

IAF Advisors  
Energy Market Outlook  
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December 20, 2013

**Price Action:** Prices rose 6.7 cents (1.5%) to \$4.418 on a near historical average 29.8 cent range.

**Price Outlook:** Prices continued higher with the market up now for the 6th consecutive week. Bullish weather forecasts and a record storage withdrawal continued to power the market higher. While considered extended, Mother Nature remains bullish and officially winter has just begun. Thus, while the market is very vulnerable to a correction, it may very well continue higher until absolute temperatures begin to fall. Seven consecutive weeks higher would mark the 7th time that the market ended with exactly that 7 week string. Since 2000, 9 weeks have seen exactly 6 weeks higher. The record consecutive streak higher was 14 in 2008. The CFTC speculative net long position continued to increase at a rapid pace with net length now at the highest level since June while still falling short of the record by a wide margin. Many headlines will reference the futures and options only. This does not reflect all the financial instruments available to market participants and thus we attempt to more accurately assess the true position across the entire complex. Total combined open interest rose to 4.89 million contracts across the complex as of December 17. CME futures open interest fell to 1.31 million contracts as of December 19.

**Weekly Storage:** US working gas storage for the week ending December 13 indicated a withdrawal of 285 bcf. Thus, current inventories of 3,248 bcf fall 476 bcf (12.8%) below last year and 280 bcf (7.9%) behind the 5 year average.

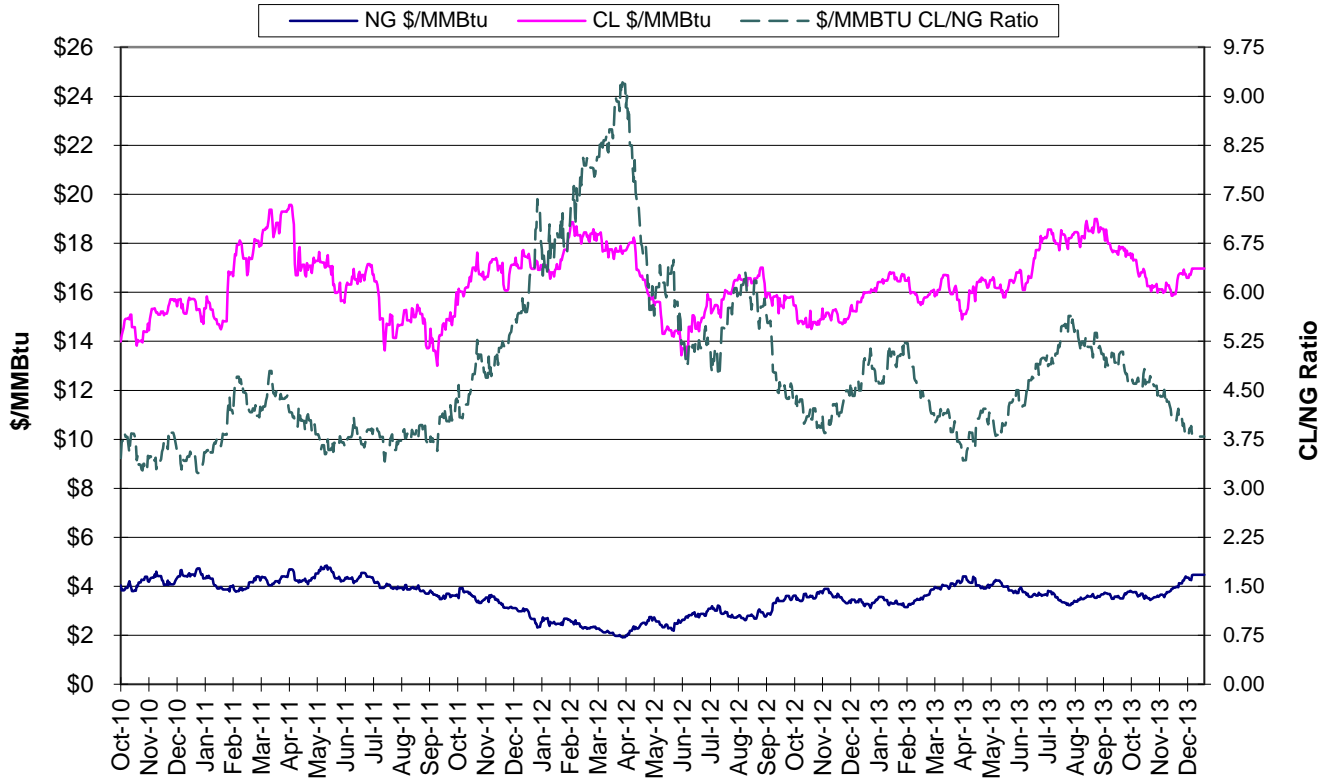
**Storage Outlook:** The withdrawal exceeded the previous 274 bcf record by 11 bcf despite warmer temperatures. This reiterates our long standing thesis that cool temperatures result in a very non-linear storage impact. Combined with updated bullish weather forecasts, inventories could be headed below 1,300 bcf.

**Supply Trends:** Total supply was unchanged at 70.8 bcf/d. US production fell while Canadian imports rose. Mexican exports were slightly higher. The US Baker Hughes rig count fell 14 with increased natural gas activity not completely offsetting an oil decline. Canadian activity declined 28. Thus the total North American rig count slipped by 42 to 2,166 and now surpasses last year by 8. This is the first yearly surplus since July 6, 2012. The higher efficiency US horizontal rig count fell 5 to 1,140 and rises 35 above last year. While US production has rebounded after the reference week impacted recent freeze offs, Canadian imports have slipped while Mexican imports have increased. Thus, total US supply remains approximately 1 bcf/d below the recent pipeline measured peaks.

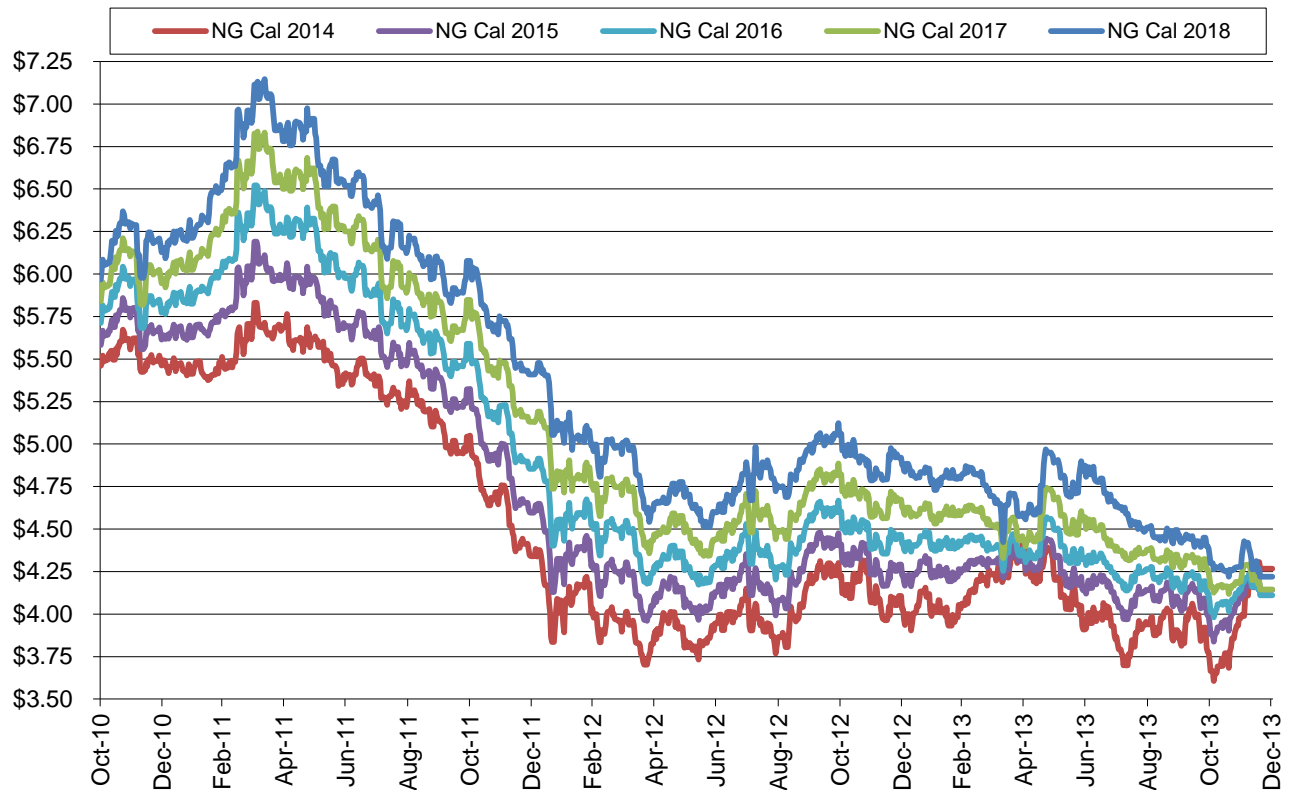
**Demand Trends:** Total demand surged 28.7 bcf/d to 110.6 bcf/d. The R&C sector lead the surge. Electricity demand rose 9,009 gigawatt-hrs to 85,633, which exceeds last year by 8,869 (11.6%) and the 5 year average by 5,484 (6.8%). Demand remains impressive although there are now indications of total demand falling on both an absolute and temperature adjusted basis with coal generation showing signs of regaining some market share.

**Other Factors:** The S&P 500 surged to a new record close despite the Fed announcing it would begin reducing its' purchases of both treasuries and mortgages.

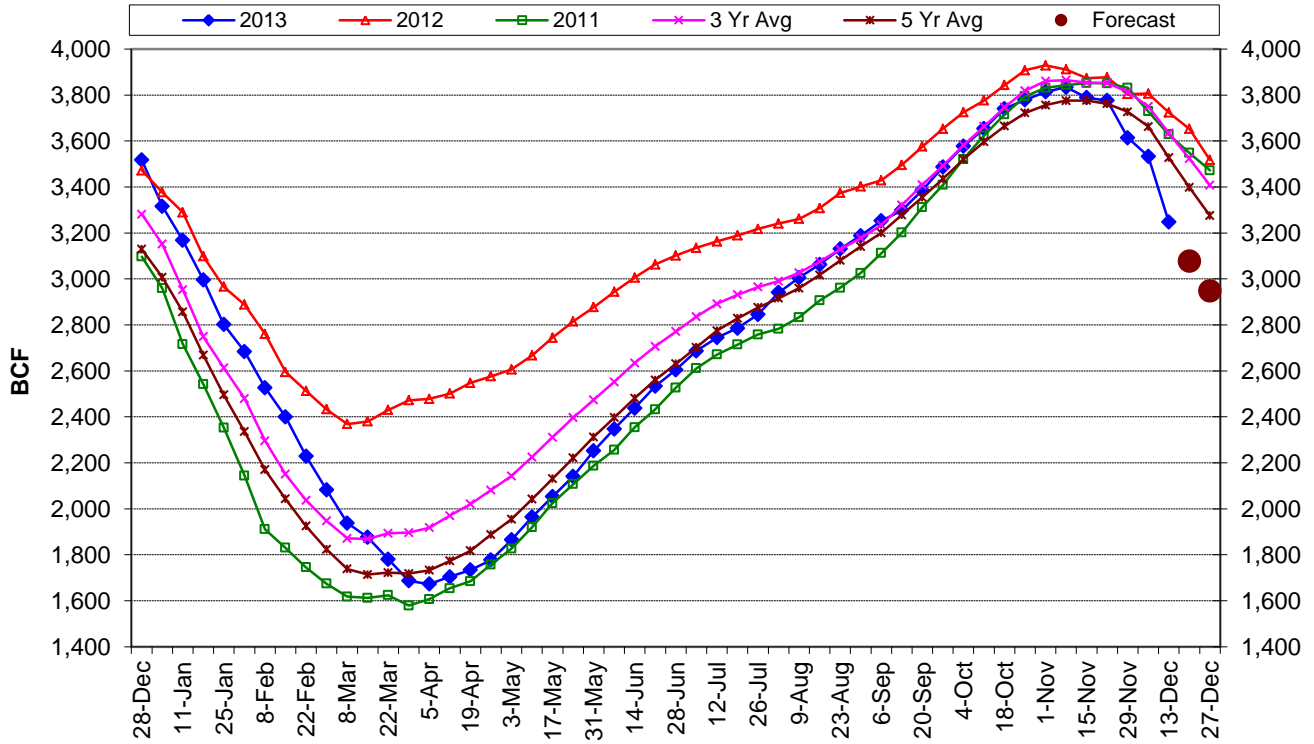
## \$/MMBtu Ratio of NYMEX CL and NG



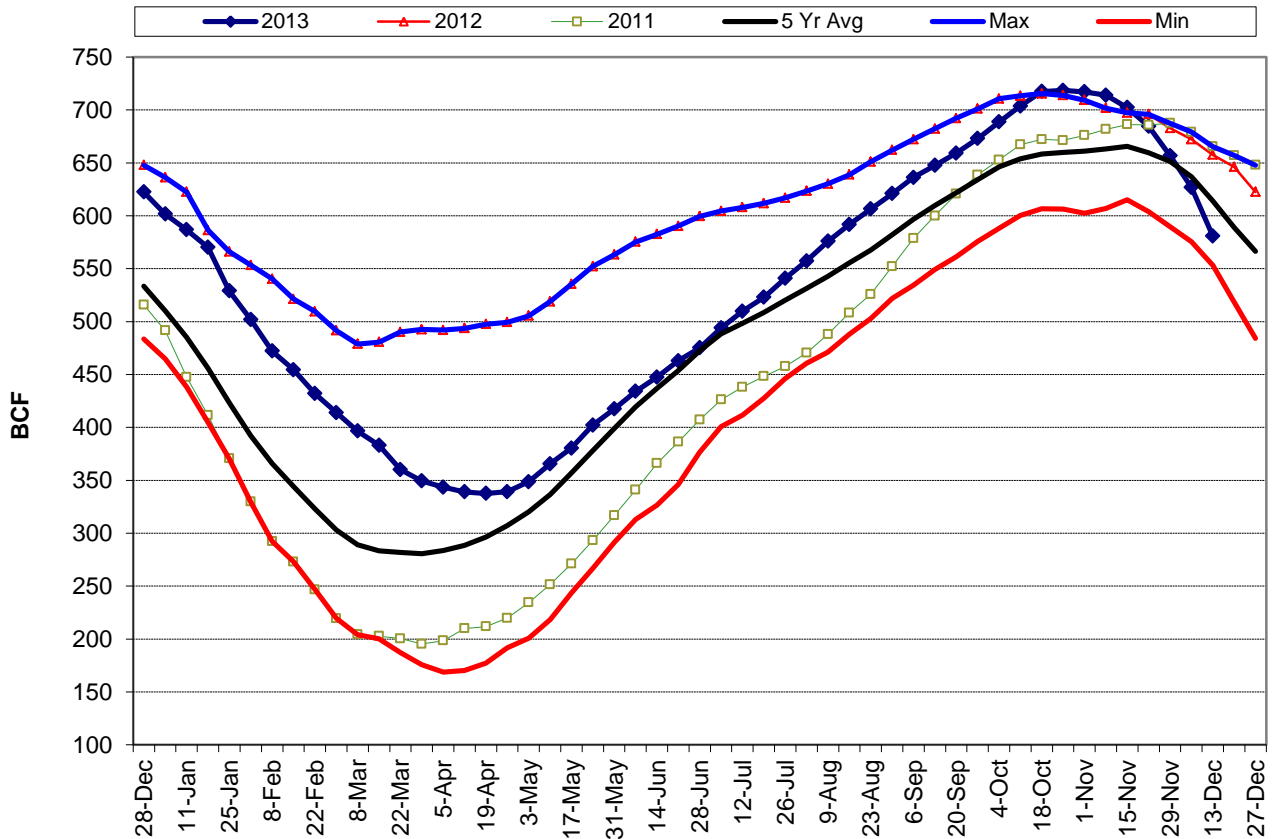
## NYMEX Calendar Strips



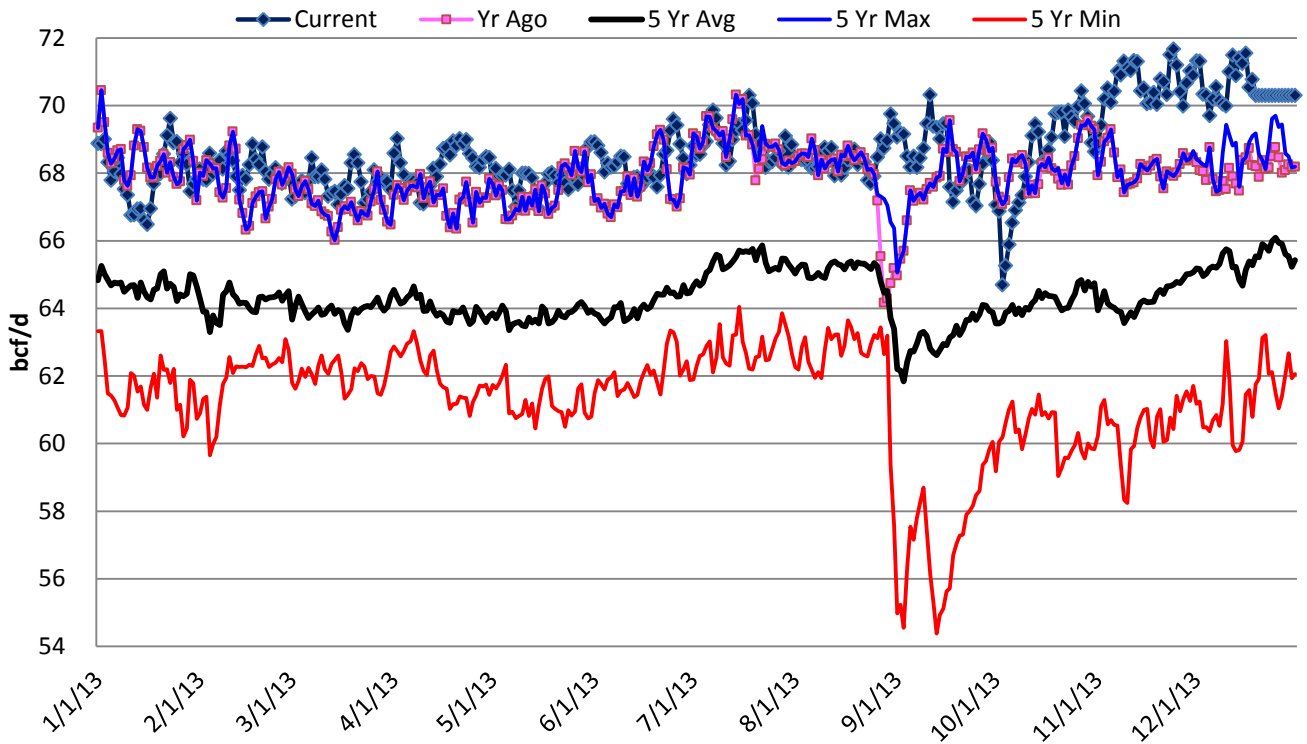
## US Working Gas Storage - Source - EIA



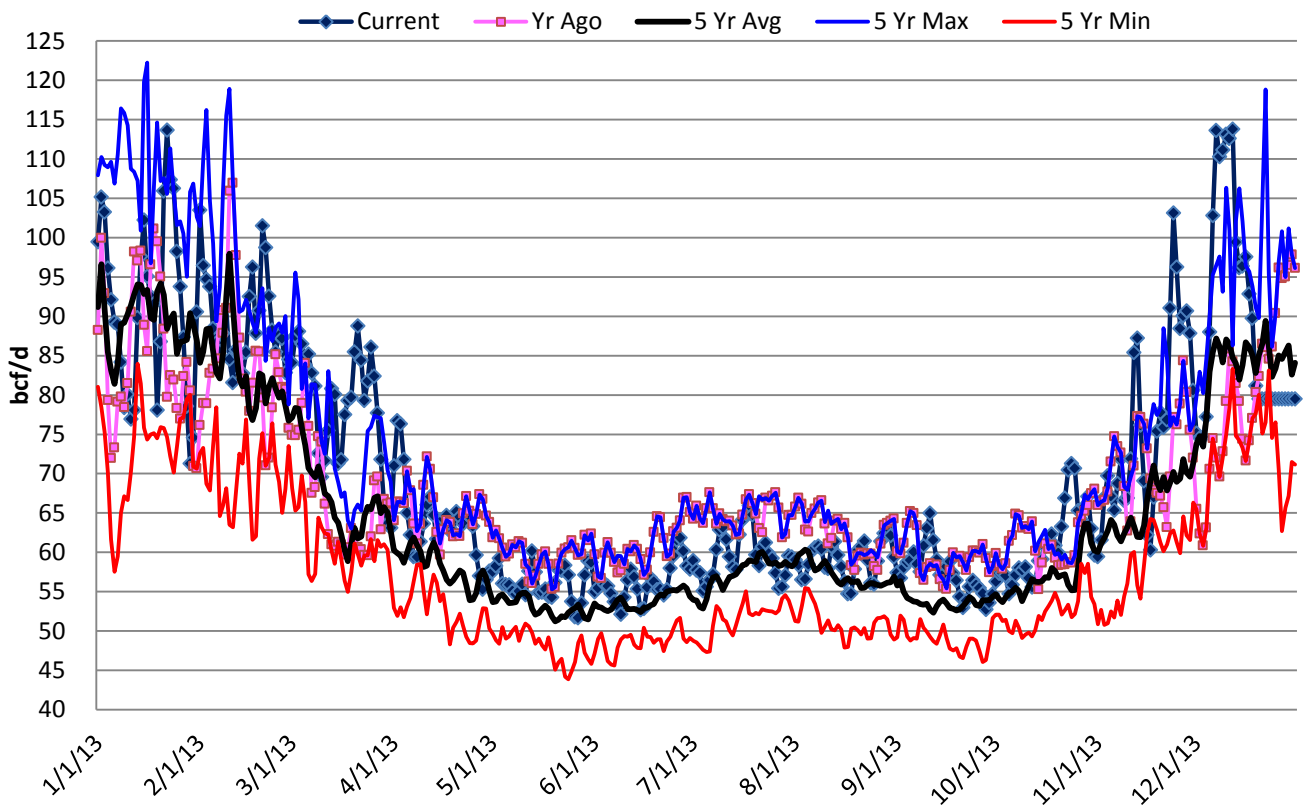
## Canadian Working Gas Storage - Enerdata



## US Total Supply



## US Total Demand



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

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