

IAF Advisors
Energy Market Outlook
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Price Action: Prices basis the now prompt February contract slipped 6.4 cents (1.5%) to \$4.304 on a 24.2 cent range.

Price Outlook: Prices were unable to make yet another new high and thus the current higher weekly streak ended at 7 weeks in a row. However, true to form, the market did not register an inside week and instead fell to a new weekly low. Despite prices ending in the lower half of the weekly range, with the possibility of a new record withdrawal for the week ending January 10, prices are likely to remain supported. Conversely, with weather forecasts indicating moderation, prices may also find it difficult to establish a new high. While siding slightly with the possibility of a new high, a rare inside week may be in the works. The record consecutive streak higher of 14 in 2008 is obviously safe. The CFTC data for December 24 indicated another increase in the speculative net long position. The position soared in December, although it still remains well below the record net long position established in May of 2013. Total open interest across the complex rose to 5.10 million contracts as of December 24. Thus, there is still plenty of room for more buying. CME futures open interest rose to 1.30 million contracts as of January 2.

Weekly Storage: US working gas storage for the week ending December 27 indicated a withdrawal of 97 bcf. Thus, current inventories of 2,974 bcf fall 543 bcf (15.4%) below last year and 301 bcf (9.2%) behind the 5 year average.

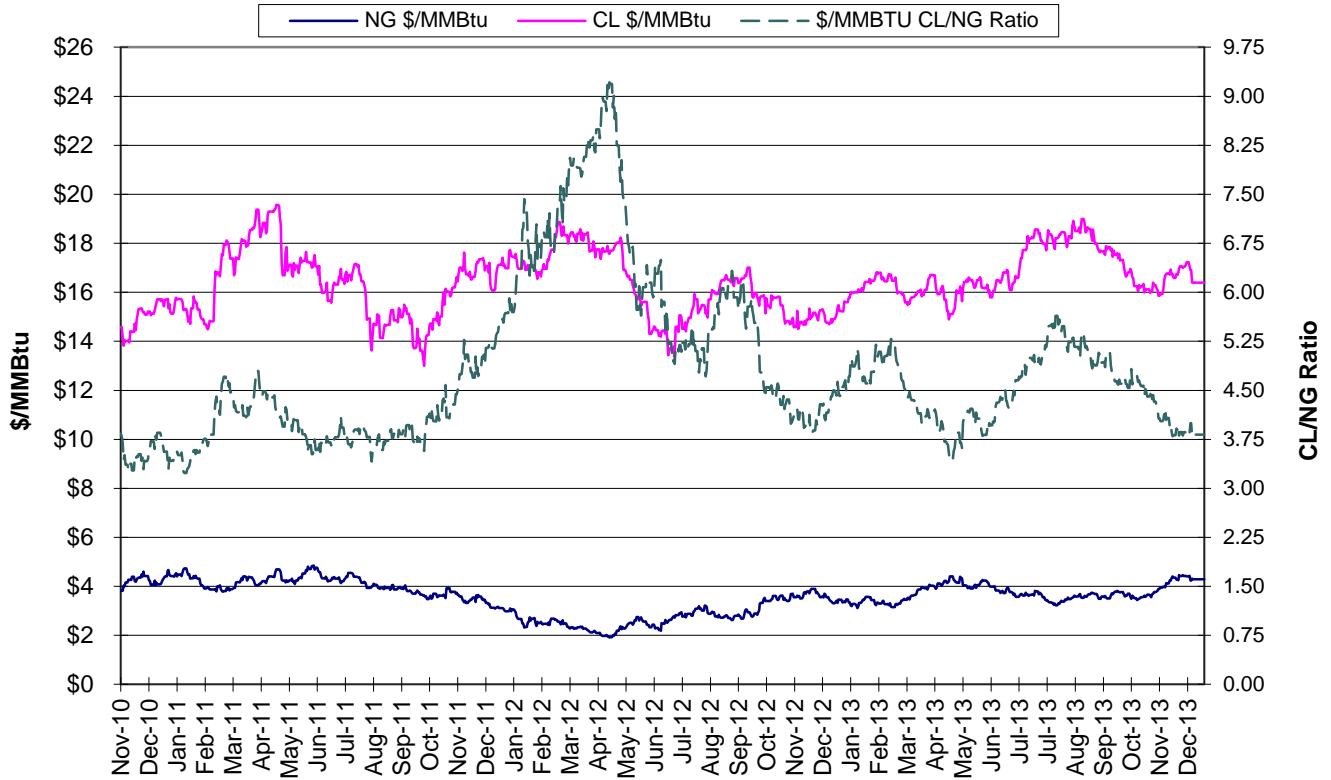
Storage Outlook: This is the first weekly contraction in the yearly storage deficit since November 8. It also marks the 1st December since 2008 to exit below 3,000 bcf. Despite this week's deficit contraction, weather forecasts suggest the yearly storage deficit could reach nearly 700 bcf by the end of January.

Supply Trends: Total supply rose 0.6 bcf/d to 71.5 bcf/d. Another strong rise in US production more than offset falling Canadian imports and were aided by lower Mexican exports. The US Baker Hughes rig count fell 6 with both oil and natural gas activity slipping. Canadian activity rose 19. Thus the total North American rig count increased by 13 to 2,033 and now surpasses last year by 13. The higher efficiency US horizontal rig count rose 2 to 1,148 and rises 36 above last year. The upcoming 4th quarter E&P company reports will be monitored for actual results as well as updates on 2014 Capex plans and resulting production guidance.

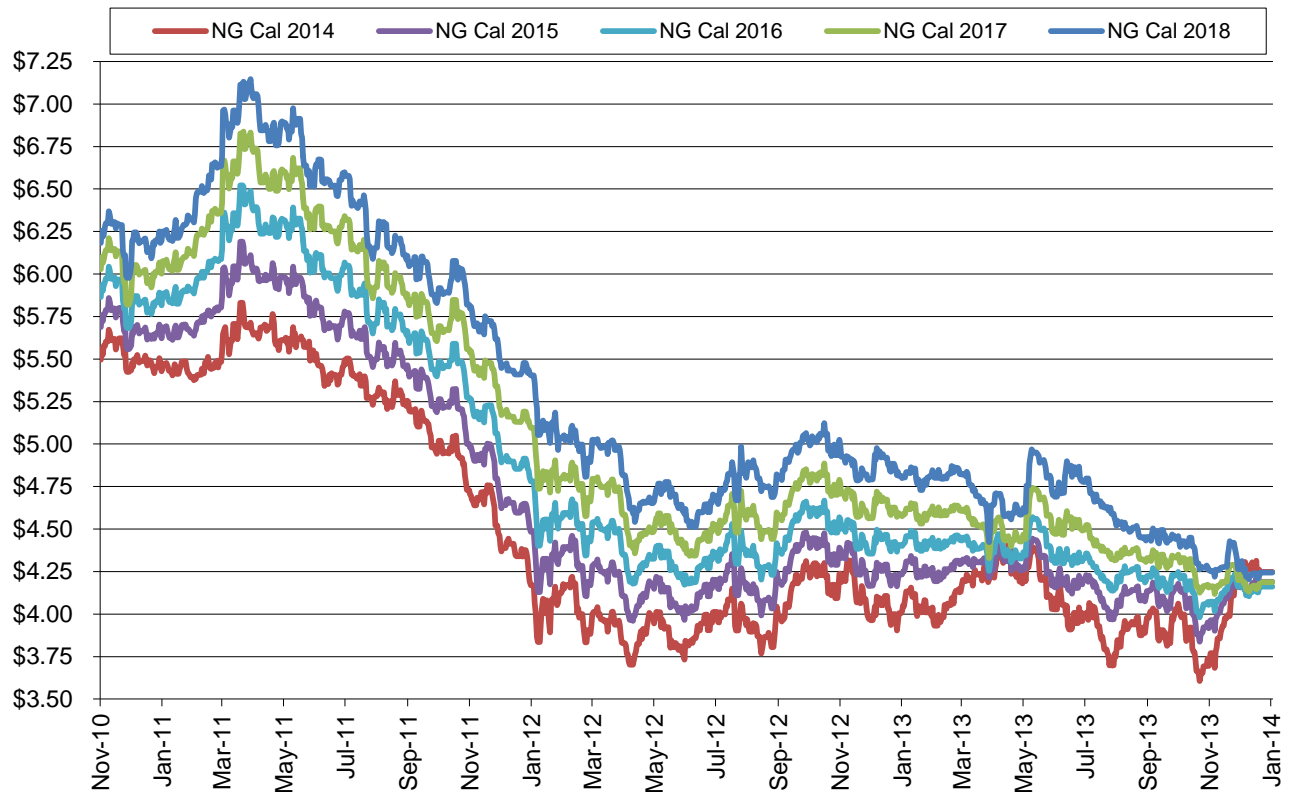
Demand Trends: Total demand fell 2.3 bcf/d to 87.8 bcf/d. Power lead the fall and was followed by R&C. Industrial demand was little changed. Electricity demand fell 3,916 gigawatt-hrs to 75,118, which trails last year by 410 (0.5%) and the 5 year average by 1,914 (2.5%). Demand remains impressive despite the Christmas and New Year's Day holiday. Demand will now be closely scrutinized to identify the potential level of possible power generation changes between coal and gas that may have occurred after the January price index of \$4.407 rose 58.9 cents over the December posting. While the coal-to-gas switching dynamic can be easily overwhelmed by Mother Nature in the winter, it does have more profound implications for the April-October injection period.

Other Factors: The S&P 500 did give back some of the recent gains to begin the New Year.

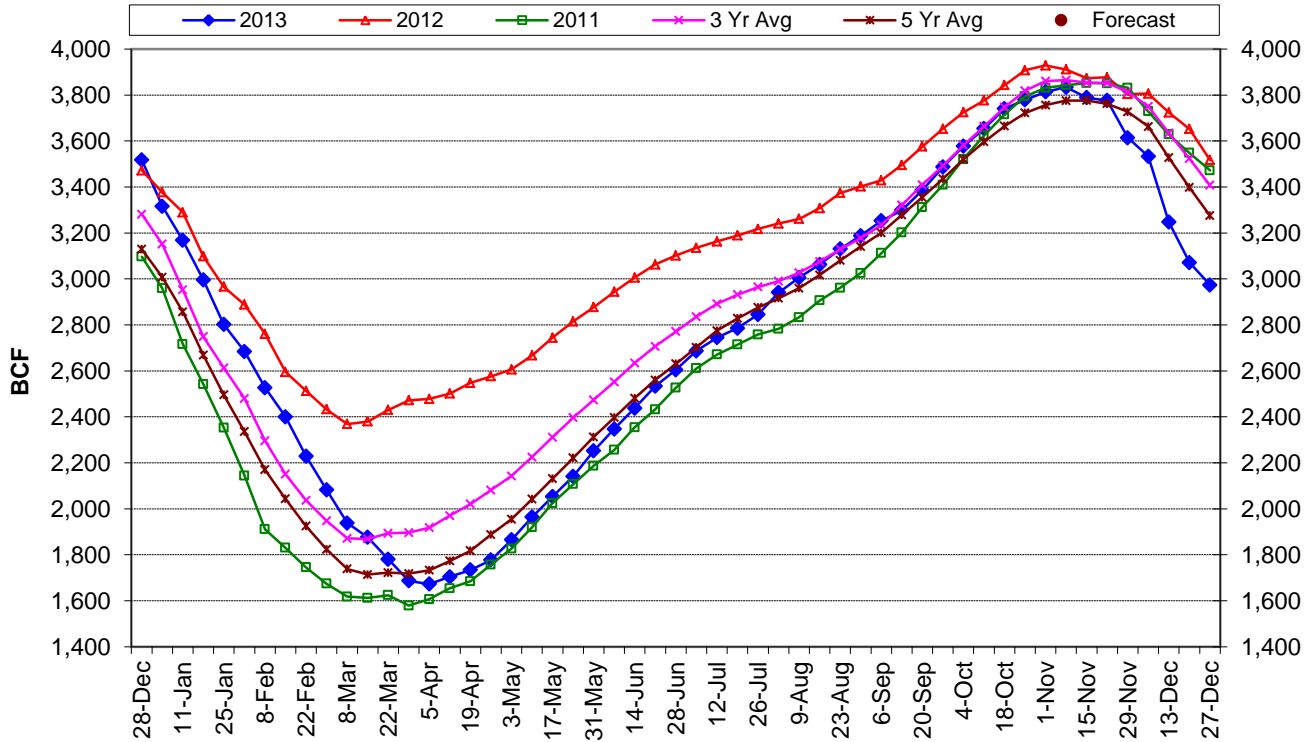
\$/MMBtu Ratio of NYMEX CL and NG



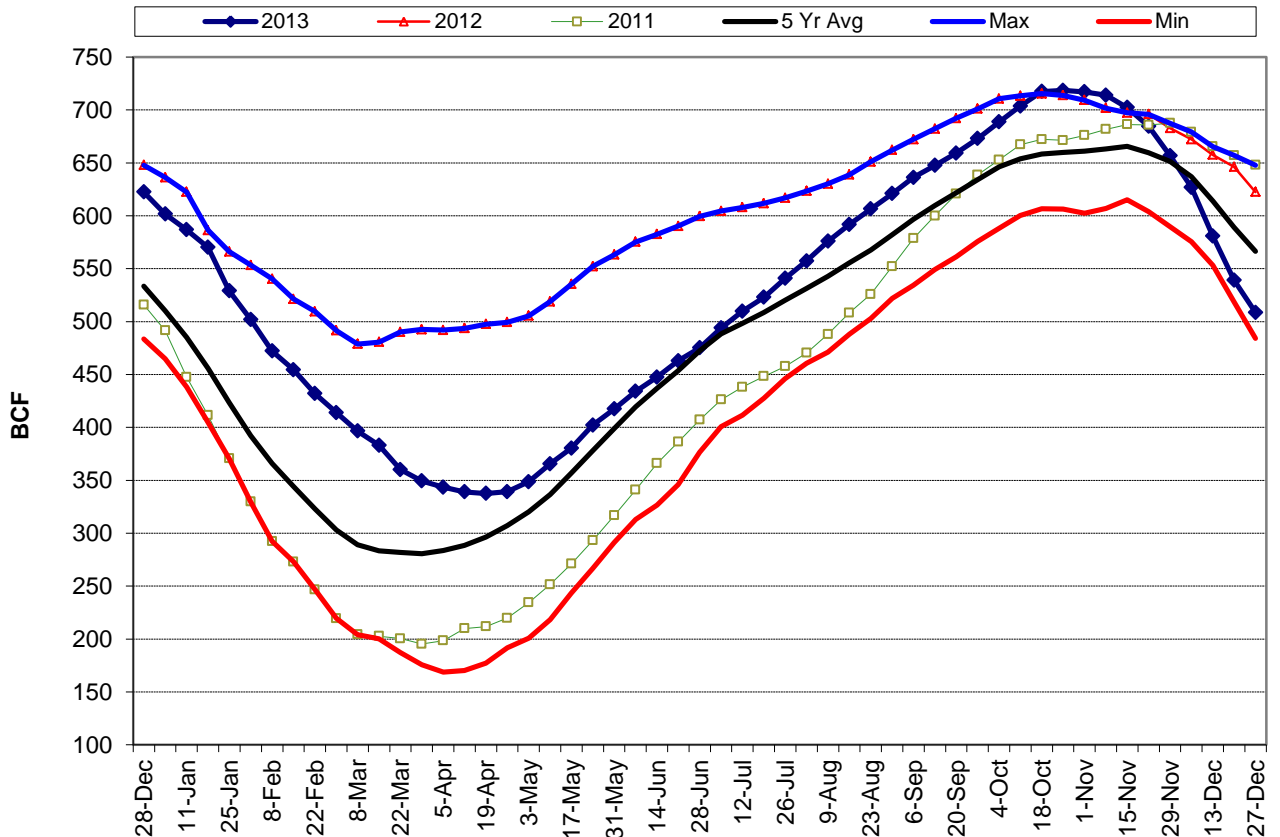
NYMEX Calendar Strips



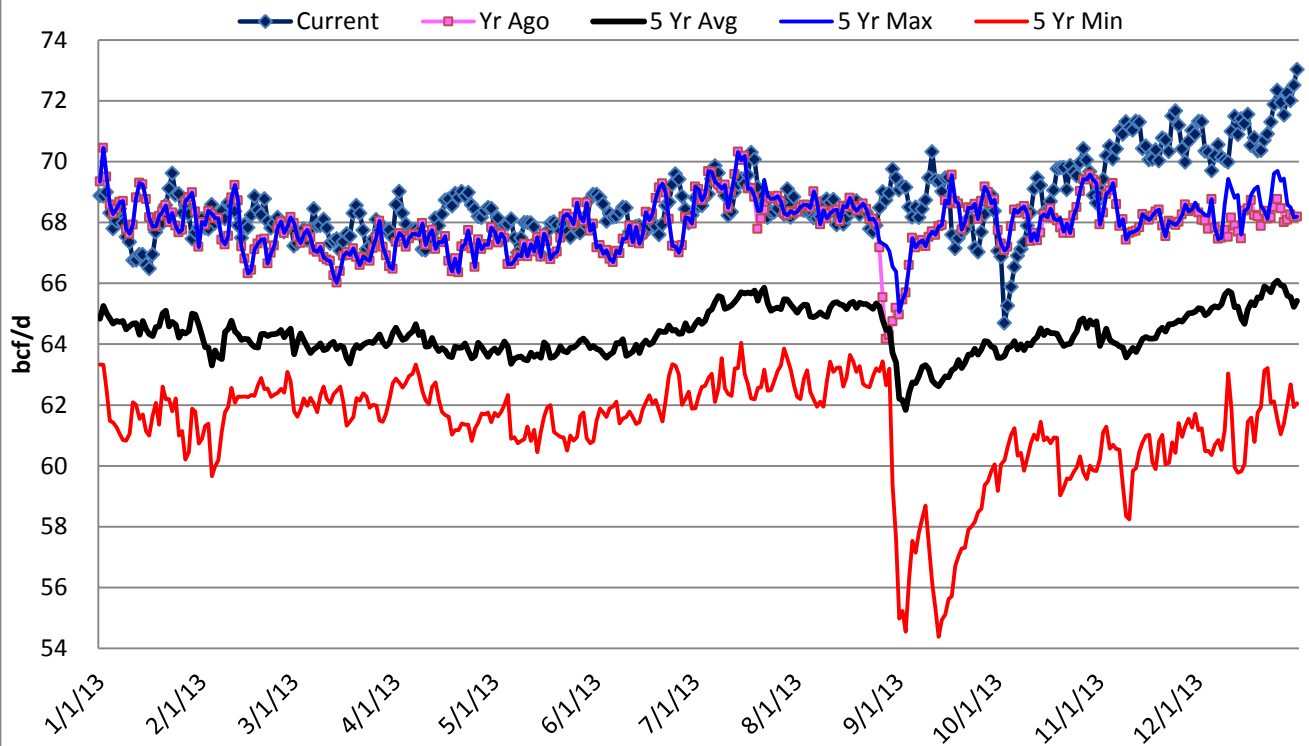
US Working Gas Storage - Source - EIA



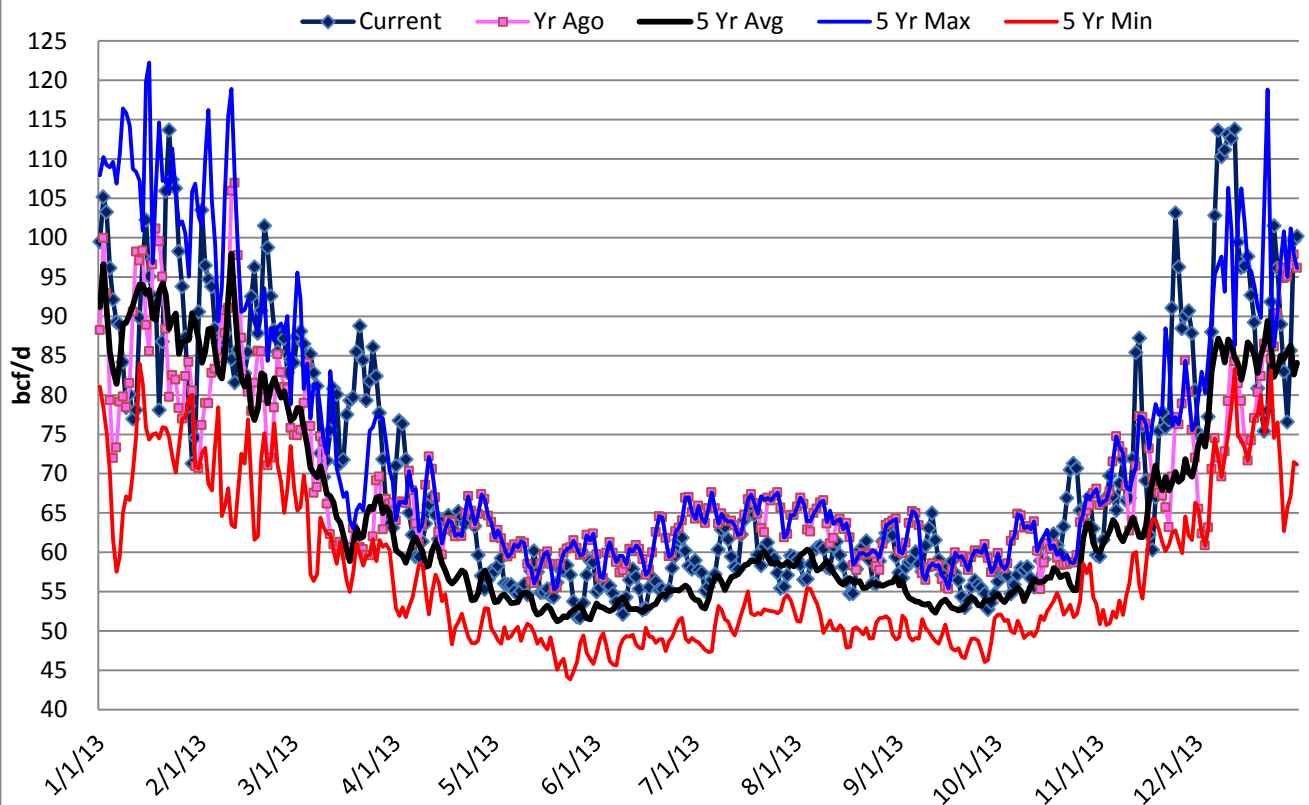
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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