

IAF Advisors
Energy Market Outlook
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December 13, 2013

Price Action: Prices rose 23.7 cents (5.8%) to \$4.351 on a near historical average 30.4 cent range.

Price Outlook: Prices continued higher with the market up now for the 5th consecutive week. Despite the weak close last week, prices powered higher, driven by bullish weather forecasts and supportive fundamental data. Highly dependent on the next weather forecast, a rare inside week is again considered possible. Six consecutive weeks higher would mark the 9th time that the market ended with exactly that 6 week string. Since 2000, 17 weeks have seen exactly 5 weeks higher. The record consecutive streak higher was 14 in 2008. The market is now considered extended and any relaxation in the weather forecasts could result in a rather precipitous decline. The CFTC speculative position surged again as the momentum remained upward and continues to clearly reveal the technical analysis algorithms that drive many trading decisions. Although the last 3 weeks represent a significant increase, the current speculative net long position is still well below the historical peak and thus further buying could lead prices even higher. Total combined open interest rose to 4.79 million across the complex as of December 10. CME futures open interest increased to 1.33 million contracts as of December 12.

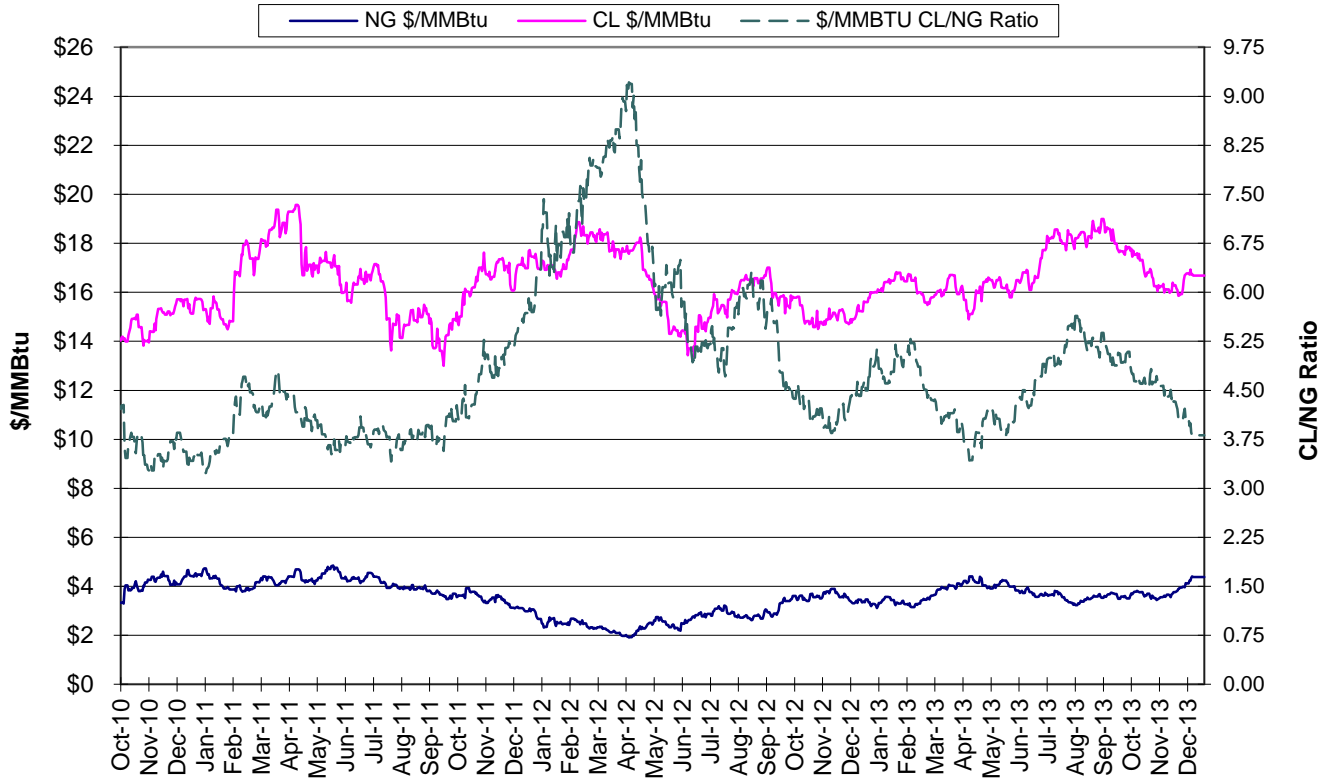
Weekly Storage: US working gas storage for the week ending December 6 indicated a withdrawal of 81 bcf. Thus, current inventories of 3,533 bcf fall 273 bcf (7.2%) below last year and 130 bcf (3.5%) behind the 5 year average.

Storage Outlook: The cold weather has resulted in the possibility of a record withdrawal for the week ending December 13. The record withdrawal of 274 bcf was established the week of January 25, 2008. Combined with a cool forecast, this month's withdrawal could post a December record as well. Thus, if weather for the balance of the winter is just near normal, inventories could be headed below 1,400 bcf.

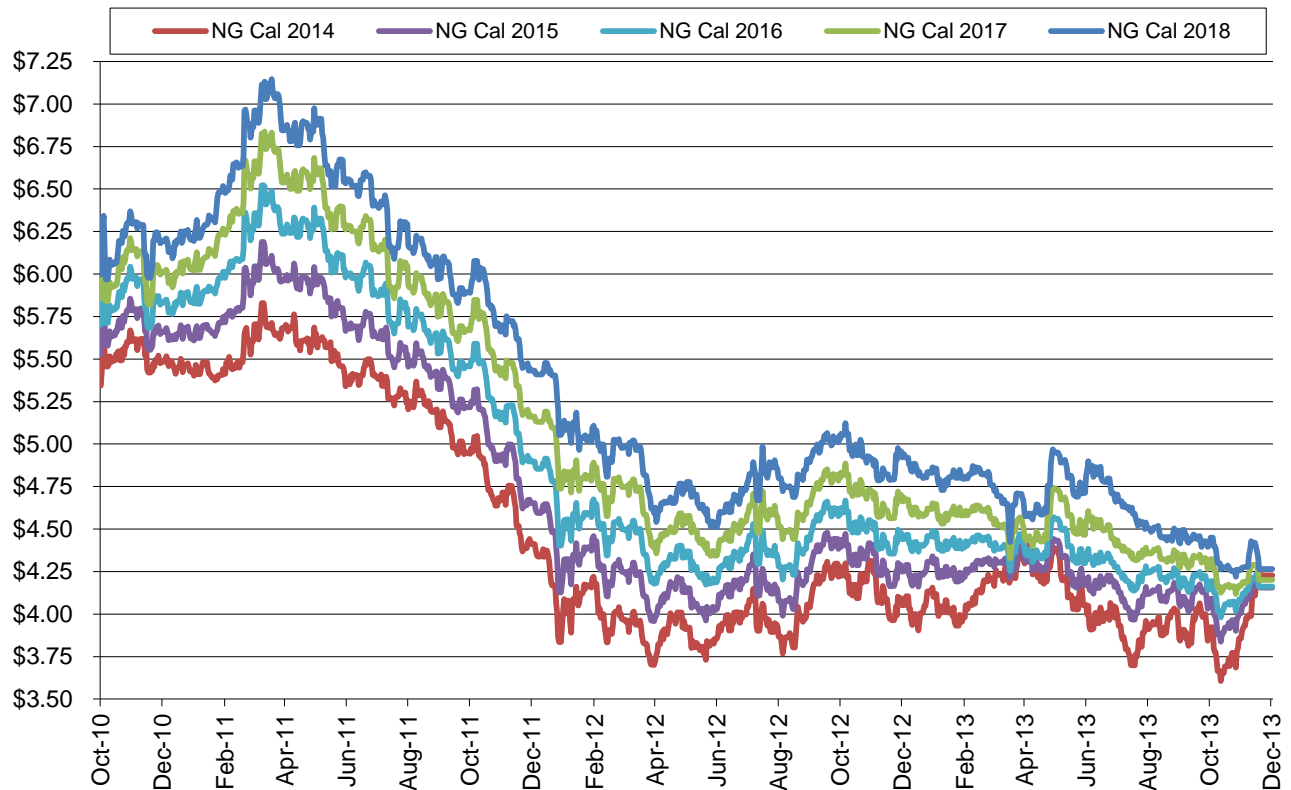
Supply Trends: Total supply fell 0.3 bcf/d to 70.8 bcf/d. US production and imports all fell, but were partially offset by lower Mexican exports. The US Baker Hughes rig count rose 7 with increased oil activity offsetting a natural gas decline. Canadian activity increased 24. Thus the total North American rig count rose by 31 to 2,208 and trails last year by 9. The higher efficiency US horizontal rig count rose 8 to 1,145 and rises 40 above last year. There is surprisingly little indication of any freeze-offs in the Marcellus while both the Rockies and Texas have witnessed supply disruptions. The monthly EIA natural gas report did indicate a maintenance related drop in September with another increase in the estimated extraction loss. Dry gas supply is not growing at the same pace as the reported gross or marketed headline numbers.

Demand Trends: Total demand fell 10.6 bcf/d to 81.8 bcf/d. All demand sectors were lower with R&C pacing the decline. Electricity demand fell 744 gigawatt-hrs to 76,624, which exceeds last year by 5,111 (7.1%) and the 5 year average by 658 (0.9%). Demand remains impressive with pipeline data indicating multiple days above the 100 bcf mark. While temperatures were cold, this is still considered impressively bullish even on a temperature adjusted scale. With the heart of winter still approaching, even 30 year normal temperatures are expected to result in very large withdrawals.

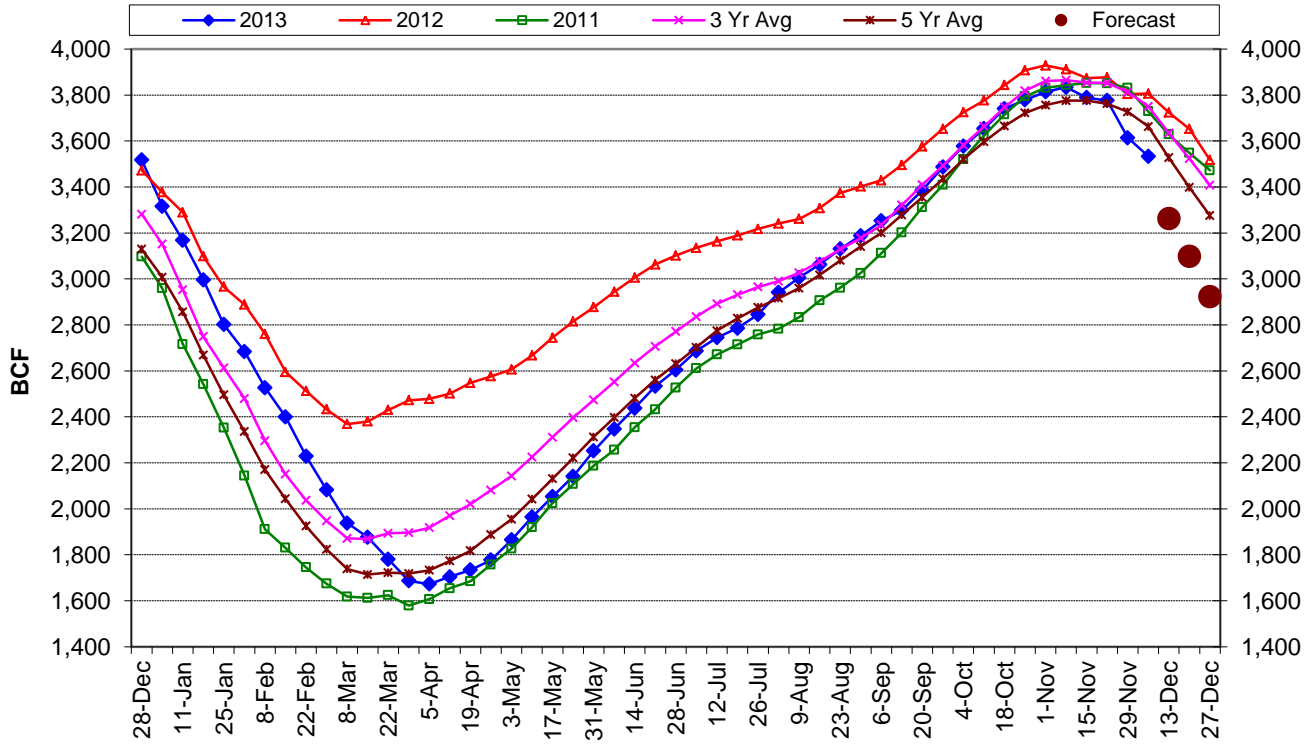
\$/MMBtu Ratio of NYMEX CL and NG



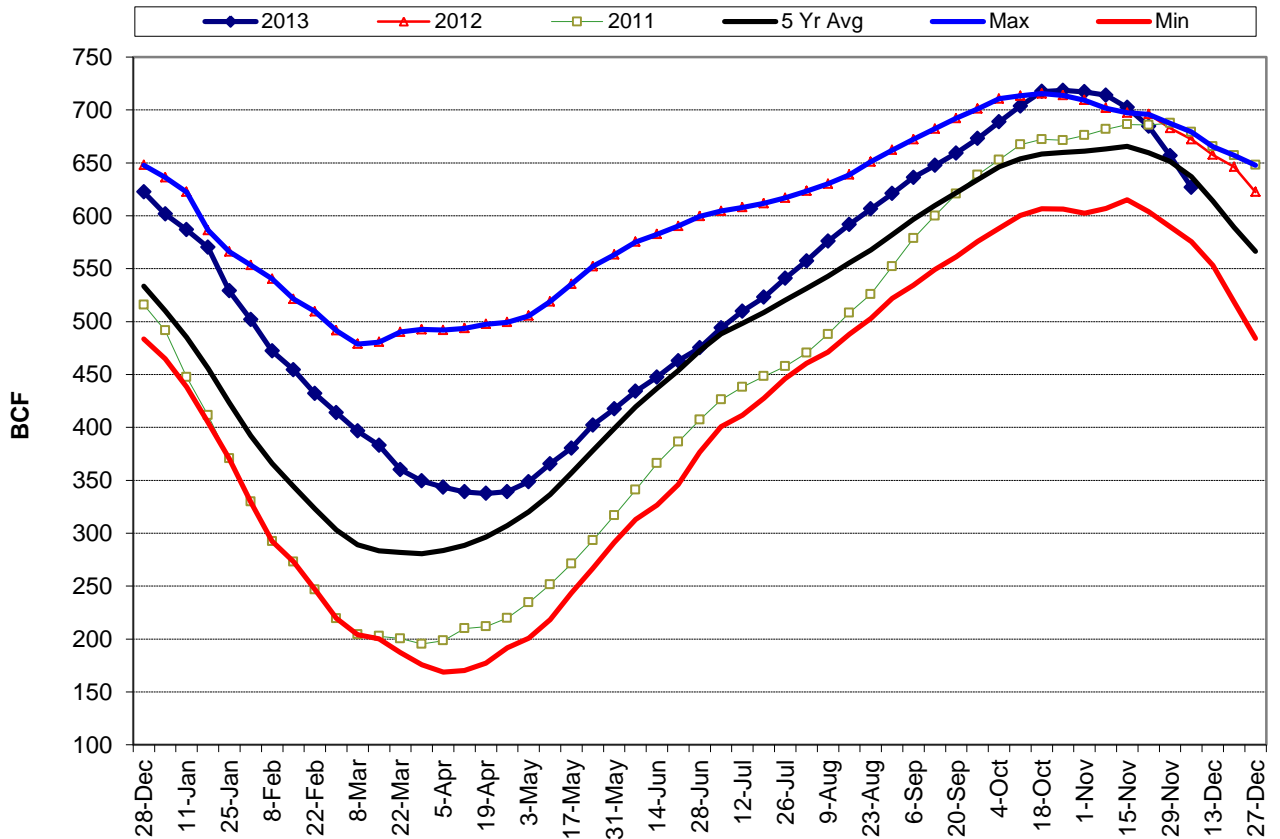
NYMEX Calendar Strips



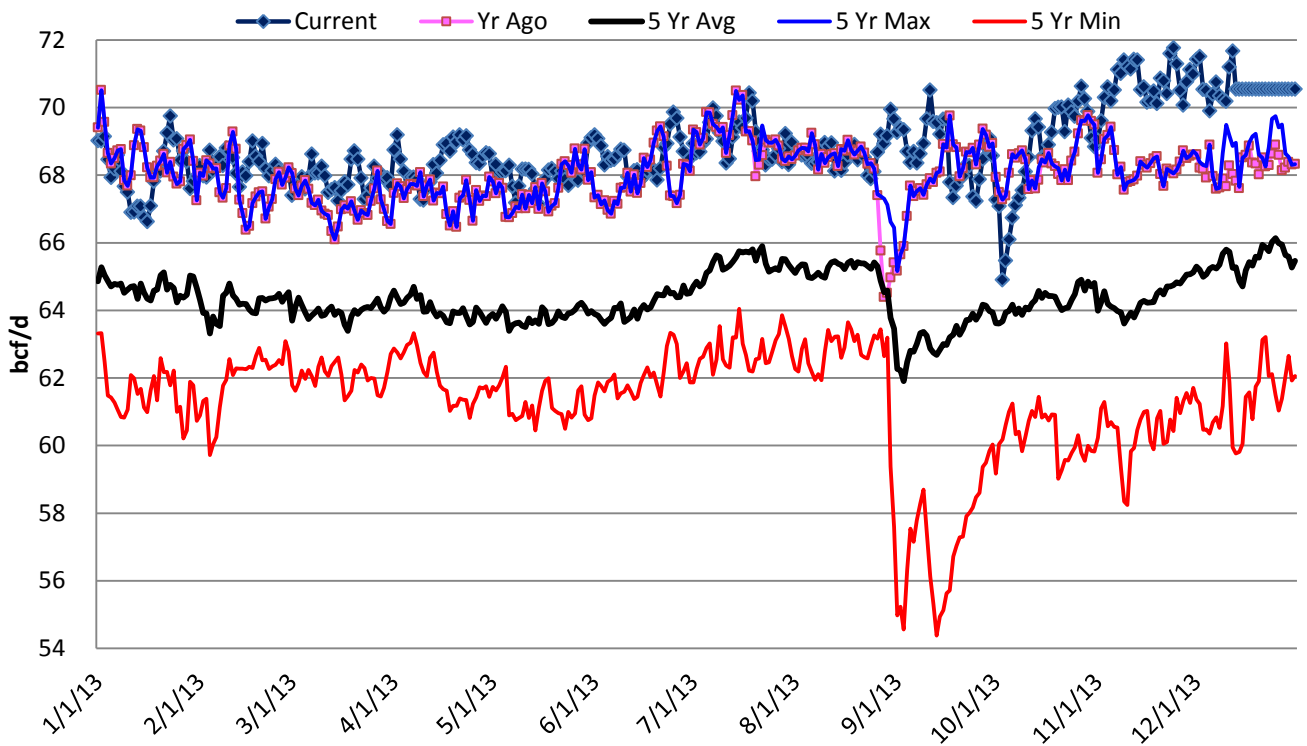
US Working Gas Storage - Source - EIA



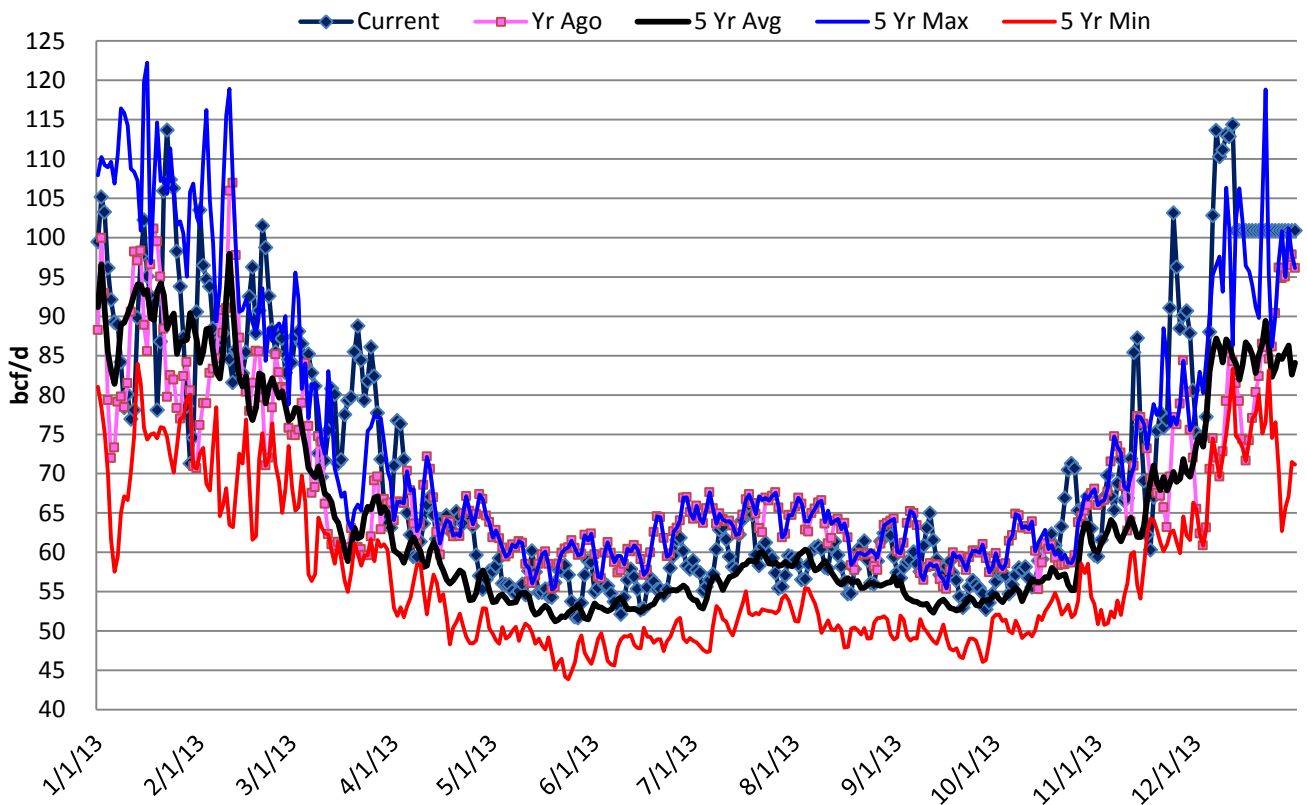
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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