

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
December 6, 2013

Price Action: Prices rose 16.0 cents (4.0%) to \$4.114 on an expanded 30.2 cent range.

Price Outlook: Prices continued higher with the market up now for the 4th consecutive week. Considering the weak close, uncertainty at the back end of the weather forecast and the extended price up move, a rare inside week is considered possible. Five consecutive weeks higher would mark the 17th time that the market ended with exactly that 5 week string. Since 2000, 35 weeks have seen exactly 4 weeks higher. The record consecutive streak higher was 14 in 2008. The CFTC speculative position soared last week in accordance with the price uptick and clearly reveals the momentum trend following algorithms that drive many trading decisions. Although the last two weeks represent a significant increase, the current speculative net long position remains at less than half the historical peak and thus further buying could lead prices even higher. Total combined open interest has actually fallen and stands at just 4.54 million across the complex as of December 3. CME futures open interest increased to 1.31 million contracts as of December 5.

Weekly Storage: US working gas storage for the week ending November 29 indicated a weekly withdrawal of 162 bcf. Thus, current inventories of 3,614 bcf fall 190 bcf (5.0%) below last year and 113 bcf (3.0%) behind the 5 year average.

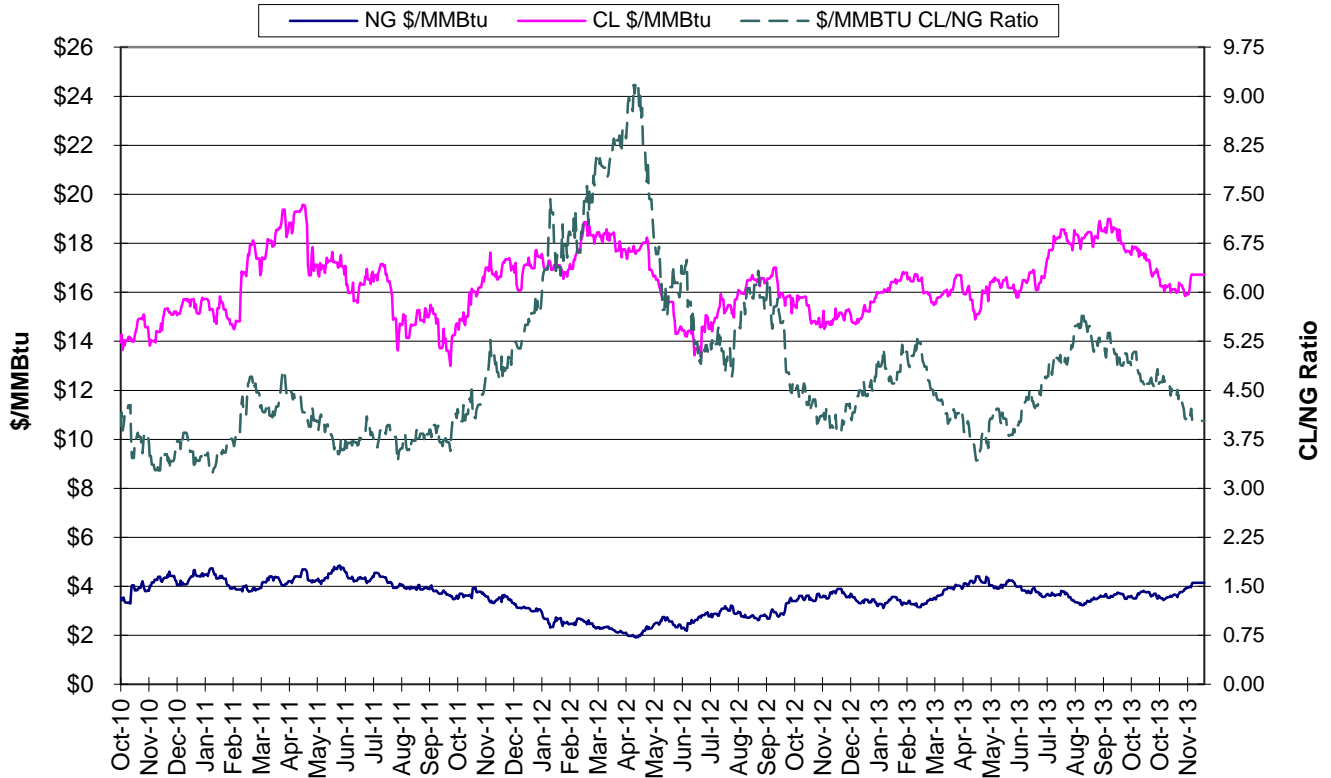
Storage Outlook: The large Producing Region withdrawal highlights what we believe will be increasingly volatile storage changes as withdrawals near the 300 bcf level are possible on extended cold in the South while injections near 125 bcf are possible with moderate temperatures. The yearly storage deficit could easily exceed 500 bcf by year's end. This week's storage withdrawal of 162 bcf was mathematically smaller, i.e. larger withdrawal, than expected and exceeded all the reported estimates with some matching our own 154 bcf expectation. The larger than expected withdrawal highlights the non-linear nature of R&C demand along with the demographic shift to the south. In general, Southerners laugh at 95 and cower at 35.

Supply Trends: Total supply rose 0.6 bcf/d to 71.0 bcf/d. Surging Canadian imports offset lower US production. LNG imports and Mexican exports were both marginally higher. The US Baker Hughes rig count rose 12 with both oil and natural gas activity higher. Canadian activity increased 17. Thus the total North American rig count rose by 29 to 2,177 and trails last year by 29. The higher efficiency US horizontal rig count rose 10 to 1,137 and rises 34 above last year.

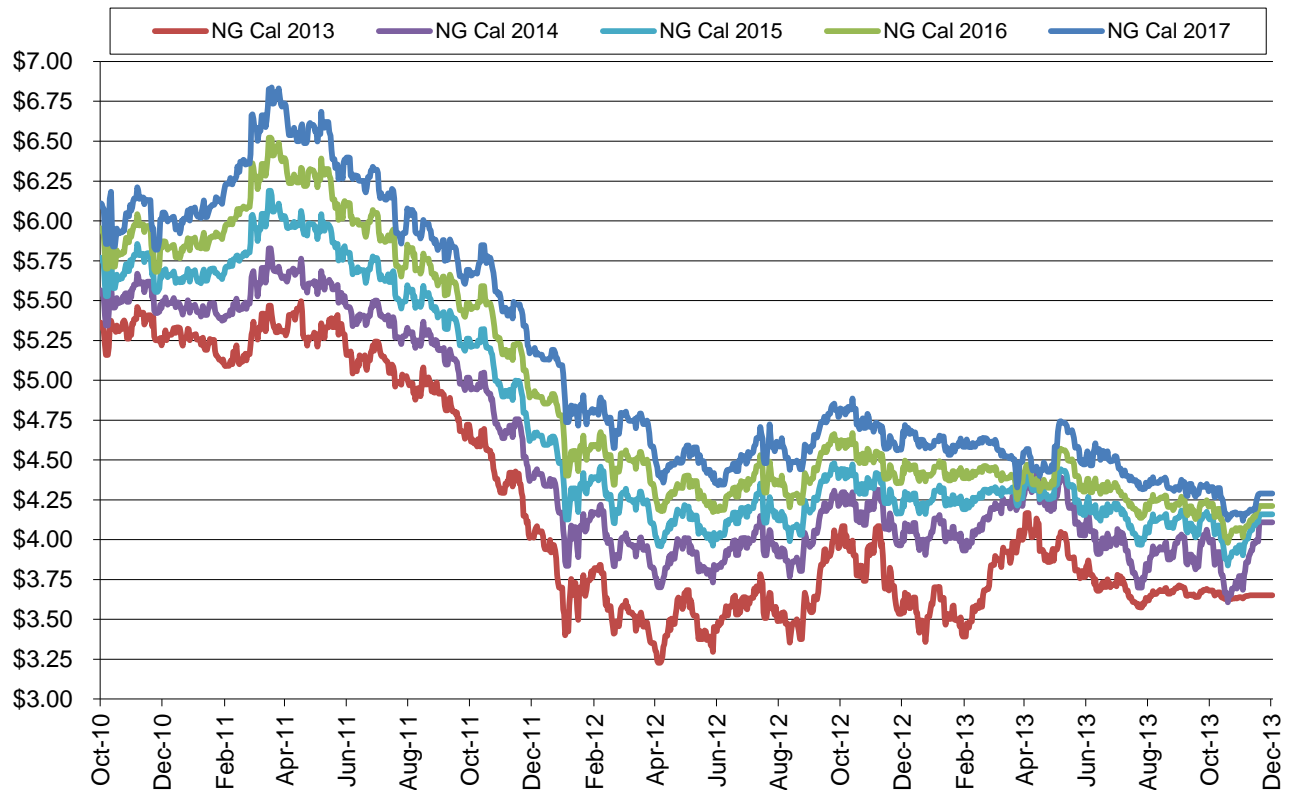
Demand Trends: Total demand soared 21.7 bcf/d to 92.5 bcf/d. All demand sectors were higher with R&C leading the increase. Electricity demand increased 5,049 gigawatt-hrs to 77,368, which exceeds last year by 3,809 (5.2%) and the 5 year average by 5,129 (7.1%). Temperature adjusted remains very bullish with the non-linear R&C sector especially sensitive to lower temperatures.

Other Factors: The S&P 500 rallied strongly on the heels of a positive US jobs report. It remained slightly below the all-time record high.

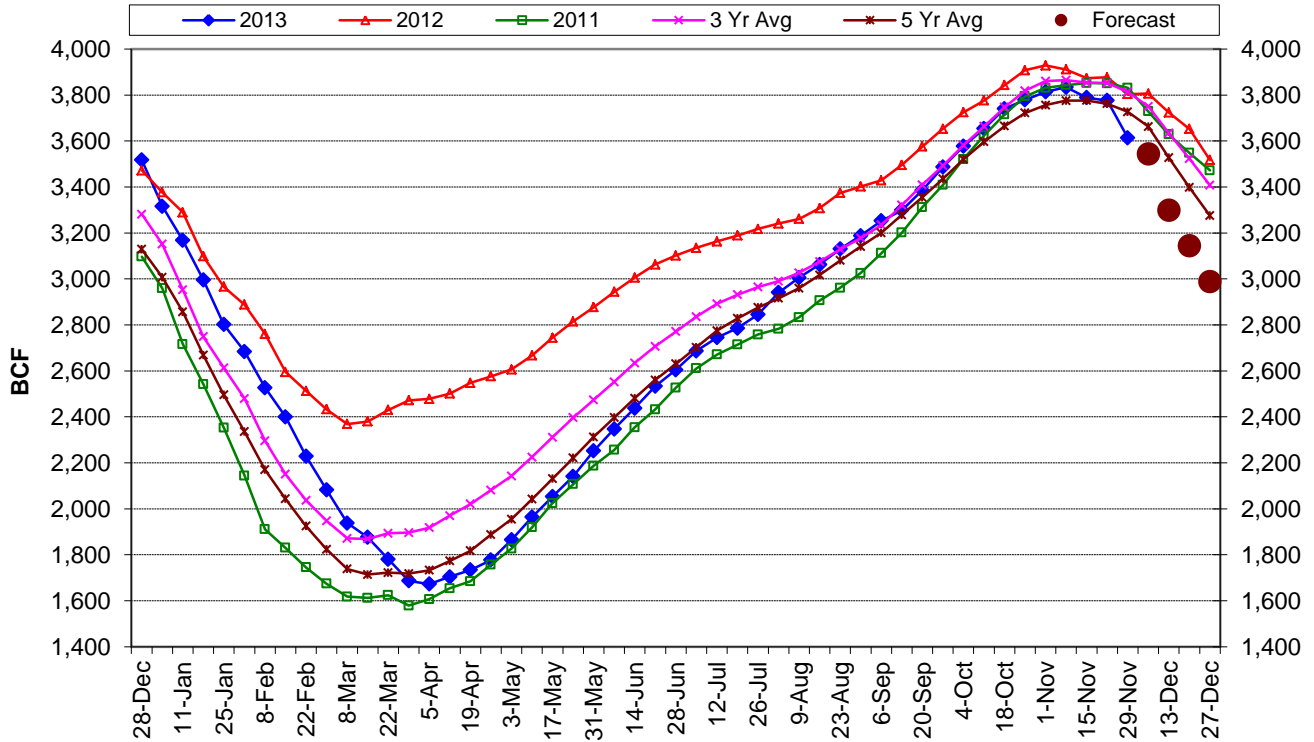
\$/MMBtu Ratio of NYMEX CL and NG



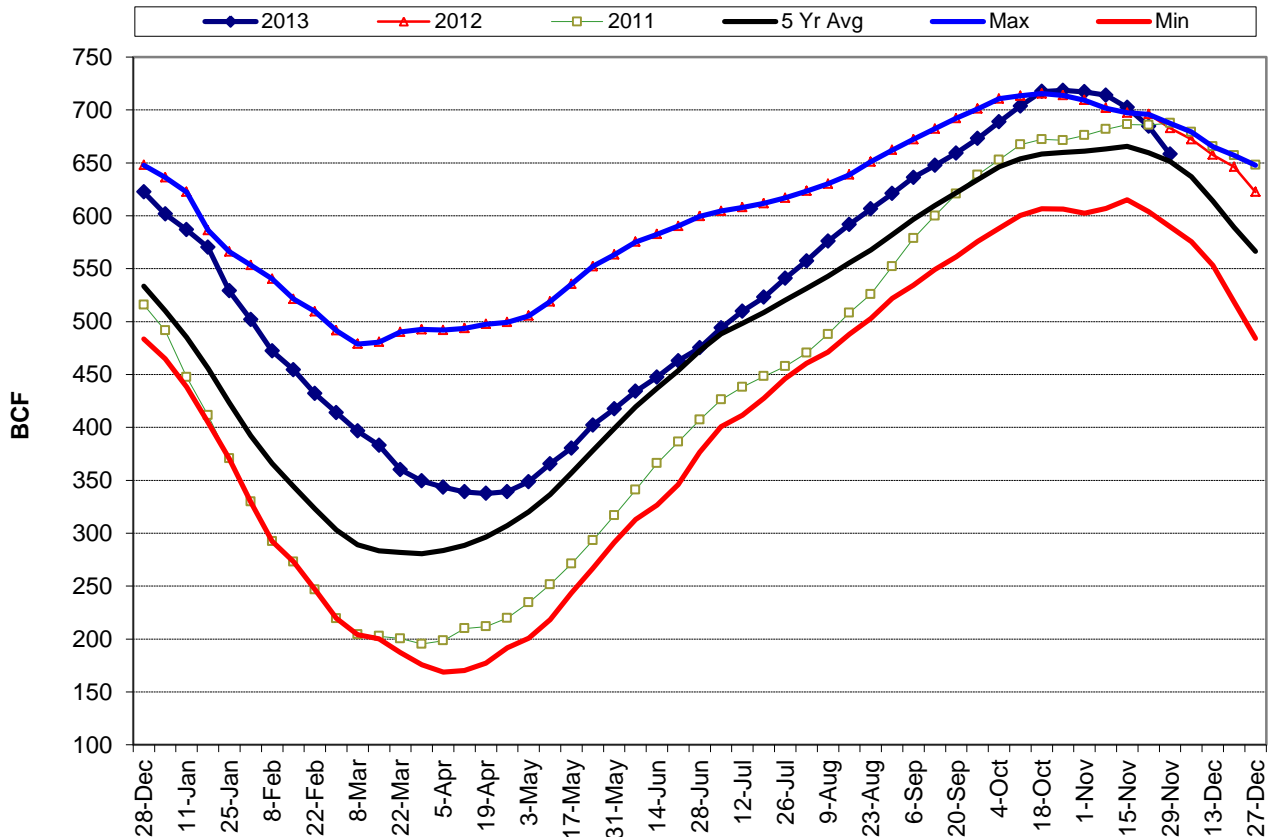
NYMEX Calendar Strips



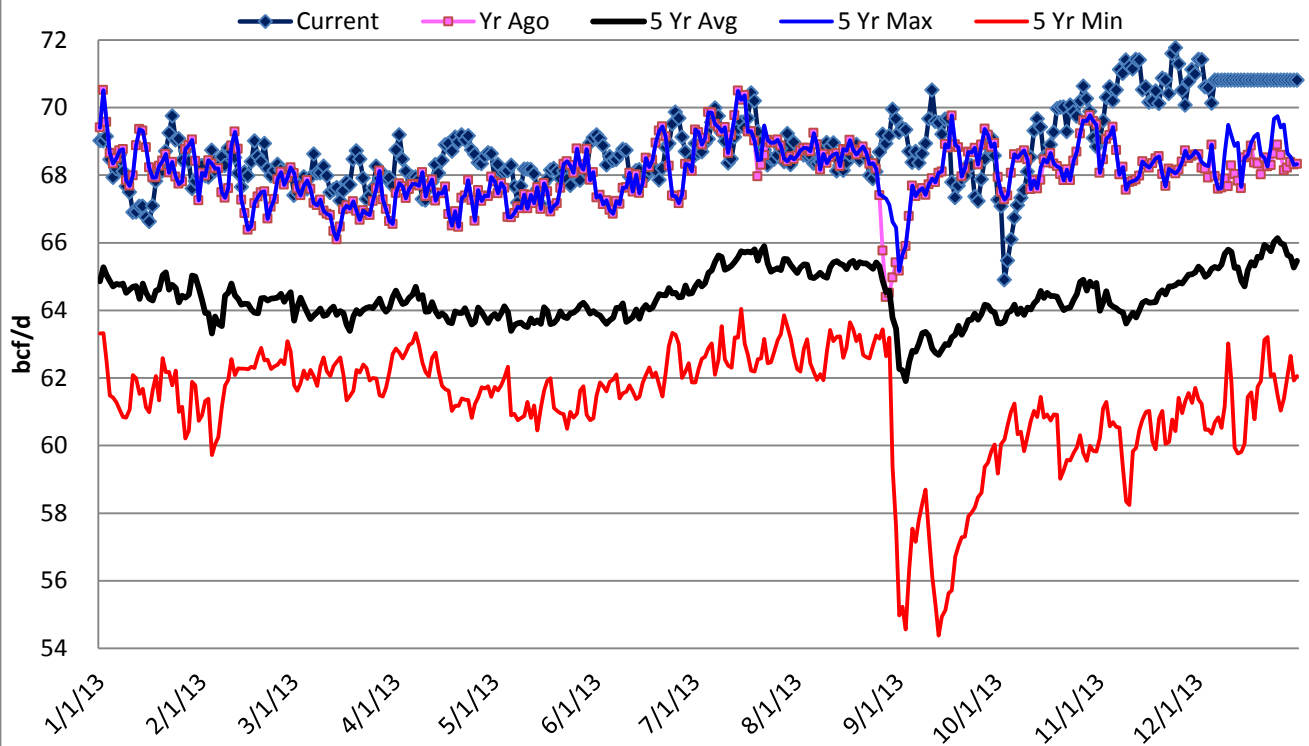
US Working Gas Storage - Source - EIA



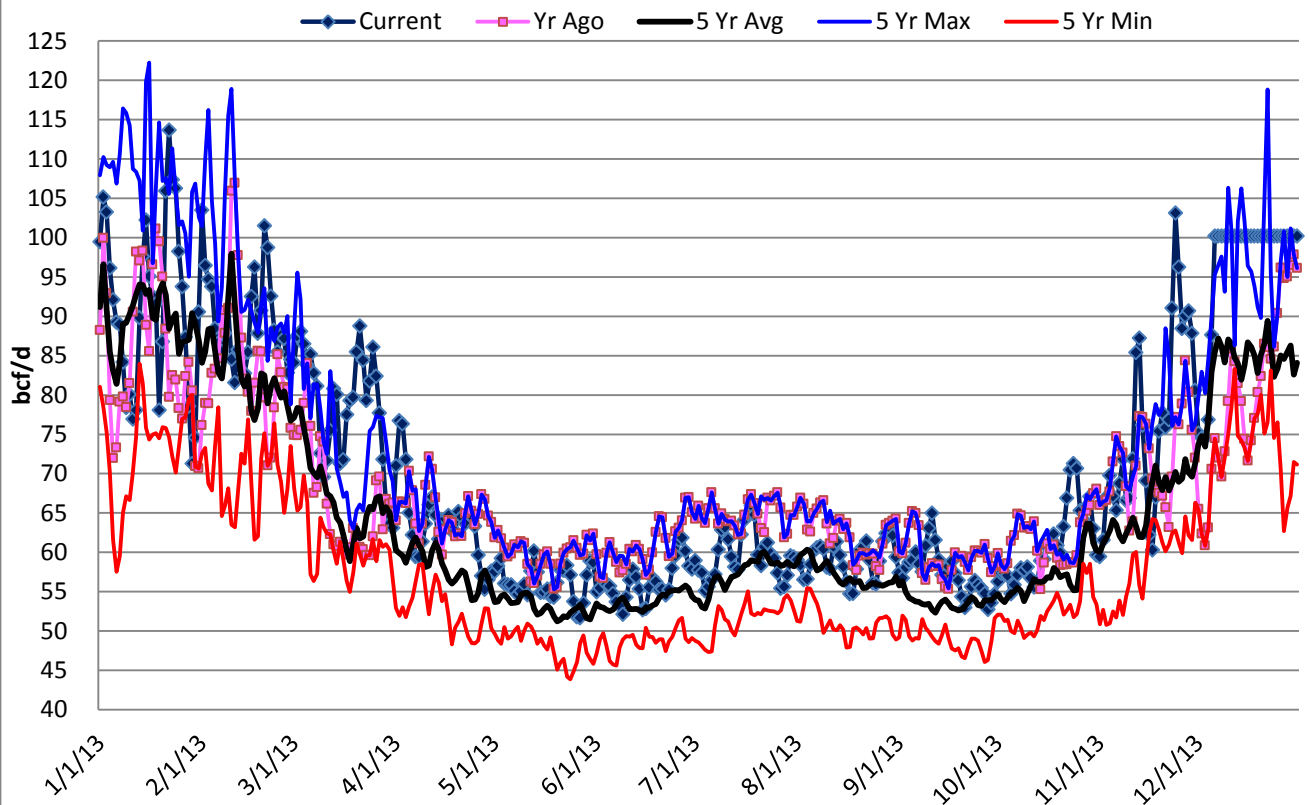
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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