

IAF Advisors  
Energy Market Outlook  
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com  
January 24, 2014

**Price Action:** Prices catapulted 85.6 cents higher (19.8%) to \$5.182 on a \$1.043 range.

**Price Outlook:** Continued cold weather forecasts rocketed prices higher with the largest weekly advance since a 99 cent advance in June of 2008. While this is only the 2nd week higher, the magnitude has been extreme and thus while a 3rd week higher is not extended, the over \$1 rise since January 10 is rather substantial. However, the market now has a level of fear not seen since 2008 and to try and pick a market top is risky indeed. Weather forecasts drove prices higher as extended cold into February increased predicted weather related demand by over 100 bcf compared to January 17. While much colder than recent winters, this winter remains just slightly below the average since 1971 based on our proprietary temperature index. Actual and predicted temperatures from November until the end of January place this winter at 20 of 44 since 1971. 2001 was #3, 2011 was #21 and 2003 was #22. The CFTC data for January 21 indicated another surge in the net long position in the managed money category. It remains below the historical peak. However this position was as of Tuesday and does not reflect end of week activity. Total open interest across the complex rose to 4.89 million contracts as of January 21. CME futures open interest fell to 1.27 million contracts as of January 23.

**Weekly Storage:** US working gas storage for the week ending January 17 indicated a withdrawal of 107 bcf. Thus, current inventories of 2,423 bcf fall 573 bcf (19.1%) below last year and 372 bcf (13.3%) behind the 5 year average.

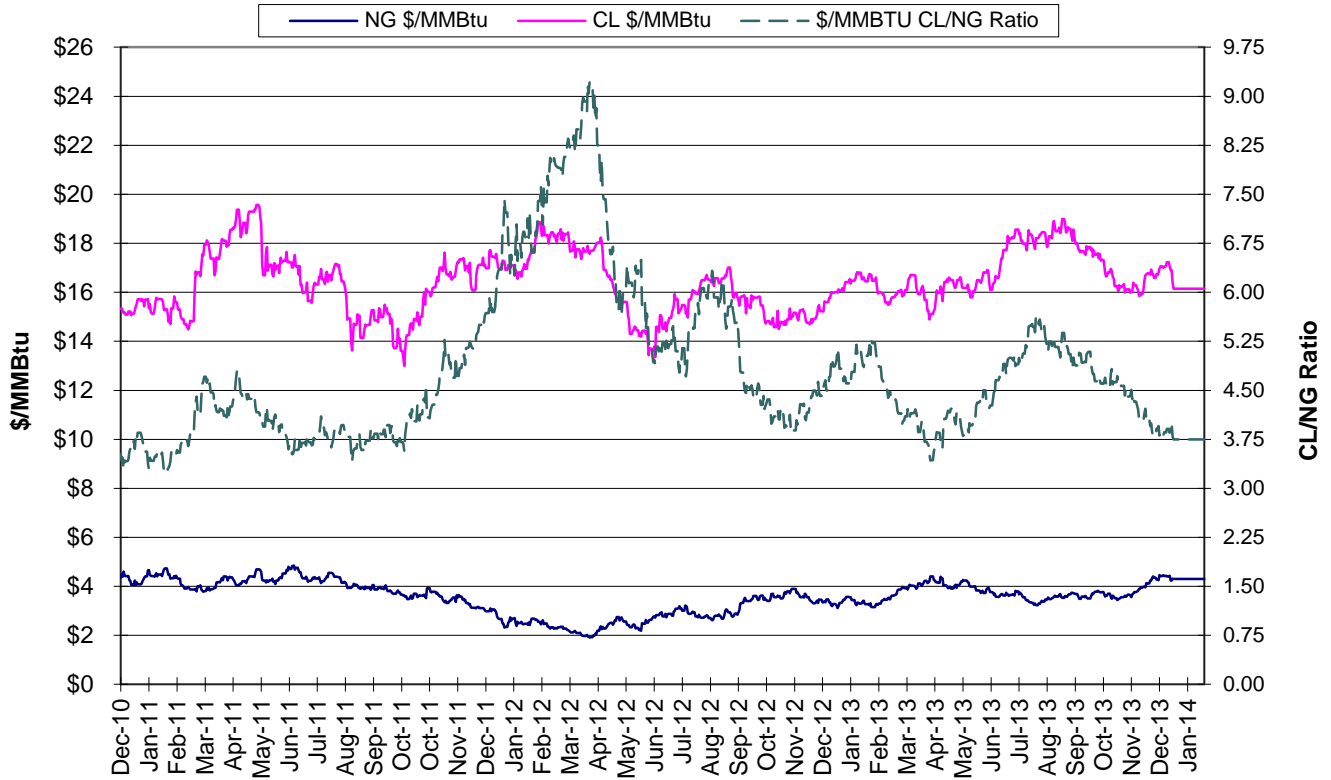
**Storage Outlook:** The updated weather forecasts have reduced end of year storage forecasts to below 1,200 bcf and will likely see the yearly storage deficit exceed 800 bcf in February. However, the deficit is expected to contract in late February and March.

**Supply Trends:** Total supply fell 0.6 bcf/d to 69.5 bcf/d. US production rose, but was offset by lower Canadian and LNG. Mexican exports were also lower. The US Baker Hughes rig count was unchanged with increased oil activity offsetting a natural gas drop. Canadian activity rose 25. Thus the total North American rig count increased by 25 to 2,367 and now trails last year by 7. The higher efficiency US horizontal rig count fell 3 to 1,170 and rises 43 above last year.

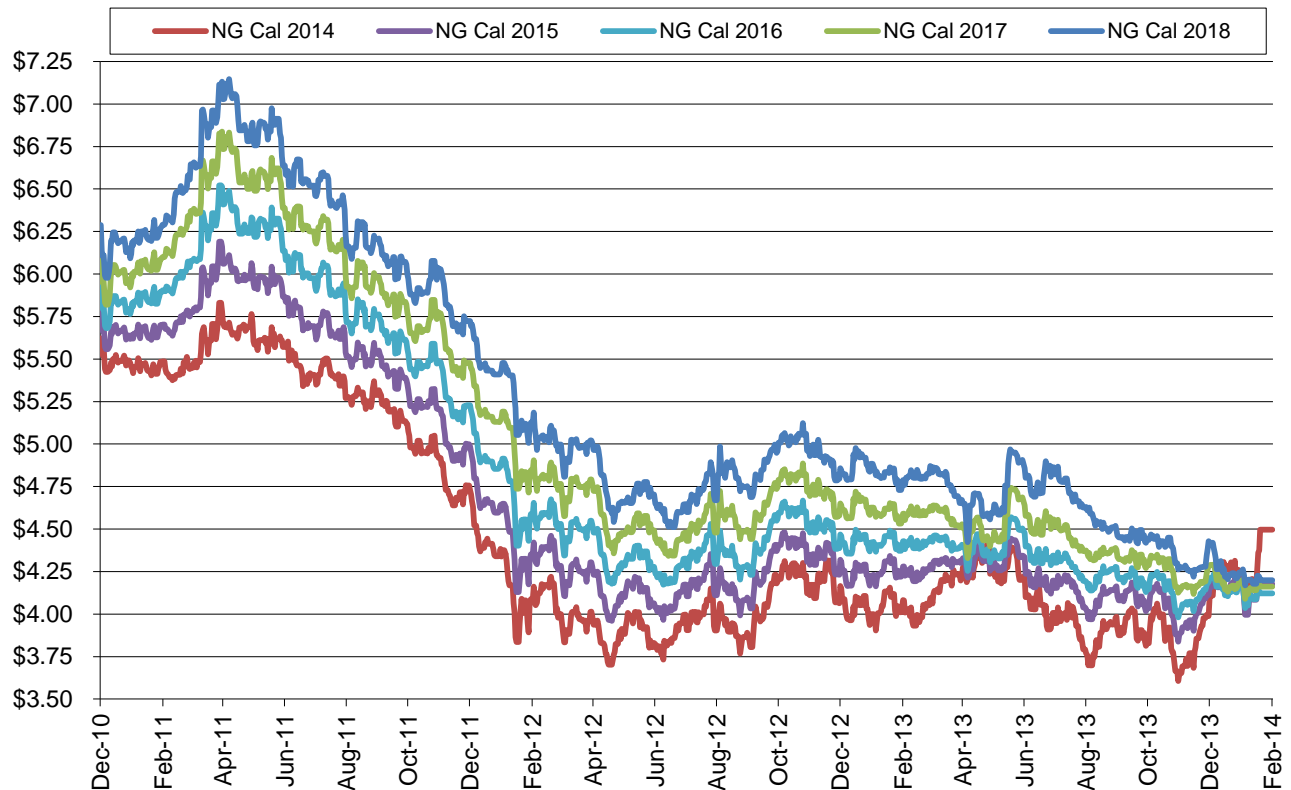
**Demand Trends:** Total demand plummeted 29.5 bcf/d to 81.1 bcf/d. R&C demand lead the drop followed by power. Electricity demand fell 7,121 gigawatt-hrs to 78,054, which trails last year by 1,454 (1.8%) and the 5 year average by 5,028 (6.1%). This winter does highlight the increasing sensitivity to temperatures that has developed across the country as houses are now built with 10-12 foot ceilings and LED lights produce less heat that must be replaced by the heating system on cold days. A late 70's winter would likely result in a withdrawal well in excess of 3,000 bcf.

**Other Factors:** The S&P 500 had a very rough week as various concerns including the first 4th Quarter earnings reports that weighed on the market.

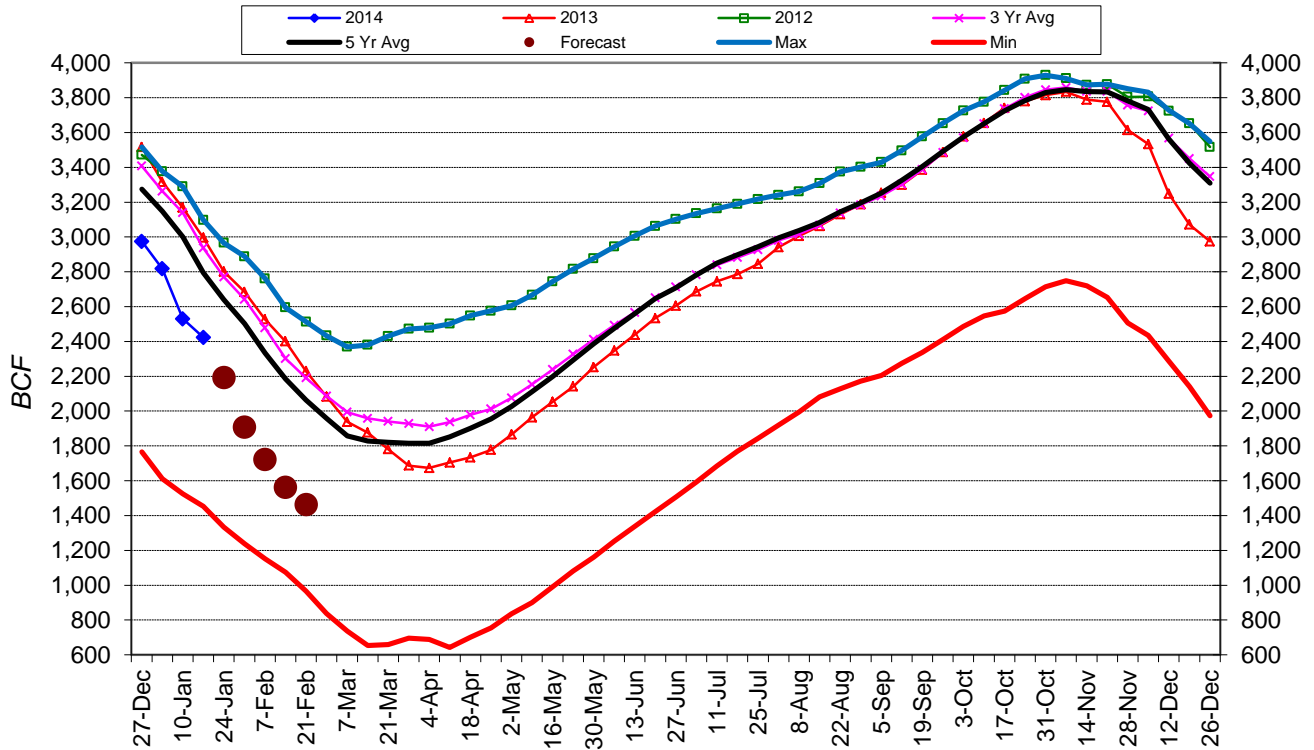
## \$/MMBtu Ratio of NYMEX CL and NG



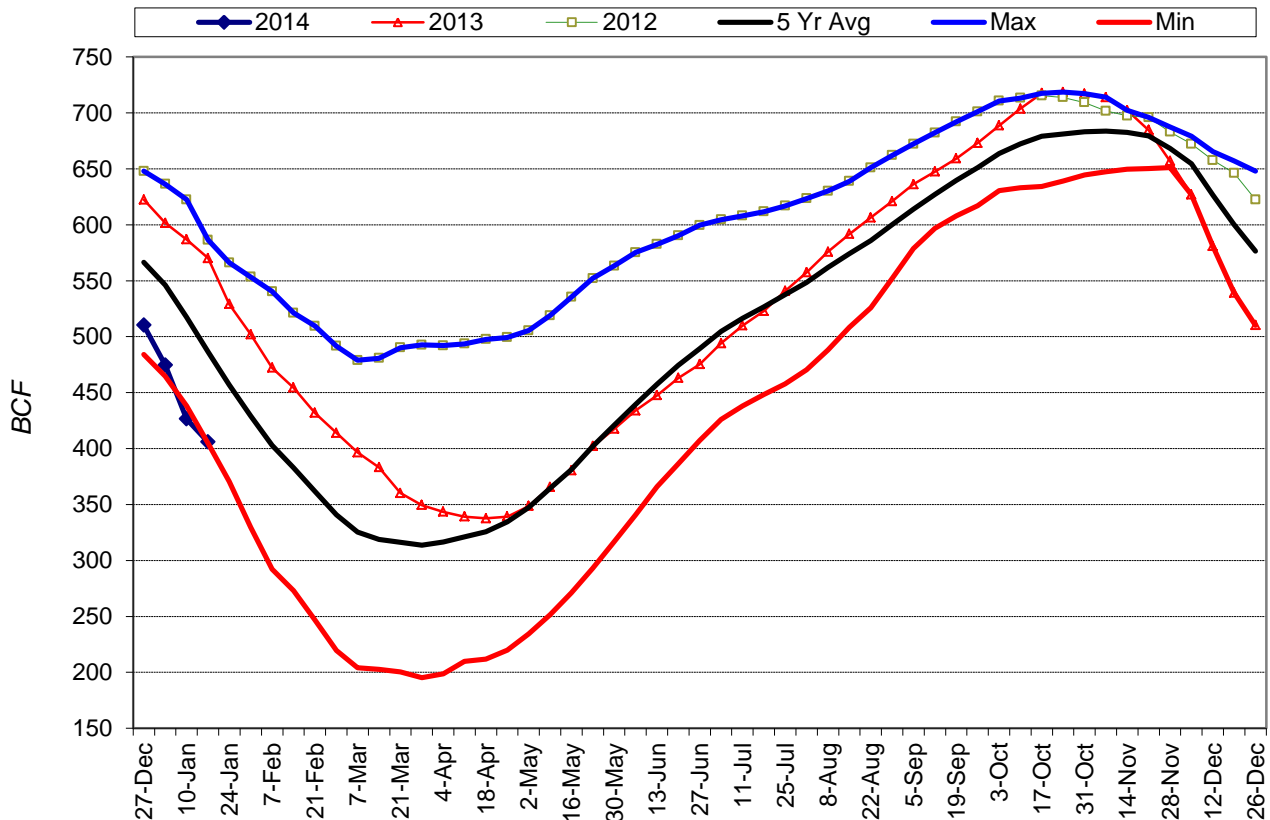
## NYMEX Calendar Strips



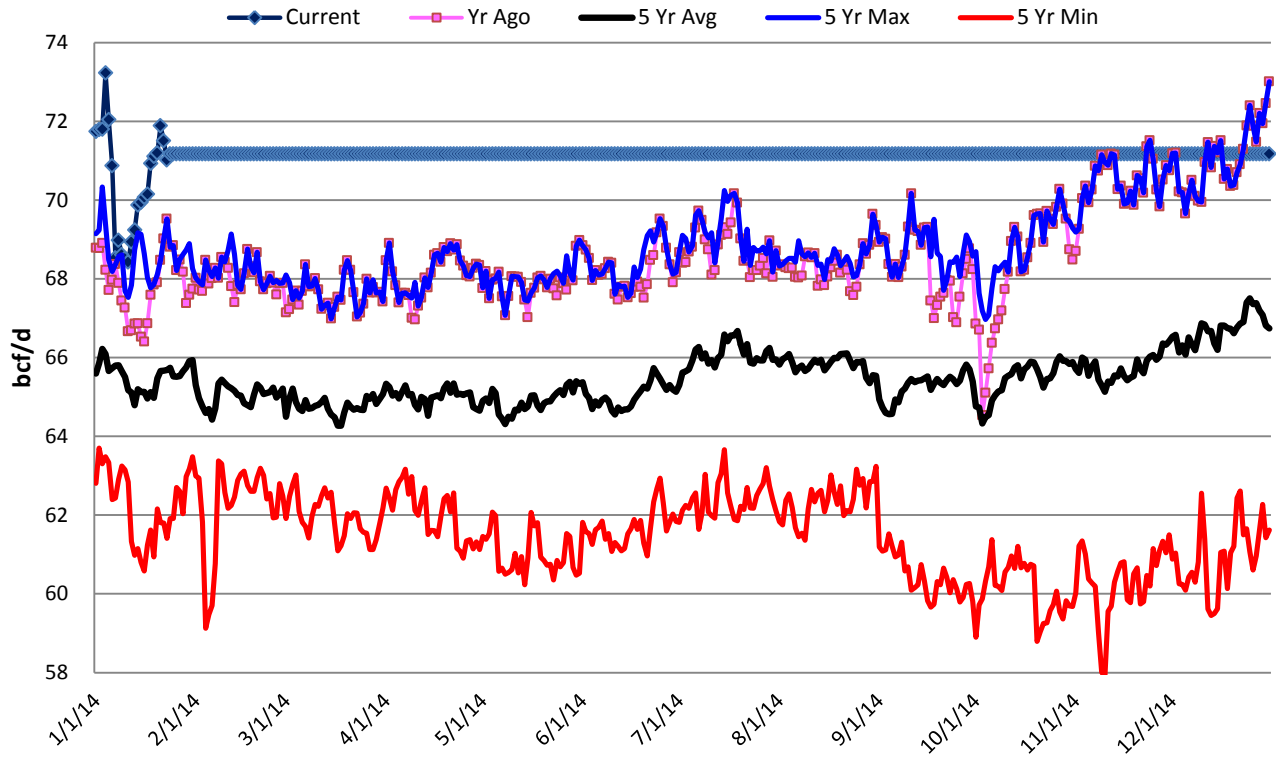
## US Working Gas Storage - Source - EIA



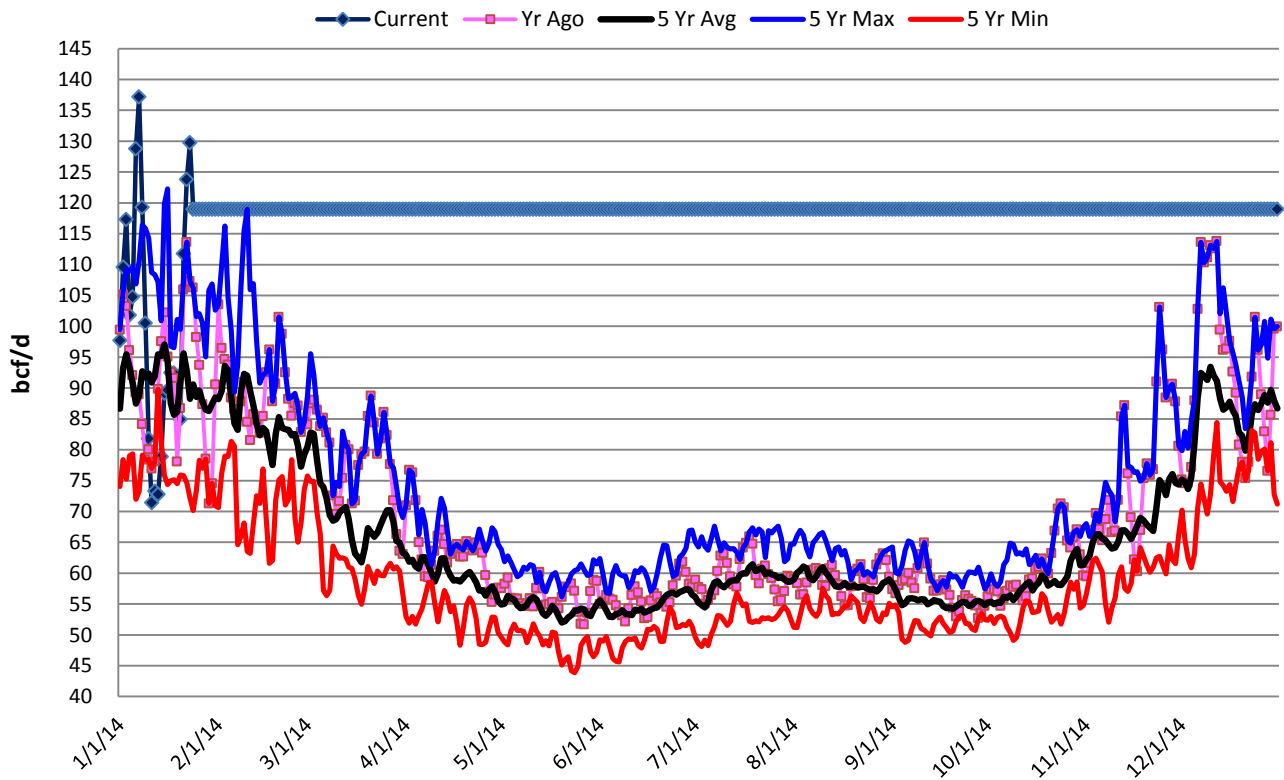
## Canadian Working Gas Storage - Enerdata



## 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.