

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
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Price Action: March prices skyrocketed 92.1 cents (17.7%) higher to \$6.135 on a 98.9 cent range.

Price Outlook: The market surged higher as weather forecasts maintained cold temperatures into March. Although this is just one week higher, the advance is considered extreme and with an incredibly large long position, a very severe retracement is in store. However, that may come from still higher levels as the March expiration may be dynamic to say the least. Mother Nature remains bullish and as the old, old commercial used to say, never fool Mother Nature. This price level will solve the inventory problem even from the ever lower end of season levels now anticipated. However, this price is basis a \$5.557 February index level, a March price well over \$6 and cash prices even higher than that in many locations. There is significant demand loss while storage withdrawals remain large due to cold temperatures. There are many suggesting the demand loss will continue throughout the April-October injection season and that facilities will easily refill before next November. If the April-October strip was at current levels we would completely agree. However, with the April-October strip still below \$5, that is questionable and with such a hole to fill, there is little room for error during the refill season. This market needs to see small withdrawals in late March and large early April injections. The CFTC data for February 18 revealed a large increase to yet another new record speculative net long position in the managed money category. Although total open interest across the complex rose to 5.13 million contracts as of February 18, the net long percentage increased even more and is very extreme. CME futures open interest fell to 1.23 million contracts as of February 20.

Weekly Storage: US working gas storage for the week ending February 14 indicated a withdrawal of 250 bcf with yet another revision. Current inventories of 1,443 bcf fall 957 bcf (39.9%) below last year and 742 bcf (34.0%) behind the 5 year average. Inventories for the week ending February were revised 7 bcf higher resulting in that weekly injection revealing a 230 bcf withdrawal compared to the originally reported 237 bcf change.

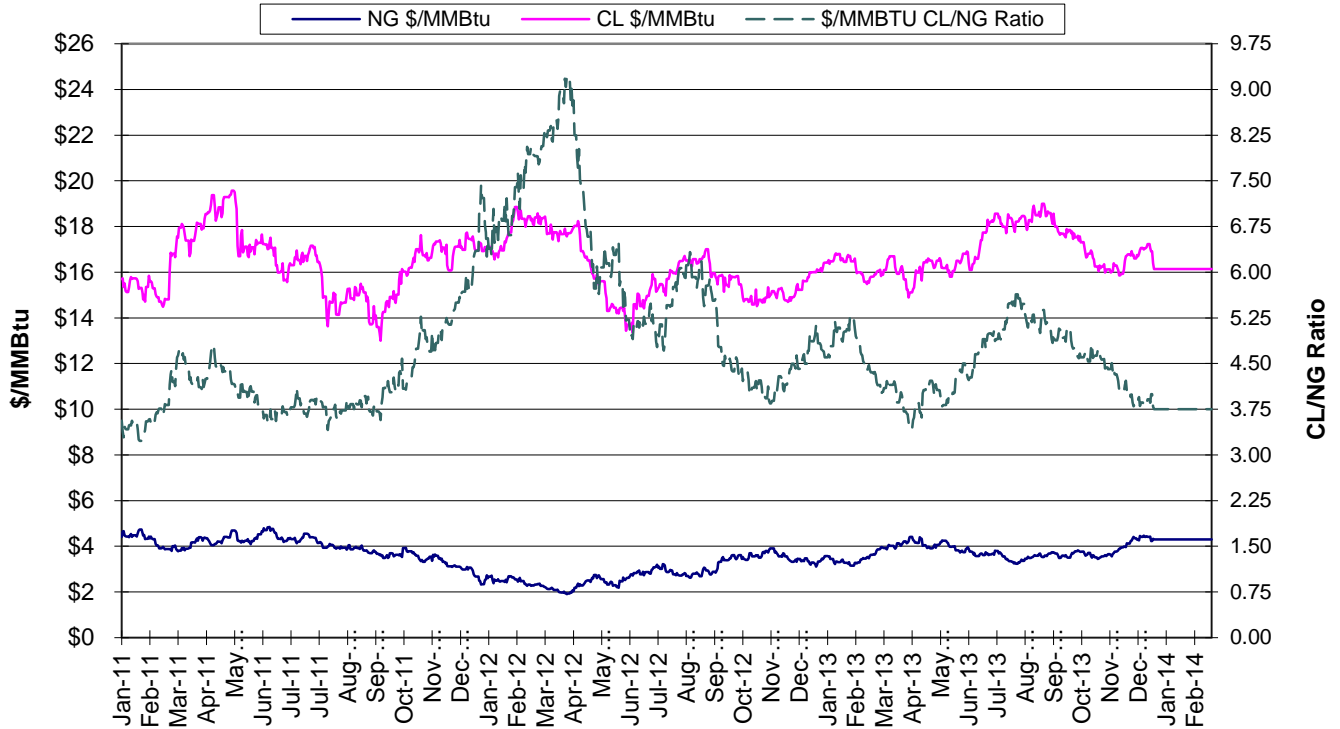
Storage Outlook: With the updated weather forecasts, inventories may now drop below 900 bcf.

Supply Trends: Total supply rose 0.2 bcf to 69.8 bcf/d. US production slipped with Canadian and LNG imports both higher. Slightly lower Mexican exports also helped lift supply. The US Baker Hughes rig count rose 7 with both oil and natural gas activity rising. The Canadian count rose 8. Thus the total North American rig count rose by 15 to 2,403 and now trails last year by 20. The higher efficiency US horizontal rig count fell 1 to 1,182 and rises 42 above last year.

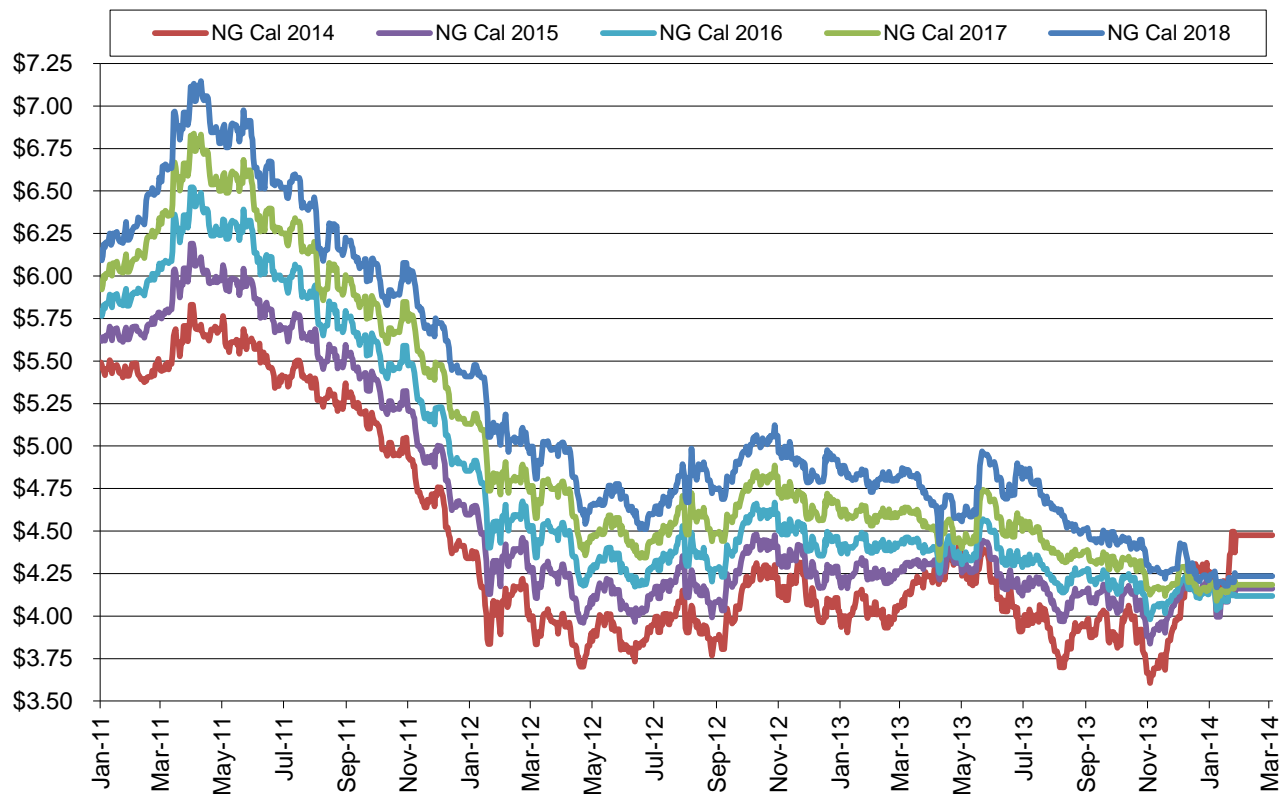
Demand Trends: Total demand rose 7.5 bcf/d to 108.2 bcf/d. R&C demand lead the increase with power again a distant second. Electricity demand fell 128 gigawatt-hrs to 83,345, which exceeds last year by 7,765 (10.3%) and the 5 year average by 5,397 (6.9%).

Other Factors: The S&P 500 was barely lower on the week with weak housing data discounted due to the weather.

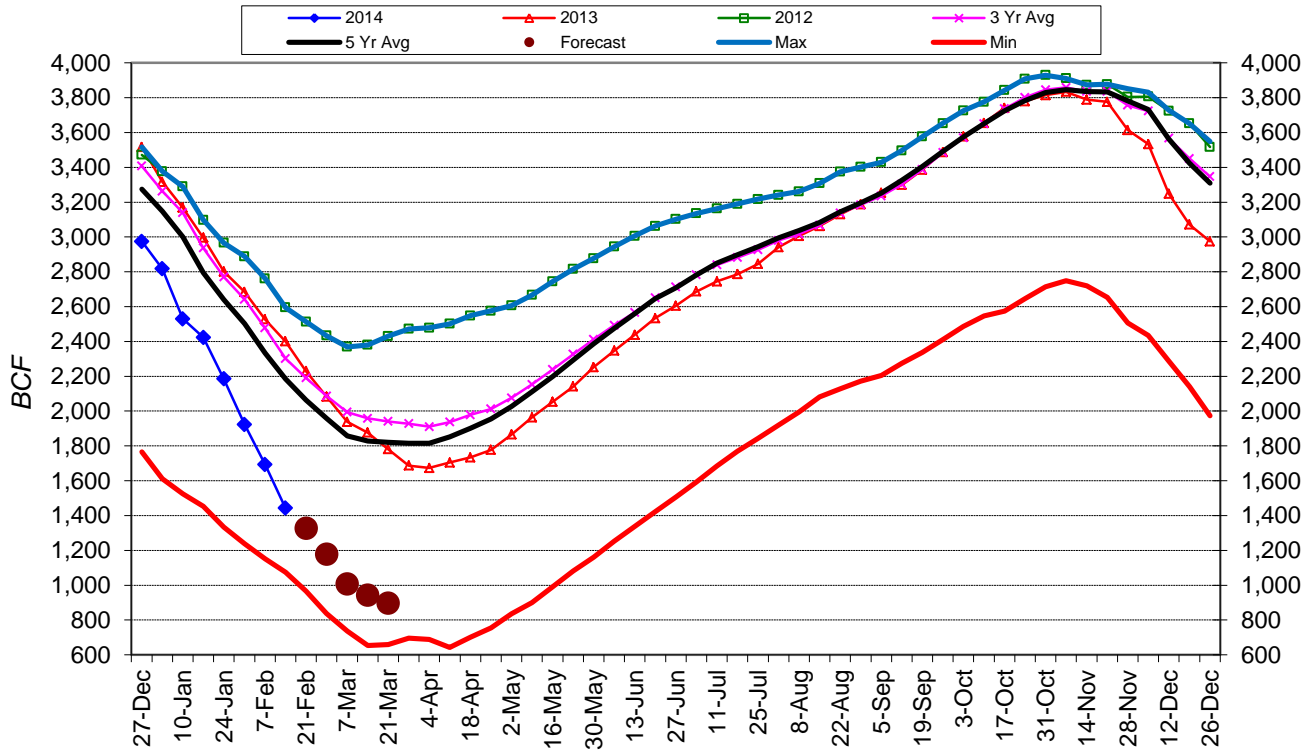
\$/MMBtu Ratio of NYMEX CL and NG



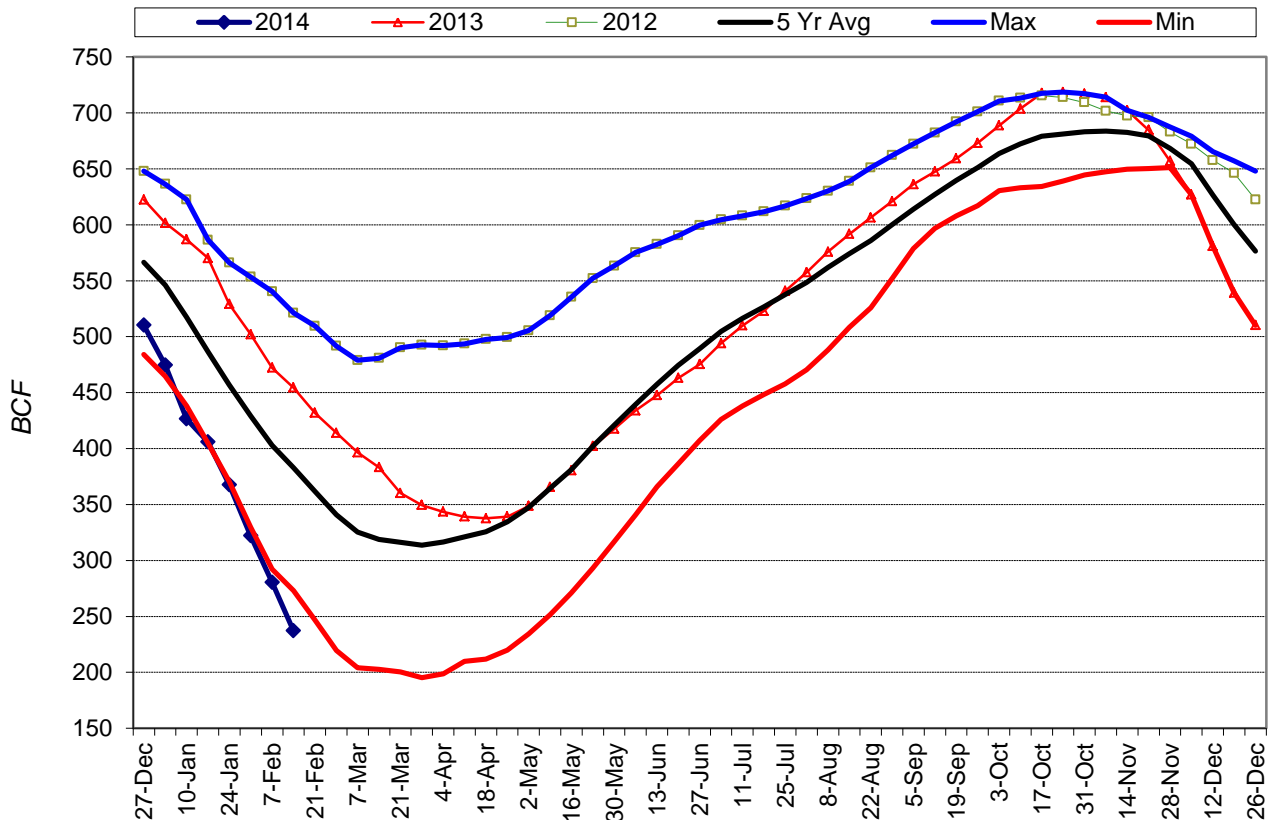
NYMEX Calendar Strips



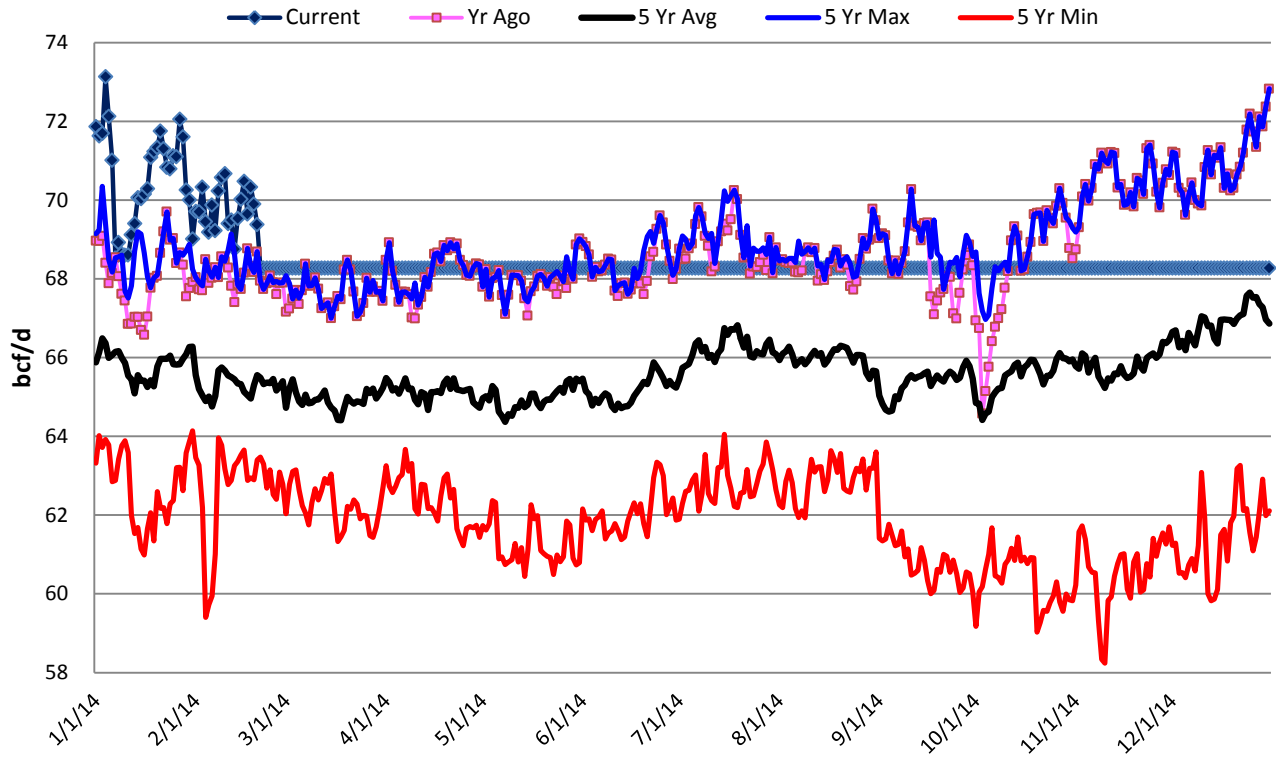
US Working Gas Storage - Source - EIA



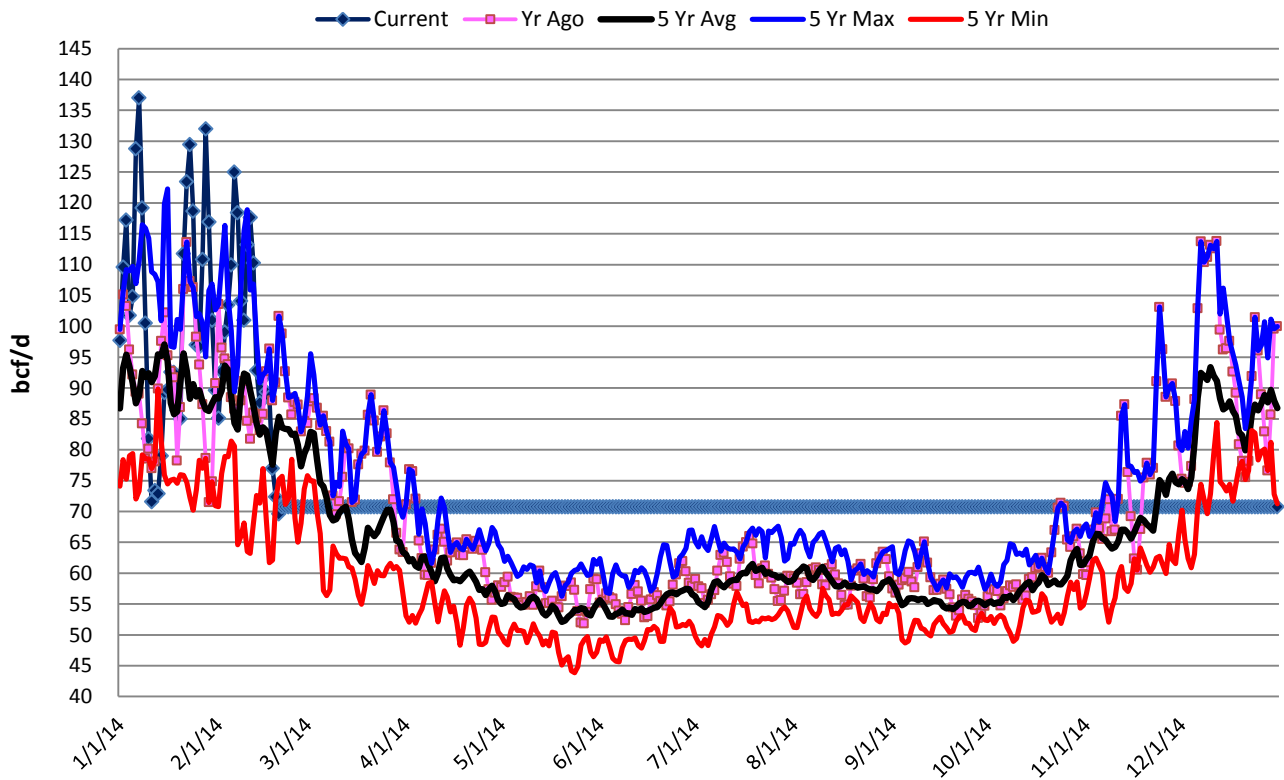
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



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