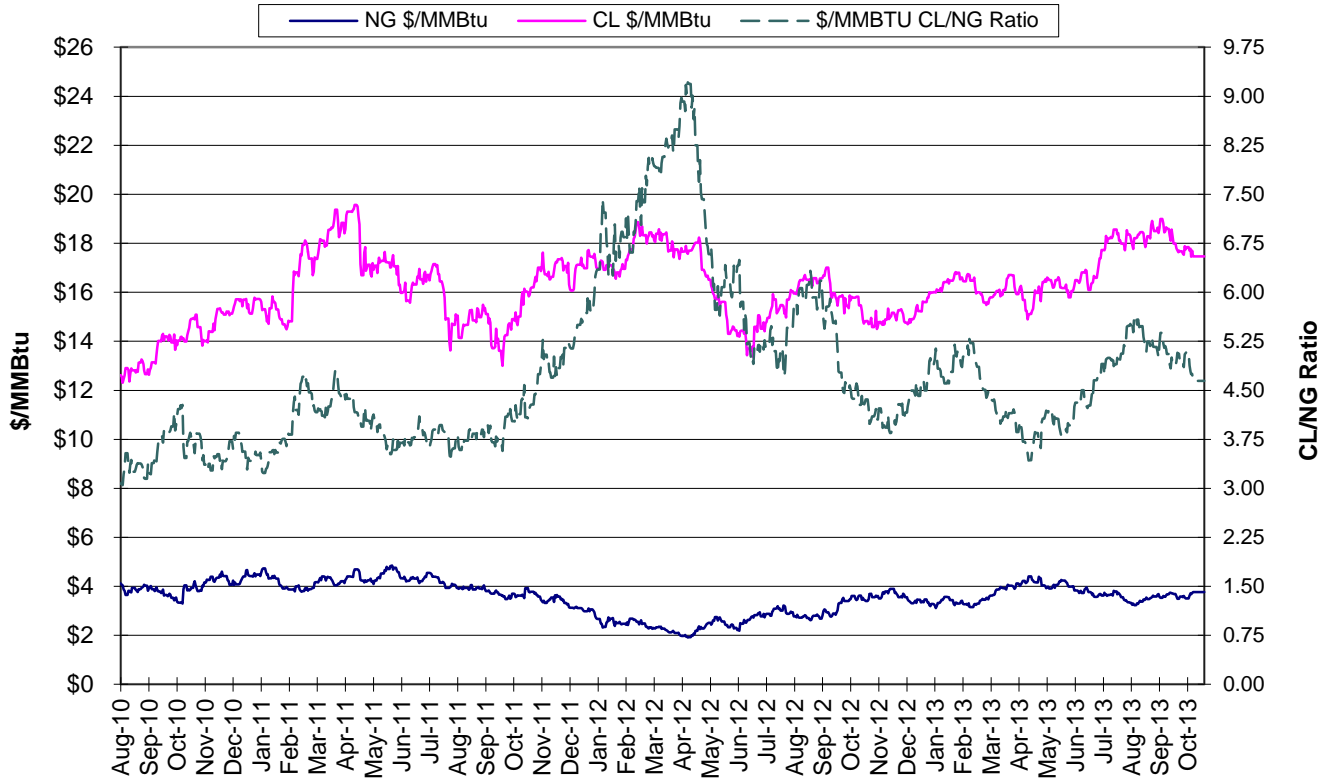
Storage Outlook: The significance of early winter temperatures should not be underestimated. Early cold and subsequent heating loads could reduce injections and even result in withdrawals. Likewise, continued moderate temperatures would allow injections to continue into November. Peak storage levels are now projected to reach between 3.80 and 3.85 tcf.

Supply Trends: Total supply fell 0.5 bcf/d to 67.0 bcf/d. US production rose, but was more than offset by a maintenance related drop in Canadian imports. The US Baker Hughes rig count dropped 13 with both oil and natural gas lower. Canadian activity dropped 4. Thus the total North American rig count fell by 17 to 2,100 and trails last year by 96. The higher efficiency US horizontal rig count rose 7 to 1,106 and falls 6 behind last year.

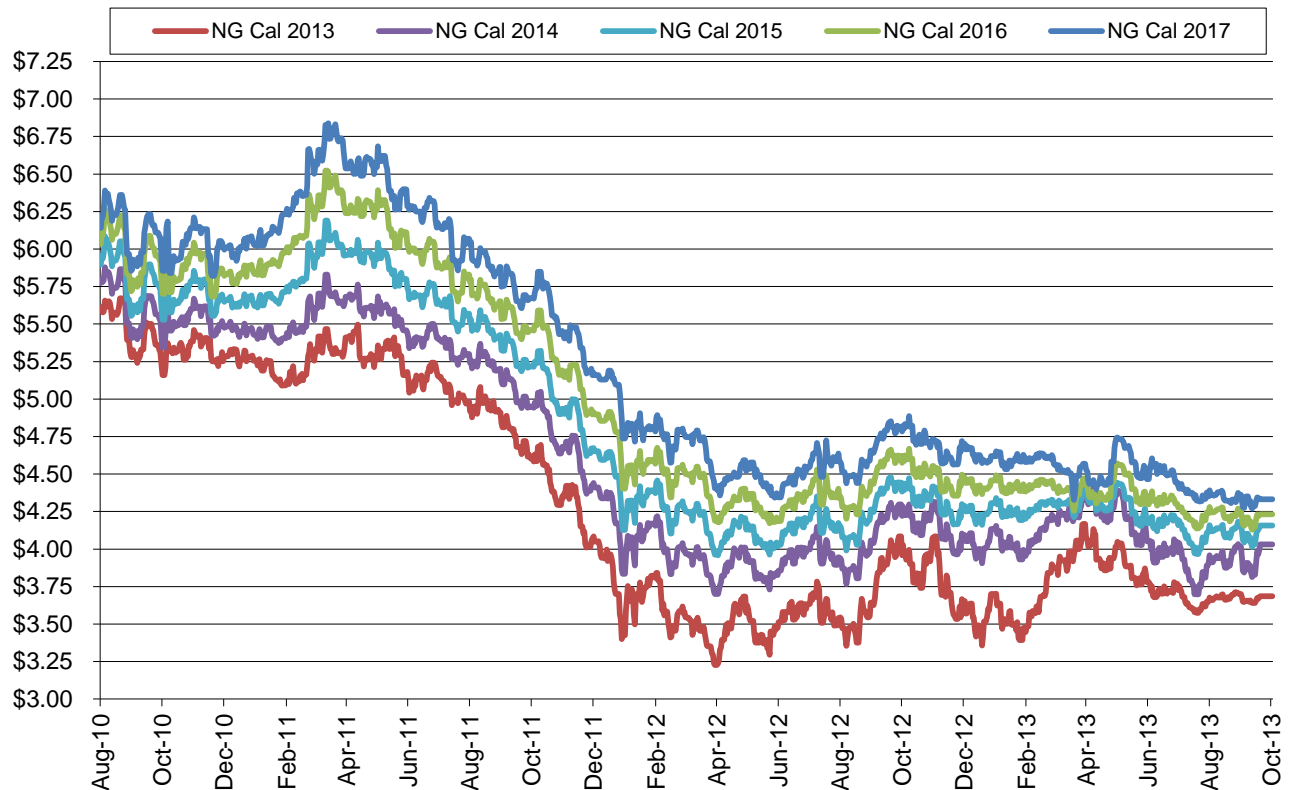
Demand Trends: Total demand rose 0.6 bcf/d to 55.3 bcf/d. Increased power consumption offset lower R&C and industrial demand. Electricity demand rose 2,193 gigawatt-hrs to 73,767, which exceeds last year by 1,423 (2.0%) and the 5 year average by 1,202 (1.7%).

Other Factors: The S&P 500 soared as hopes of some Washington DC budget deal may be reached entered the market.

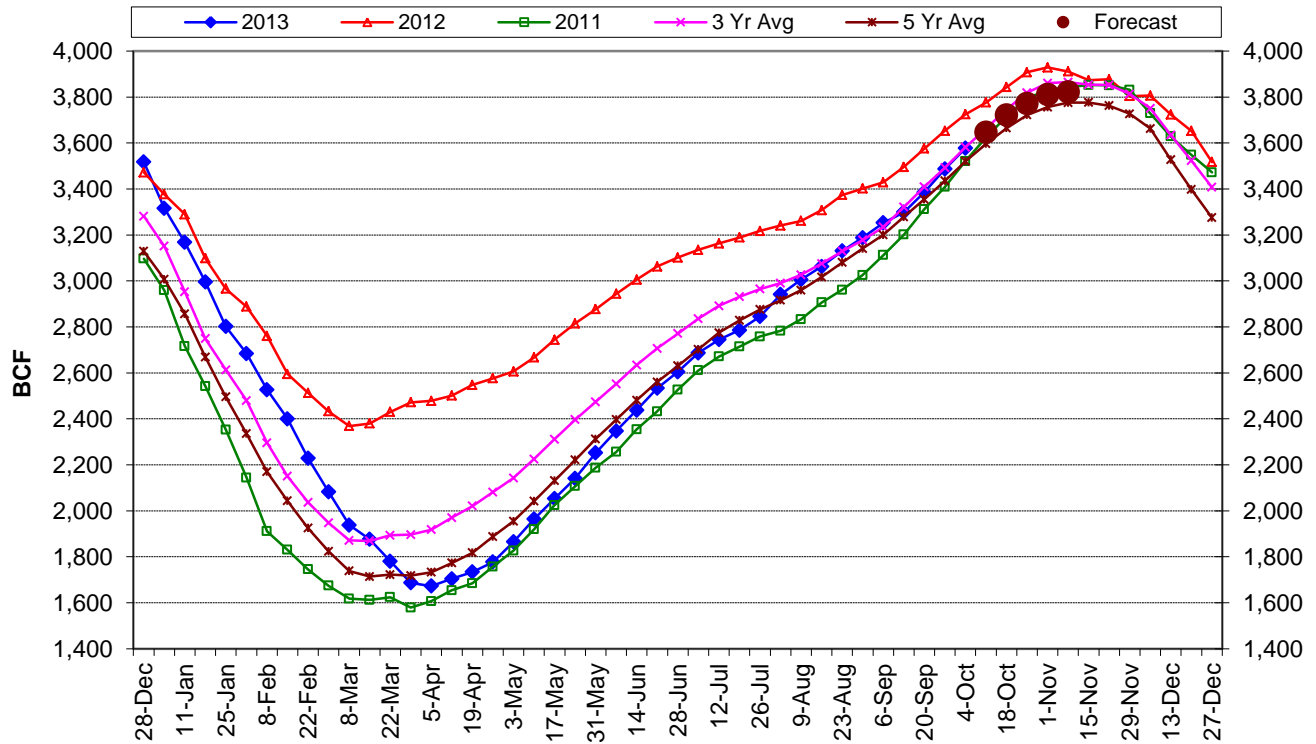
\$/MMBtu Ratio of NYMEX CL and NG



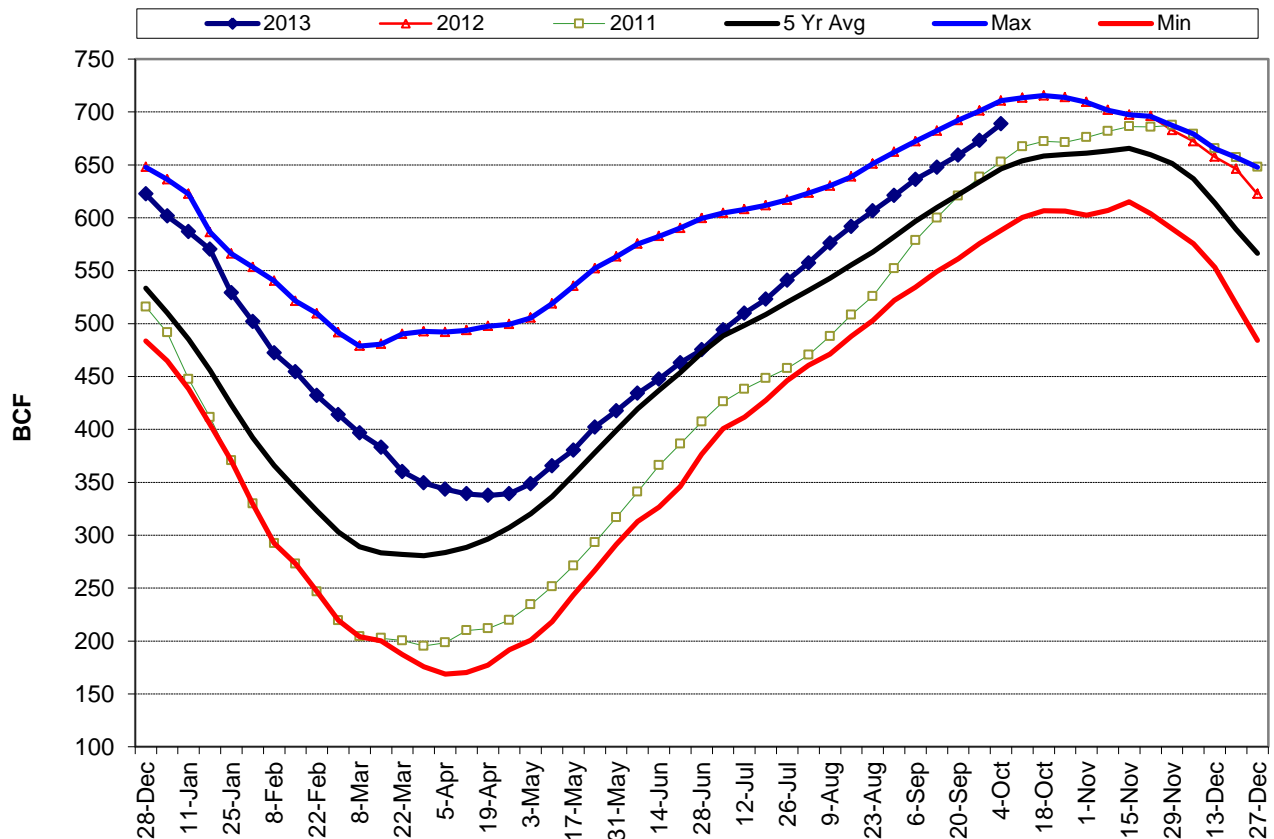
NYMEX Calendar Strips



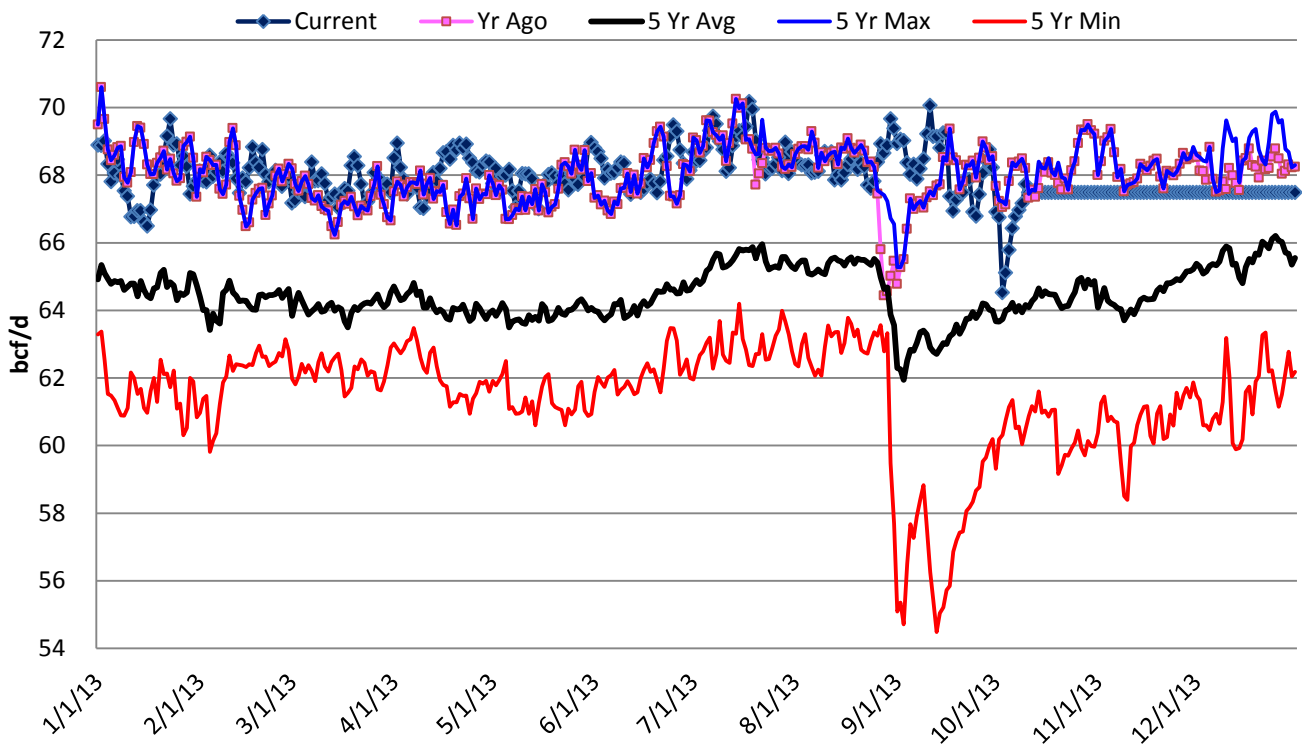
US Working Gas Storage - Source - EIA



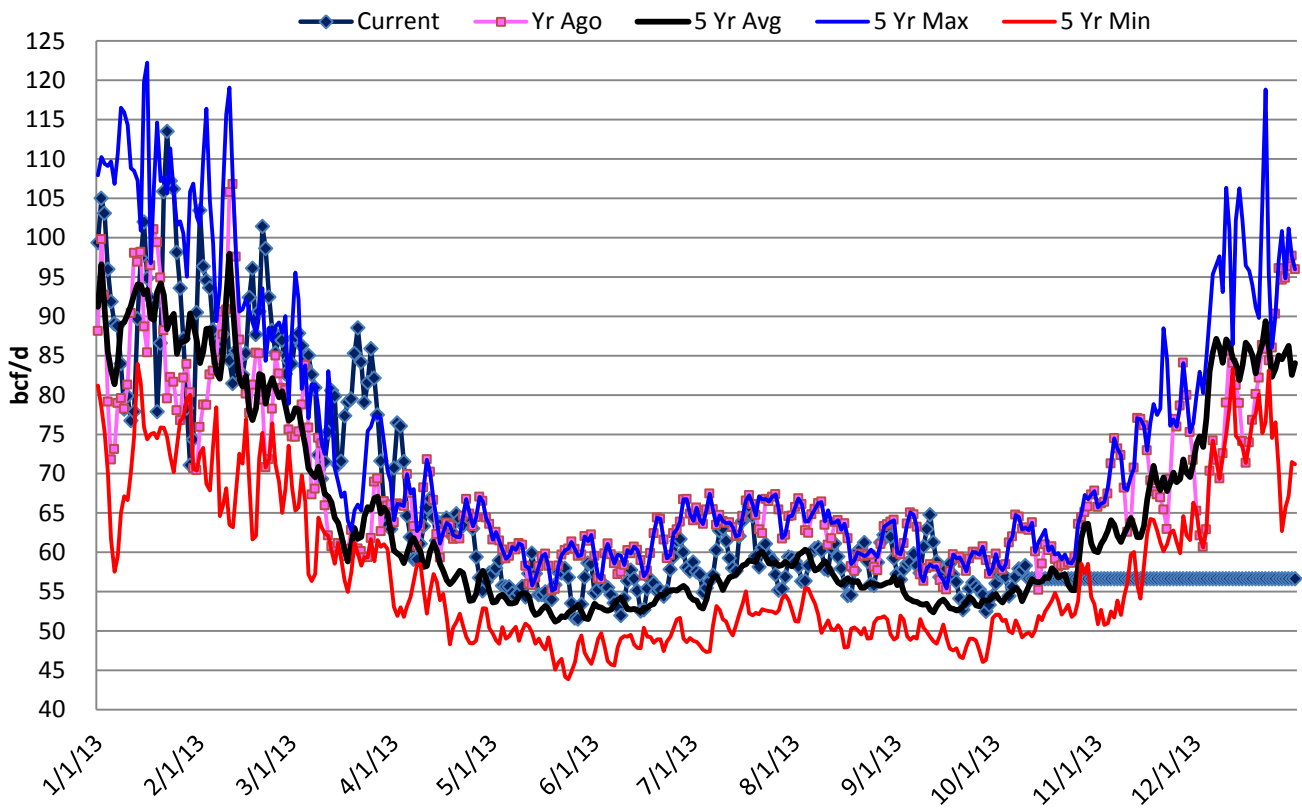
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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