

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
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Price Action: Prices slipped 1.1 cents (0.2%) to \$4.407 on a narrow 19.2 cent range.

Price Outlook: Prices were able to make yet another new high, but ended on a rather weak note and the likelihood of reaching 8 weeks higher is considered slim. Rather, posting a new low at \$4.339 is considered the more reasonable scenario. Since 2000, 4 higher streaks have ended at 8 weeks. The record consecutive streak higher was 14 in 2008. That was followed immediately by the record low streak of 9 consecutive weeks lower. The CFTC did not update the position data due to the Christmas Holiday. CME futures open interest fell to 1.29 million contracts as of December 26.

Weekly Storage: US working gas storage for the week ending December 20 indicated a withdrawal of 177 bcf. Thus, current inventories of 3,071 bcf fall 581 bcf (15.9%) below last year and 327 bcf (9.6%) behind the 5 year average.

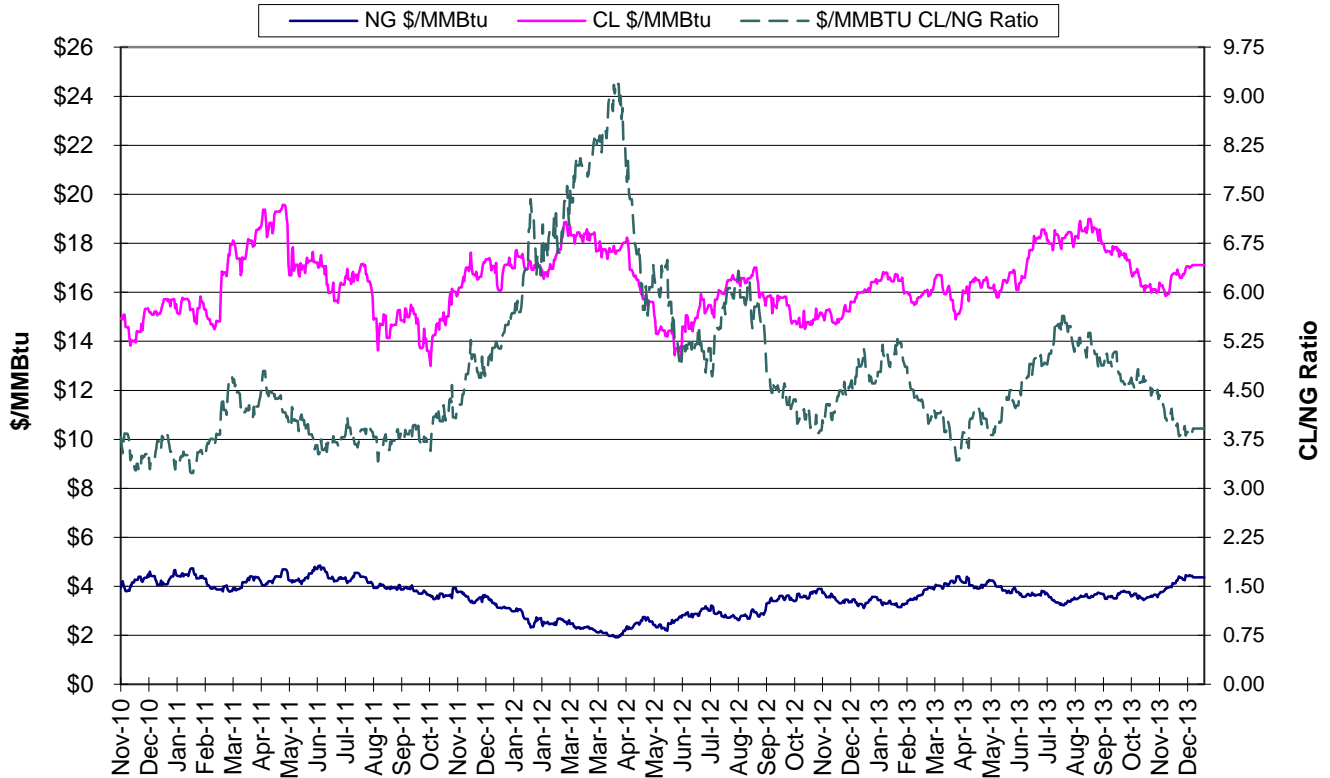
Storage Outlook: This is the largest yearly storage deficit since June 7 and the largest deficit to the 5 year average since June 27, 2003. That deficit developed after the very large withdrawal during the cooler 2002/03 winter. While current forecasts project a contraction in the storage deficit in the near term, the yearly storage deficit could easily exceed 600 bcf by the end of January.

Supply Trends: Total supply rose 0.3 bcf/d to 70.9 bcf/d. A strong rise in US production was largely offset by falling Canadian imports. Mexican exports were slightly higher. The US Baker Hughes rig count fell 11 with increased natural gas activity again not completely offsetting an oil decline. Canadian activity declined 135. Thus the total North American rig count slipped by 146 to 2,020 and now surpasses last year by 53. This is the largest yearly surplus since June 29, 2012. The higher efficiency US horizontal rig count rose 6 to 1,146 and rises 35 above last year. After the infrastructure related rise in November, total US supply remains basically flat near 71 bcf/d. E&P Capex plans will be monitored as Q4 results are released, but with WTI rising to \$100 and with the Cal 14 natural gas strip near \$4.25, cash flow should remain strong and drilling activity is expected to remain robust.

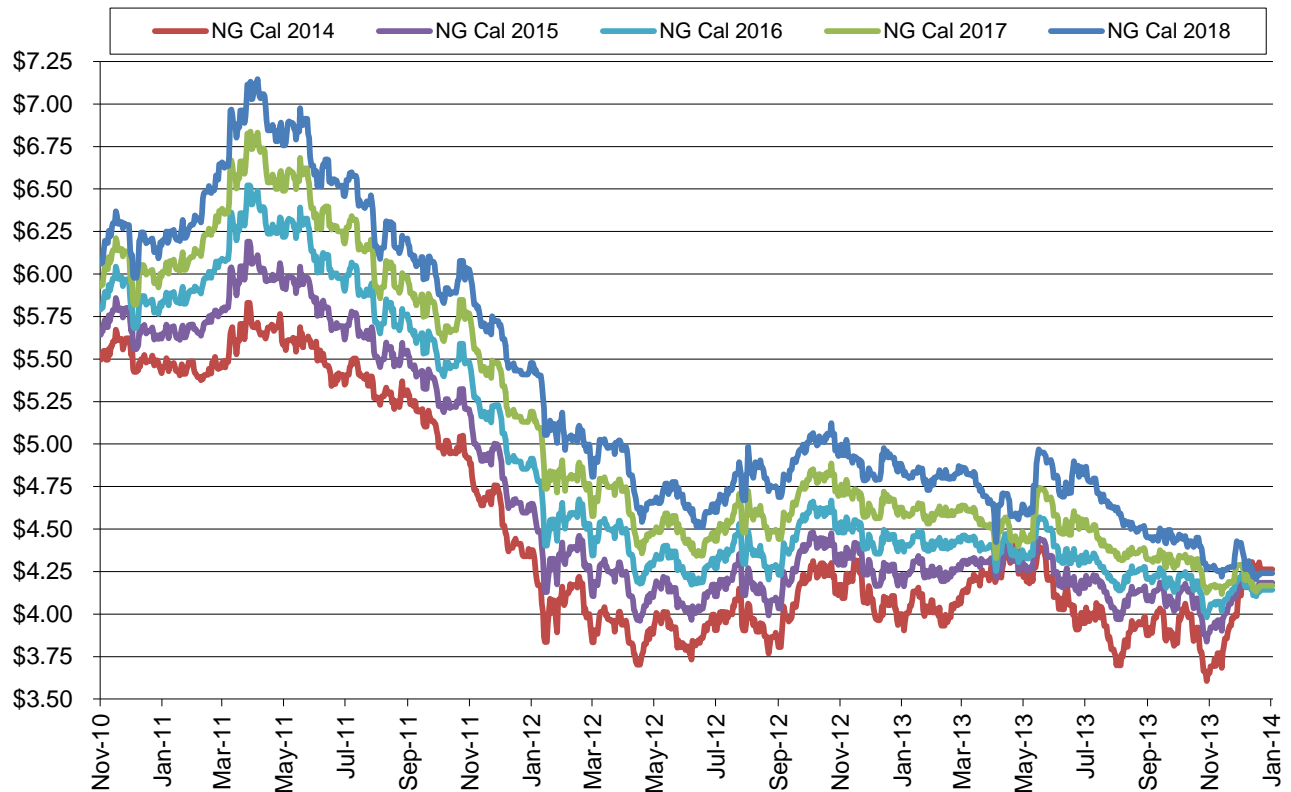
Demand Trends: Total demand fell 20.5 bcf/d to 90.1 bcf/d. The R&C sector lead the drop lower followed by power. Electricity demand fell 6,599 gigawatt-hrs to 79,034, which exceeds last year by 2,974 (3.9%) while trailing the 5 year average by 832 (1.0%). Demand remains impressive with a general trend toward relative weekend strength. We attribute this to industrial growth that has generally occurred across the petroleum complex. Petroleum processes are generally 24/7 endeavors and thus do not slow down much over the weekend. Thus, while other industrial and commercial demand may slip on Saturday and Sunday, petroleum processes typically consume very consistent levels throughout the week. Thus, this growth represents a relative increase on the weekend. This demand is also considered less temperature sensitive than other demand.

Other Factors: The S&P 500 established yet another record close as investor bullish enthusiasm rises.

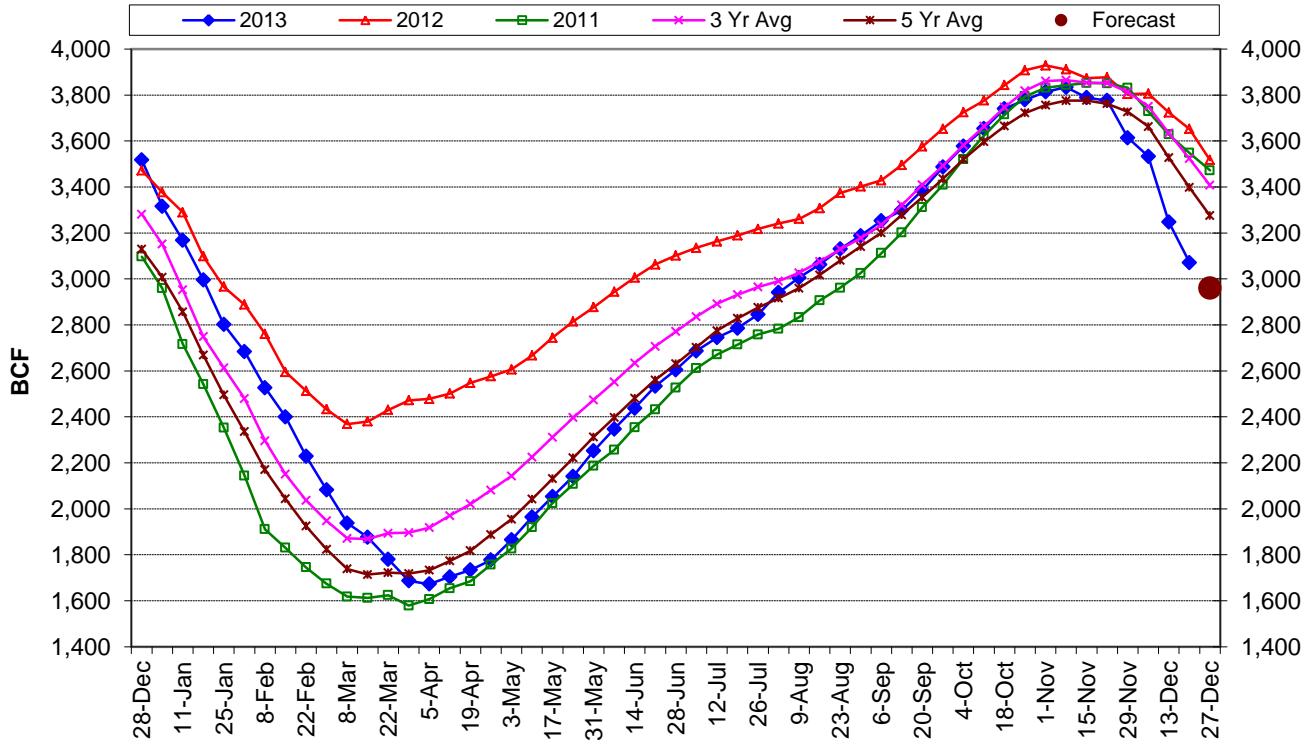
\$/MMBtu Ratio of NYMEX CL and NG



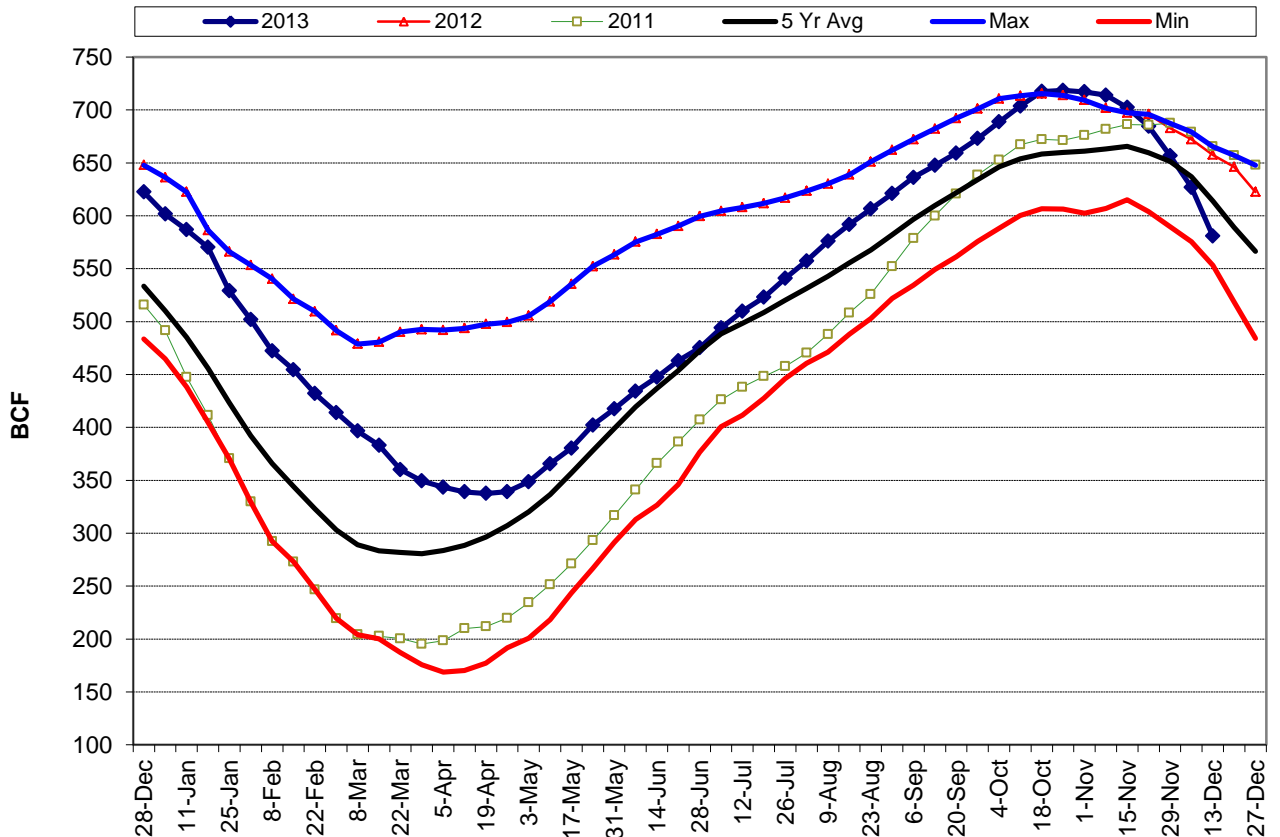
NYMEX Calendar Strips



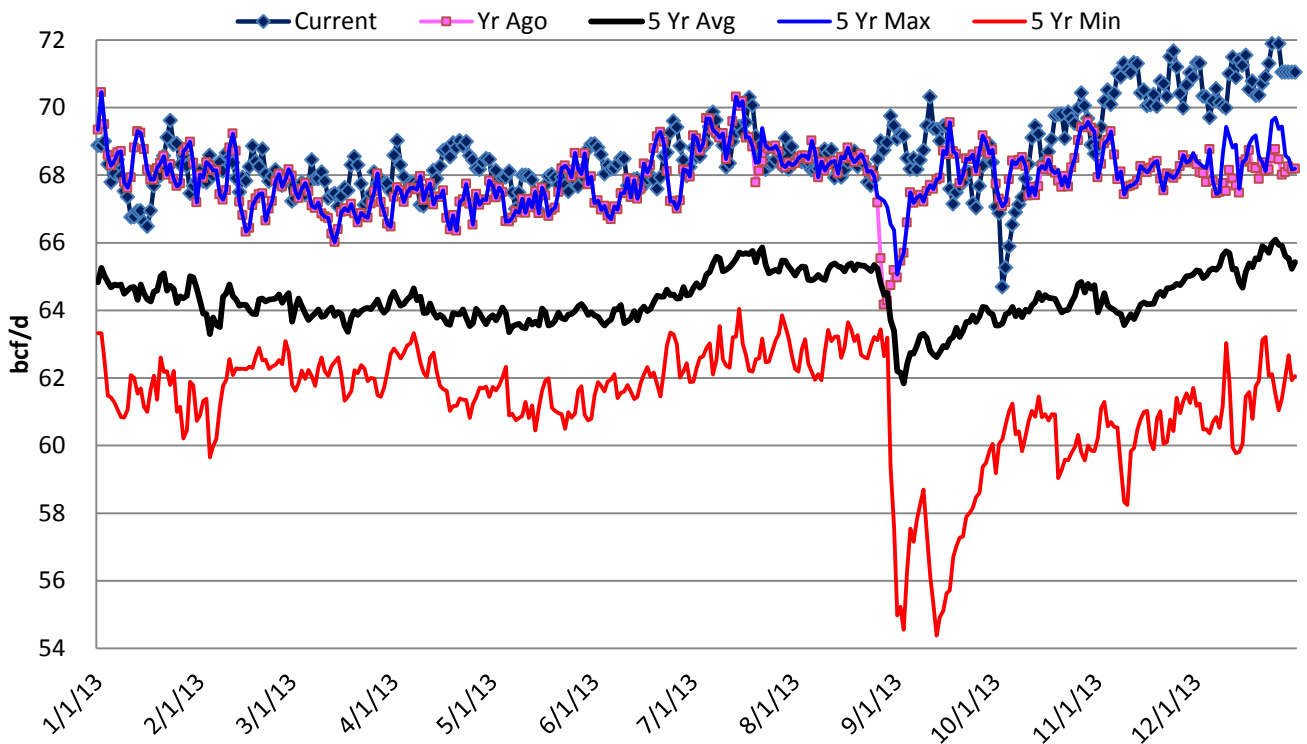
US Working Gas Storage - Source - EIA



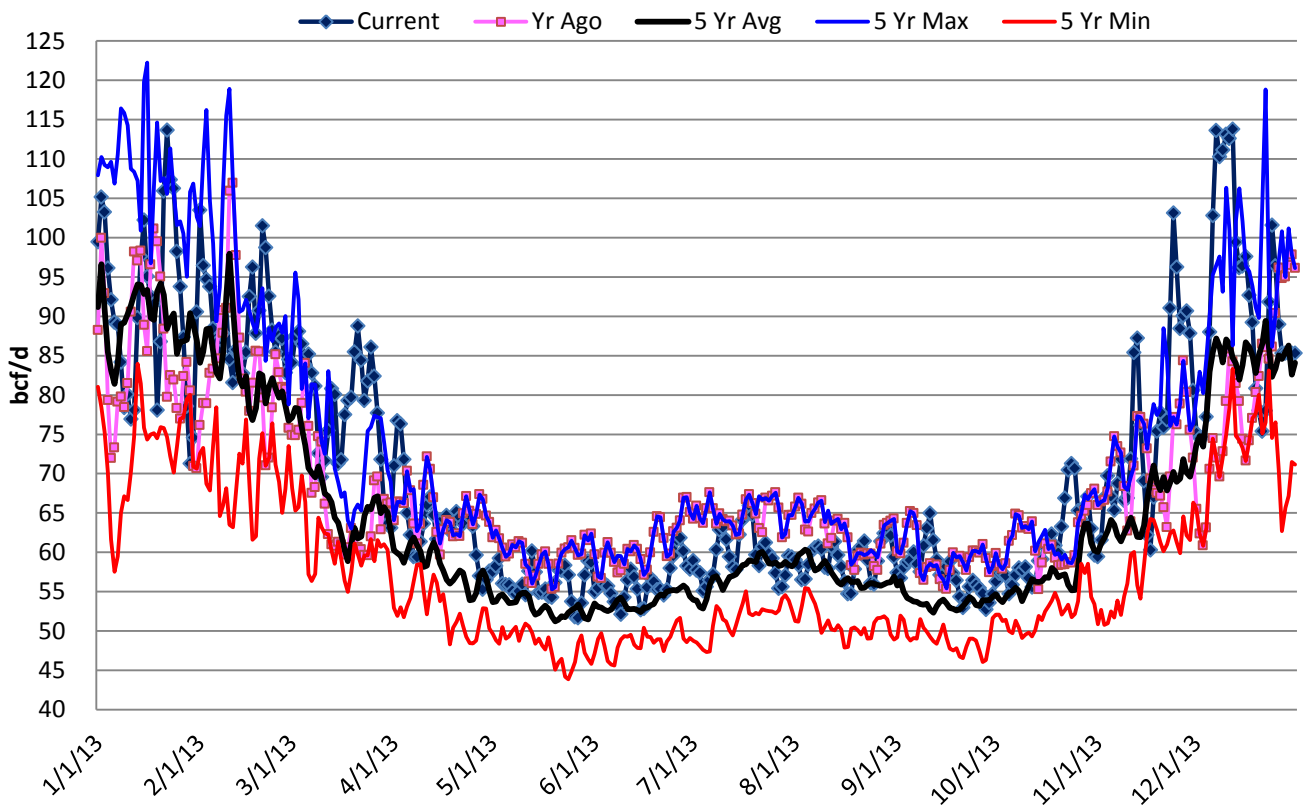
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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