

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
January 10, 2014

Price Action: Prices collapsed 25.1 cents (5.8%) to \$4.053 on a 47.7 cent range.

Price Outlook: Prices held true to historical form and did not register an inside week but extended the down streak and broke the \$4 mark for the 1st time since December 5 basis a spot month contract. Rather than a contracted range, the 47.7 range was the largest since September 28, 2012 that was largely due to a contract expiration. With a warm 15 day weather forecast that now stretches past winter's midpoint, a new weekly low seems the most likely path despite a depending new record weekly withdrawal. The CFTC data for January 7 indicated little change by the managed money category compared to the December 24 position. Total open interest across the complex fell to 4.77 million contracts as of January 7. If prices remain weak, liquidation could lead the market even lower. CME futures open interest fell to 1.29 million contracts as of January 9.

Weekly Storage: US working gas storage for the week ending January 3 indicated a withdrawal of 157 bcf. Thus, current inventories of 2,817 bcf fall 499 bcf (15.0%) below last year and 331 bcf (10.5%) behind the 5 year average.

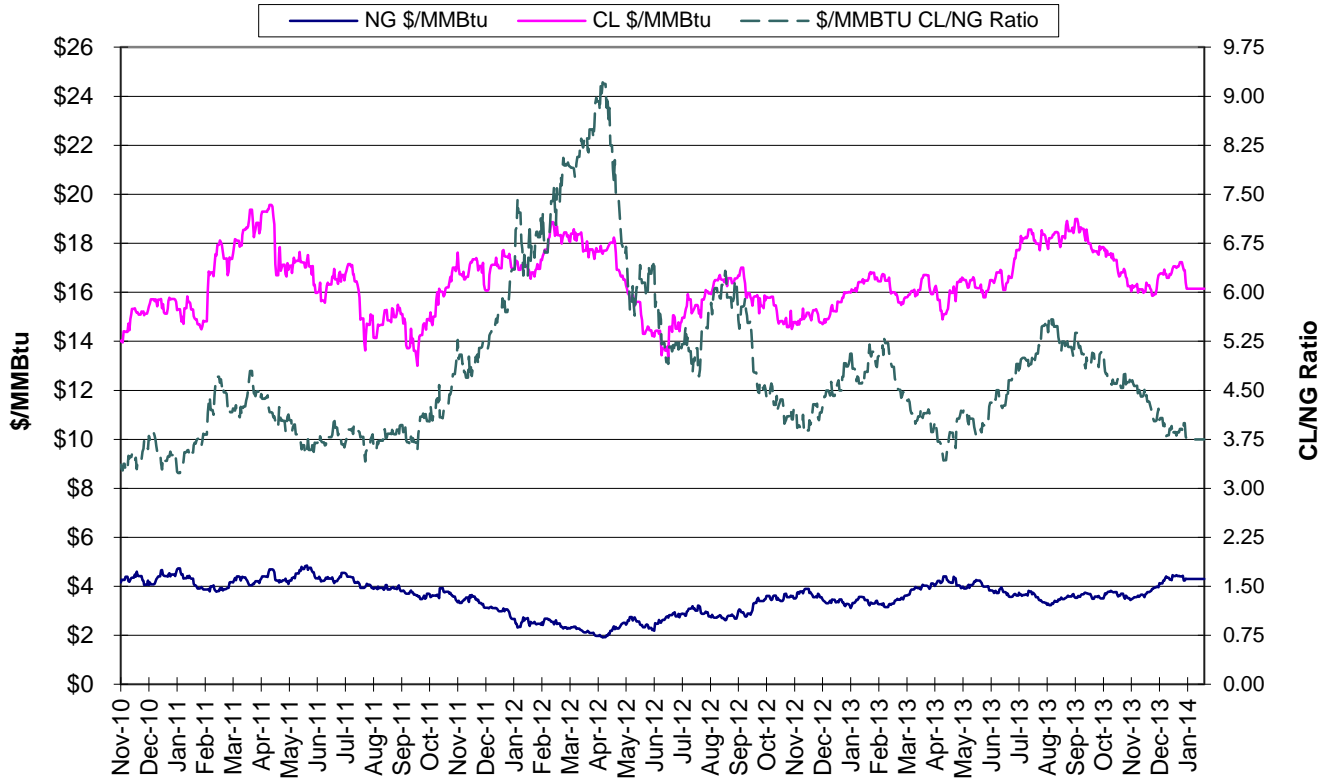
Storage Outlook: Current data strongly suggests the withdrawal for the week ending January 10 will exceed 300 bcf, shattering the record December 13 285 bcf withdrawal. The previous record withdrawal of 274 bcf occurred during the week of January 25, 2008. Despite the warmer forecasts, the yearly storage deficit is still expected to exceed 700 bcf in early February.

Supply Trends: Total supply rose 0.7 bcf/d to 72.3 bcf/d. US production was flat with imports accounting for the increase. The US Baker Hughes rig count rose 3 with the miscellaneous category accounting for the increase. Oil activity was higher while natural gas slipped. Canadian activity rose 195. Thus the total North American rig count increased by 198 to 2,231 and now trails last year by 61. The higher efficiency US horizontal rig count rose 10 to 1,158 and rises 39 above last year. The EIA Monthly Natural Gas report continues to indicate growing US gross production. However, due to rising extraction losses and falling net imports, total lower 48 US dry natural gas supply has been lower 7 of the 10 reported months in 2013. Infrastructure additions should lift total US supply higher in November and December.

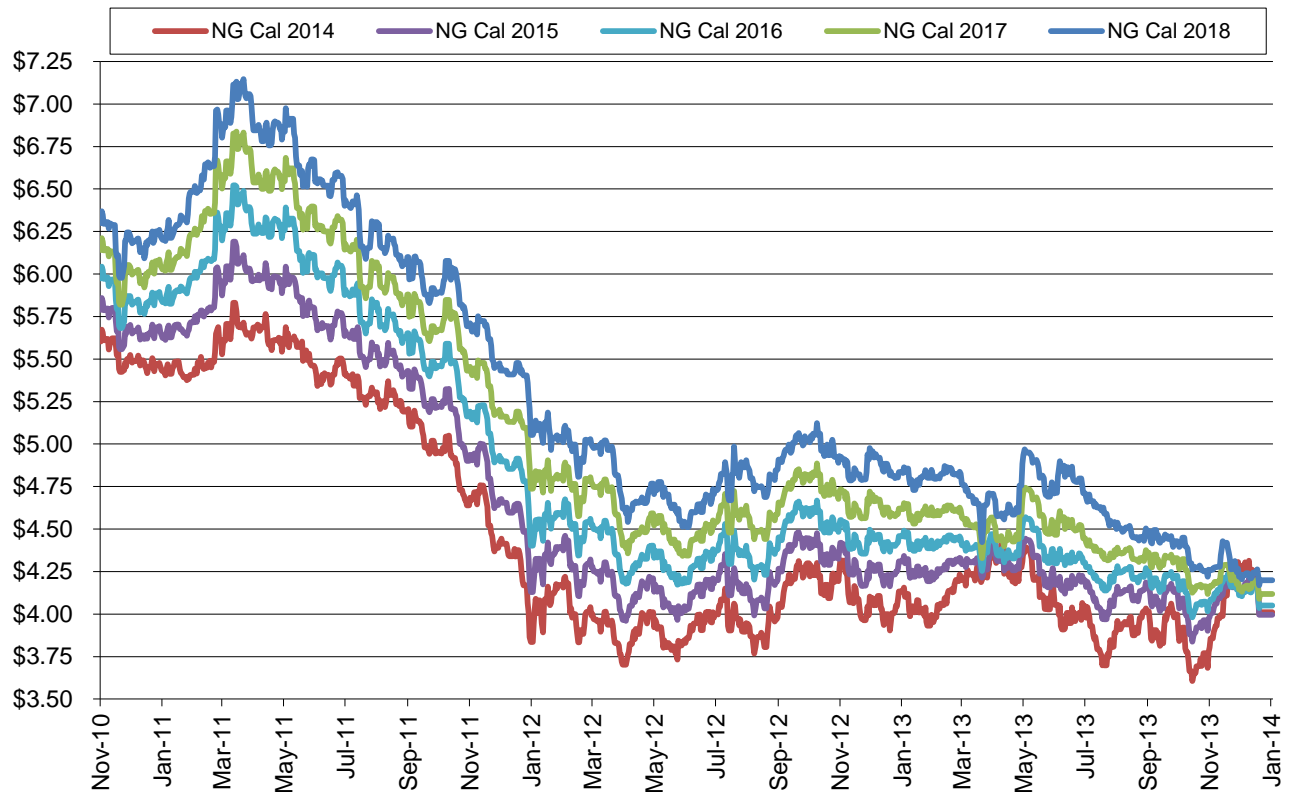
Demand Trends: Total demand rose 10.2 bcf/d to 98.1 bcf/d. R&C demand lead the rise across all sectors. Electricity demand rose 3,878 gigawatt-hrs to 78,996, which eclipses last year by 932 (1.2%) and the 5 year average by 1,686 (2.2%). Demand has fallen with temperatures soaring as the bitter Arctic air retreated. While there is evidence of coal regaining market share, total demand remains robust on a temperature adjusted basis. Pipeline data suggests demand reached surpassed 135 bcf on Tuesday, January 7, shattering the daily record before this winter of near 117 bcf.

Other Factors: The S&P 500 rose as a disappointing jobs report led to expectations of continued easy monetary Fed policy.

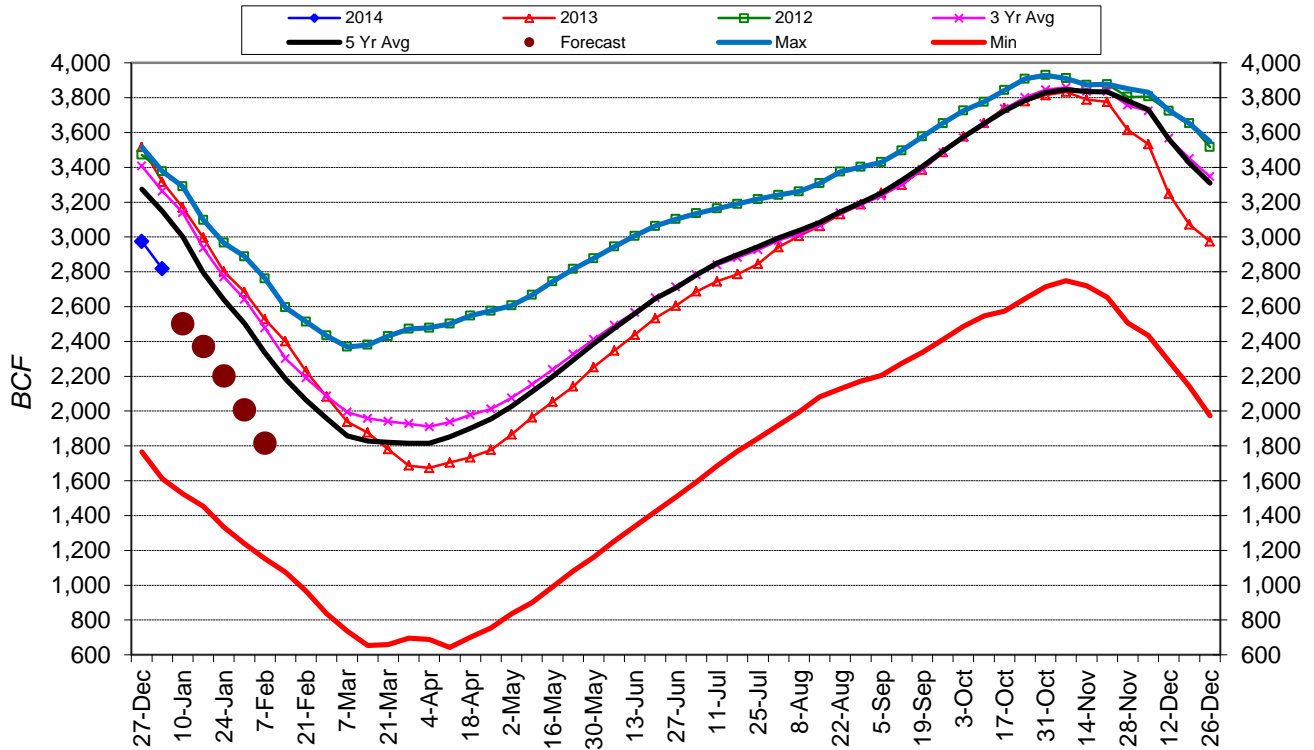
\$/MMBtu Ratio of NYMEX CL and NG



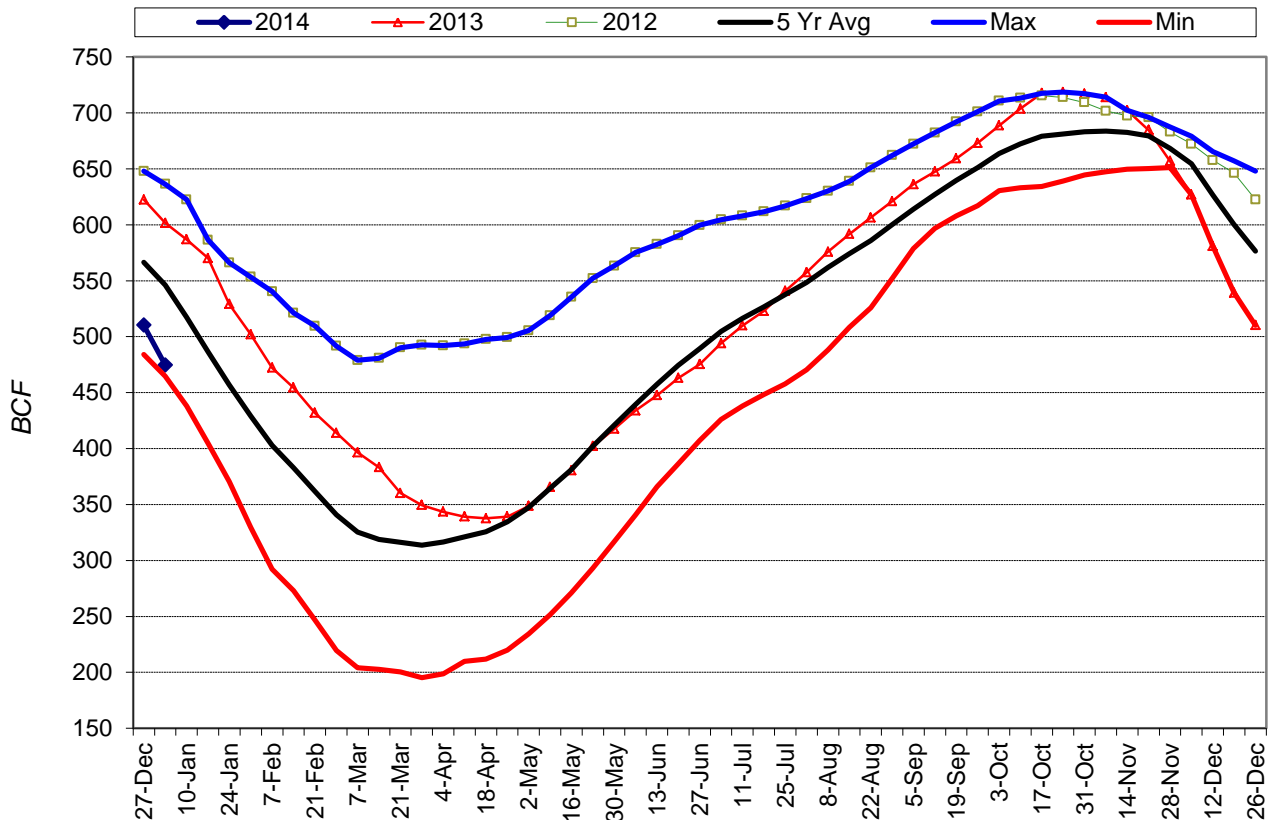
NYMEX Calendar Strips



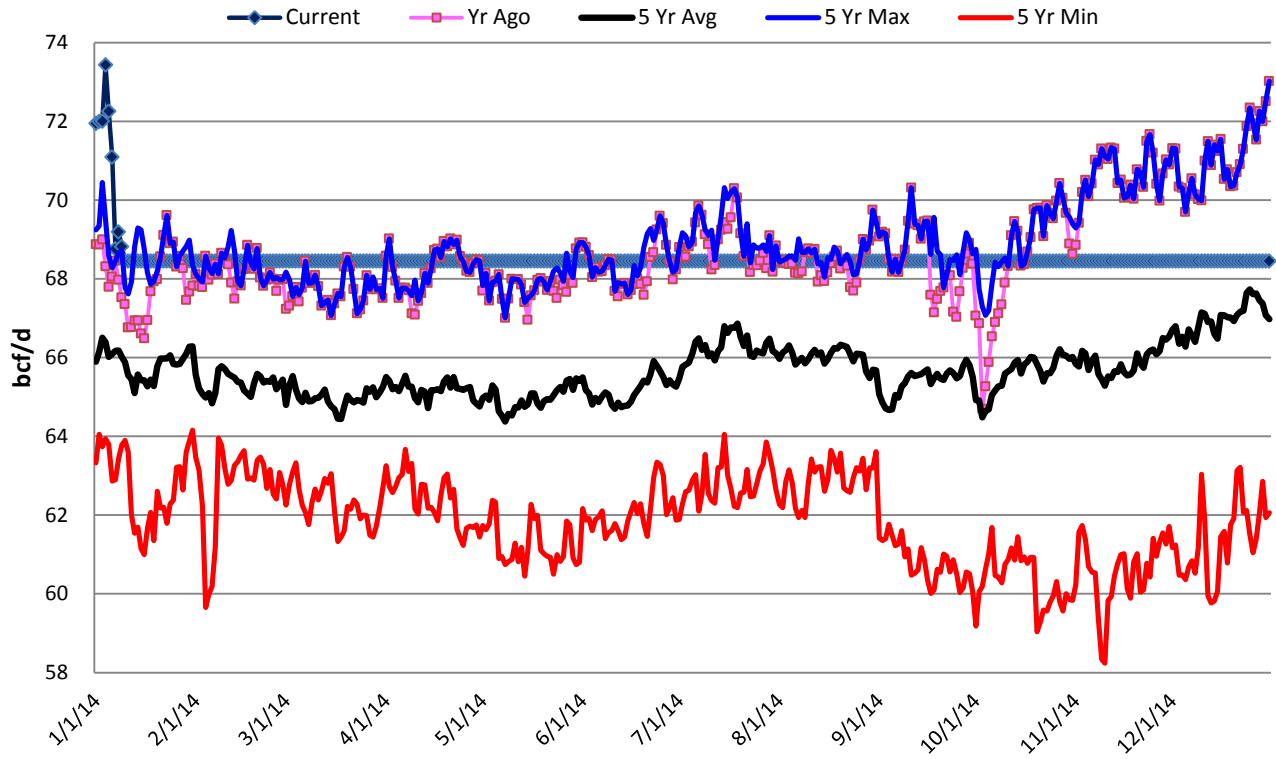
US Working Gas Storage - Source - EIA



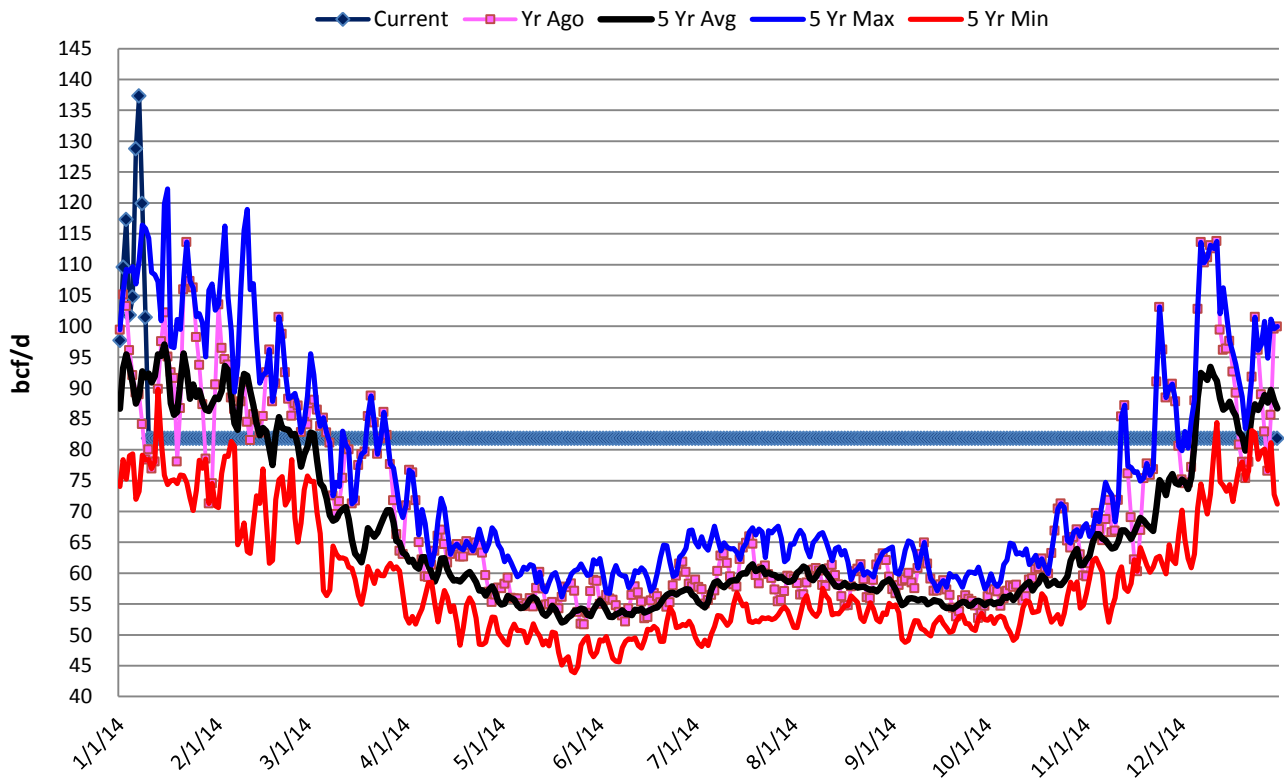
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any commodity, futures contract, or option contract. Although any statements of fact in this report have been obtained from and are based upon sources that IAF Advisors believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. IAF Advisors, its officers and/or employees, may at any time have a long and/or short position in any commodity, futures contract, or option contract mentioned in this report. All opinions and estimates included in this report constitute IAF Advisors judgment as of the date of this report and are subject to change without notice.

© 2014 IAF Advisors.