

IAF Advisors
Energy Market Outlook
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Price Action: Prices fell 5.5 cents (1.1%) basis the now prompt March contract to \$4.943 on an 82.7 cent range.

Price Outlook: The expiring February contract catapulted to \$5.725 on expiration and easily posted a new weekly high as cold weather forecasts continued to push prices higher. With a new low just 22.2 cents away and a new high 78.2 cents away, the easy assumption is for a new weekly low next week. However, considering the fear still in the market and the volatility in the weather forecasts, a new high is not out of the question. Still, with a wide range, some relaxation in the market may result in a rare inside week. After 55 weeks that ended exactly at 3 up weeks, 35 ended at 4 weeks higher. The February print of \$5.725 is the highest since January 2010 and may represent a near term top. However, with two full months of winter still in store, a continuation of bullish temperatures may yet provide the fundamental driver to breach this level. There is evidence that some price sensitive demand has been lost and that certainly puts additional pressure on Mother Nature to deliver cold temperatures if a new high is to be established. The CFTC data for January 28 indicated another surge in the net long position in the managed money category. It is now just below the record net long level of May 2013. Again, this position was as of Tuesday and does not reflect end of week activity. Total open interest across the complex rose to 4.94 million contracts as of January 28. CME futures open interest fell to 1.24 million contracts as of January 30.

Weekly Storage: US working gas storage for the week ending January 24 indicated a withdrawal of 230 bcf. Thus, current inventories of 2,193 bcf fall 609 bcf (21.7%) below last year and 448 bcf (17.0%) behind the 5 year average.

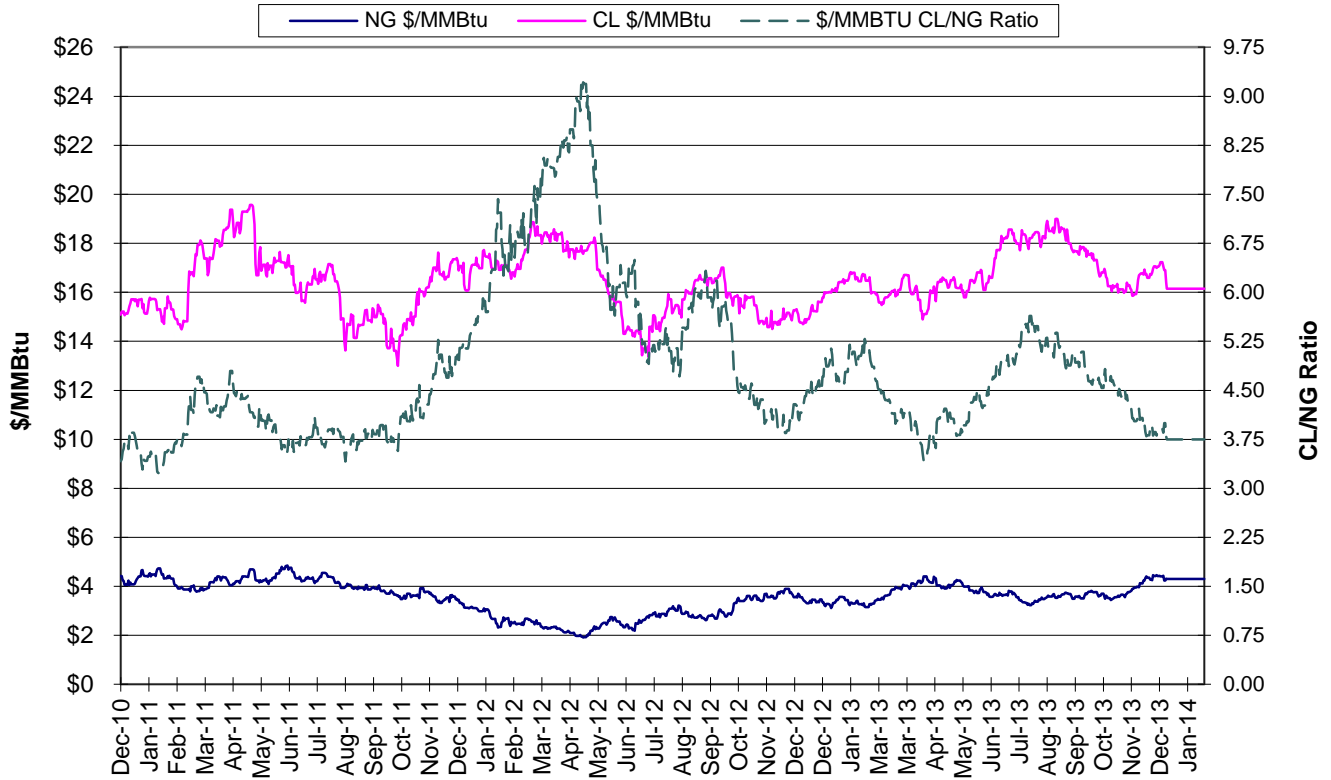
Storage Outlook: Weather forecasts indicate a continuation of cold temperatures into mid-February and have reduced our end of year storage forecasts to below 1,100 bcf. The yearly storage deficit is now projected to exceed 900 bcf in mid-February. However, the deficit is expected to contract in late February and March.

Supply Trends: Total supply rose 1.7 bcf/d to 71.3 bcf/d. US production, Canadian and LNG imports were all higher while Mexican exports were lower. The US Baker Hughes rig count rose 8 with both higher oil and natural gas activity. The Canadian count rose 18. Thus the total North American rig count increased by 26 to 2,393 and now surpasses last year by 4. The higher efficiency US horizontal rig count rose 3 to 1,170 and rises 37 above last year. The EIA Monthly Natural Gas Report did reveal a new record US production level in November. However, as has been case throughout 2013, the total lower 48 dry natural gas supply is not growing nearly as rapidly as the headlines suggest due to lower net imports and higher extraction volumes.

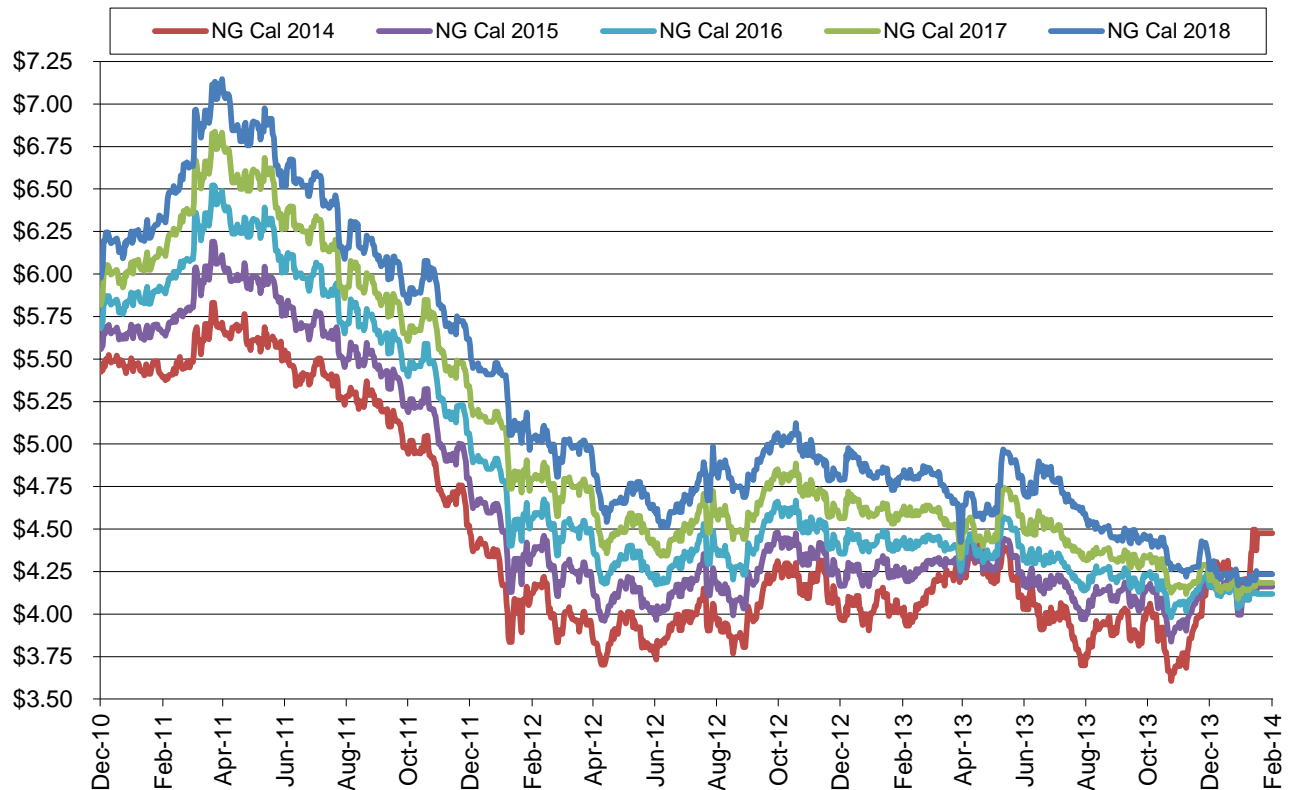
Demand Trends: Total demand jumped 25.7 bcf/d to 106.8 bcf/d. R&C demand lead the rise with power a distant second. Electricity demand rose 7,644 gigawatt-hrs to 85,698, which exceeds last year by 5,013 (6.2%) and the 5 year average by 6,783 (8.6%).

Other Factors: The S&P 500 had another volatile week as various items including Fed policy and emerging market growth concerns weighed on the market.

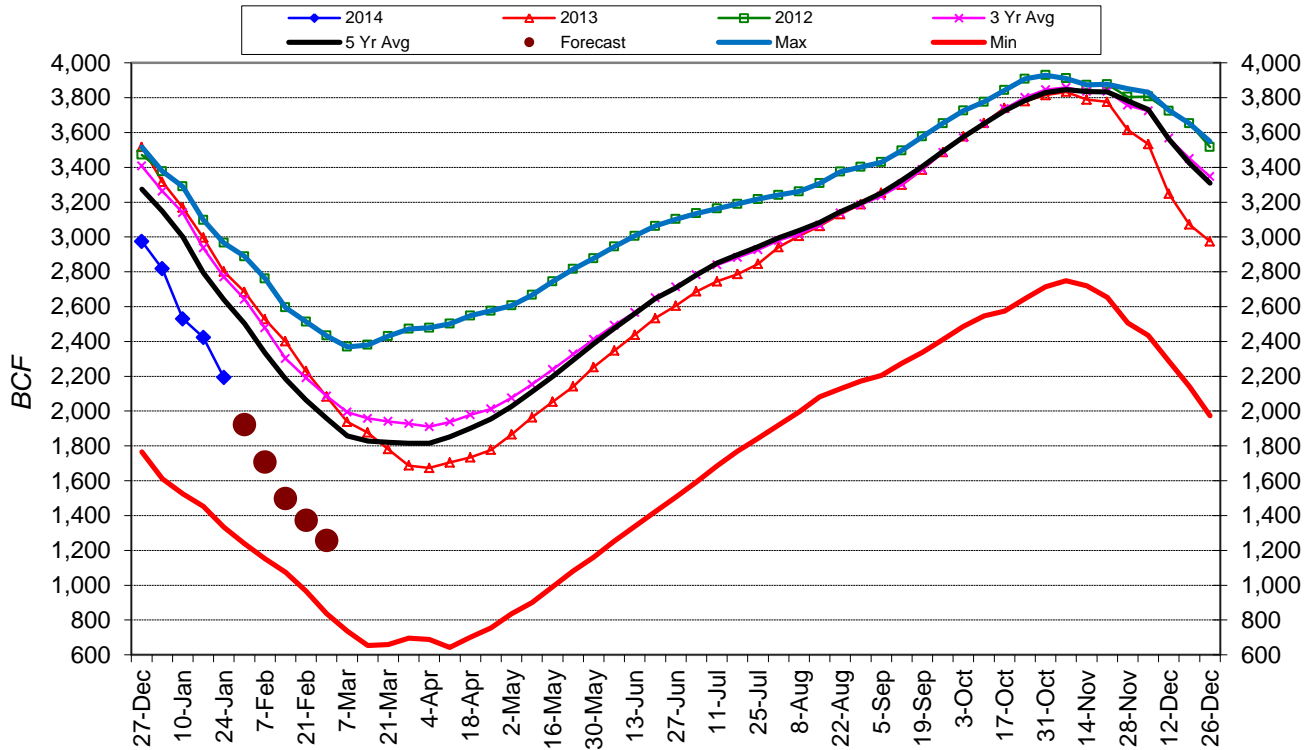
\$/MMBtu Ratio of NYMEX CL and NG



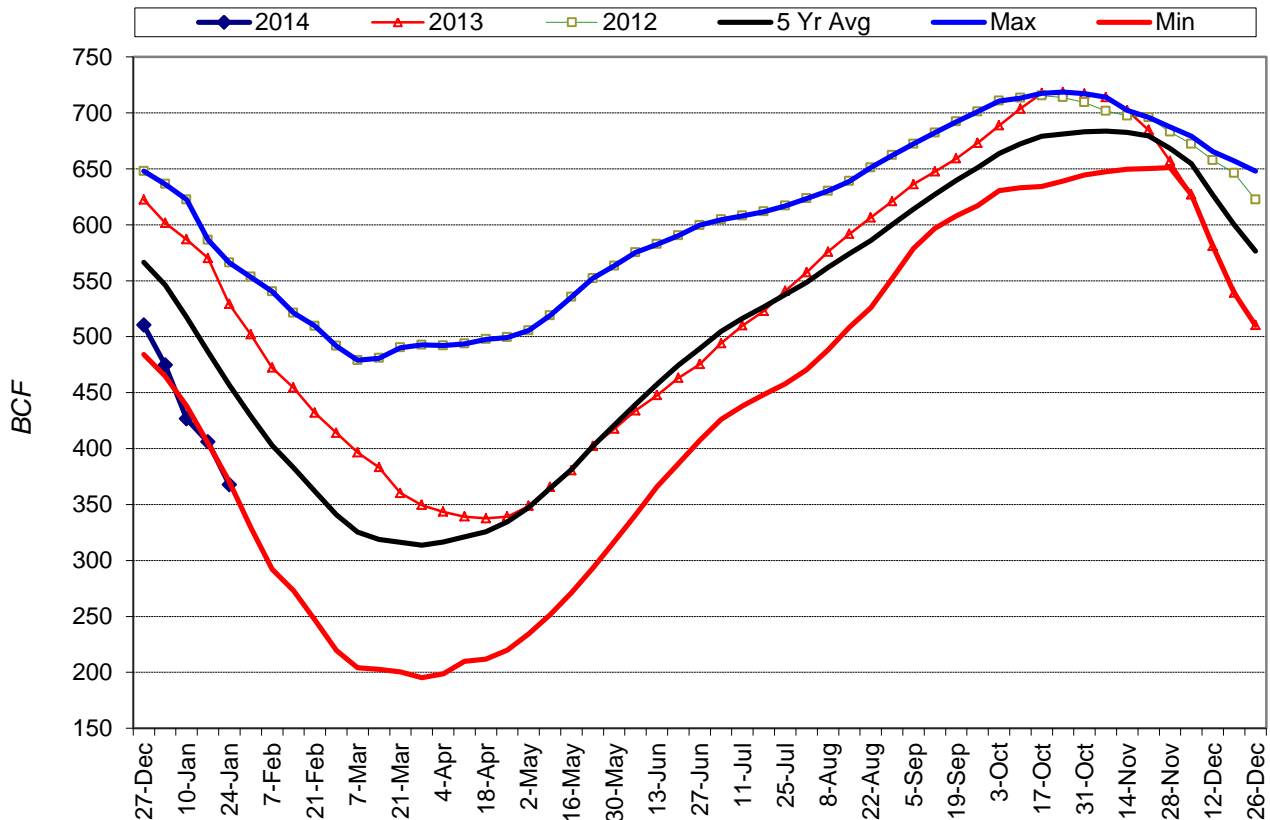
NYMEX Calendar Strips



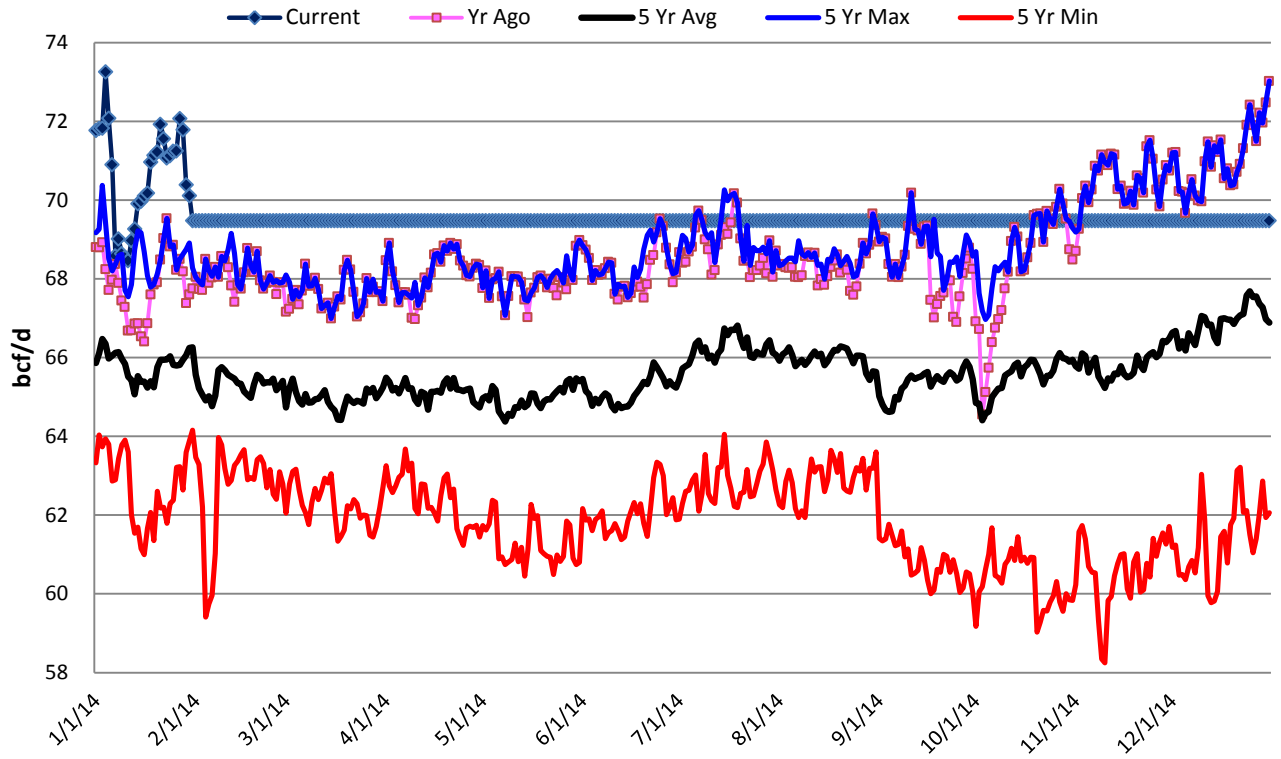
US Working Gas Storage - Source - EIA



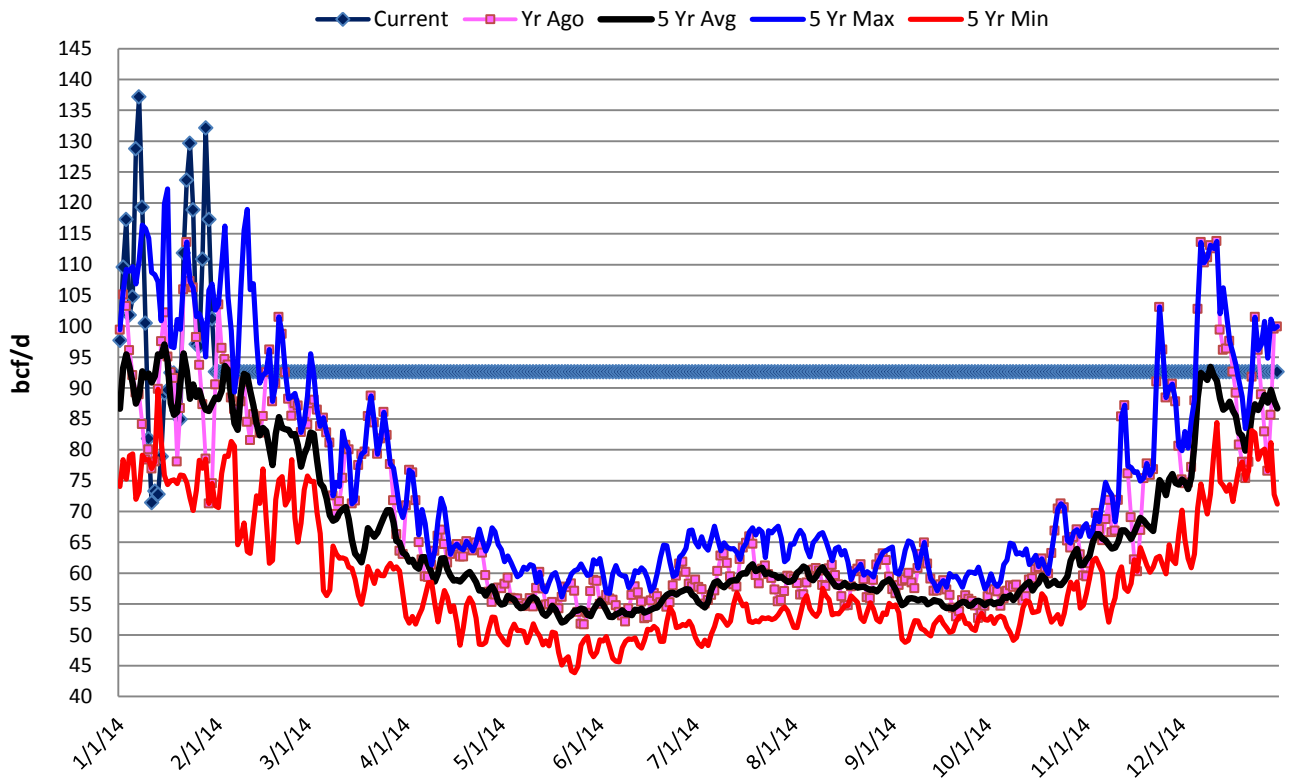
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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