

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
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Price Action: Prices basis the April contract fell 40.3 cents (8.0%) to \$4.609 on a 76.8 cent range.

Price Outlook: While affected by the March expiration, prices basis the front month contract established both a new high and a new low this week. The volatility remains extreme and while expected to subside, may remain elevated with March weather still capable of significantly altering end of season inventory projections. Our bias is for strength while cognizant that it will be difficult to reach the March contract print of \$6.493 with even the April \$5.209 print also a stretch. With ample evidence that +\$6 prices was getting the job done, the market collapsed with April now at \$4.609. After pipeline data suggested significant demand loss, that same data now suggests the price retracement has enticed quite a bit of demand back into the market. Thus, the coming weekly injections will indeed be interesting and crucial to ascertaining the ongoing supply/demand balance. The data will drive subsequent attempts at determining November storage levels. We do not believe that current prices are sufficient for inventories to reach 3,800 bcf by November. The CFTC data for February 25 indicated a retracement from the record speculative net long position in the managed money category. However, total open interest across the complex fell to just to 4.70 million contracts and thus the net long position as a percentage of open interest actually increased and is therefore at a new record from a percentage basis. CME futures open interest fell to 1.19 million contracts as of February 27.

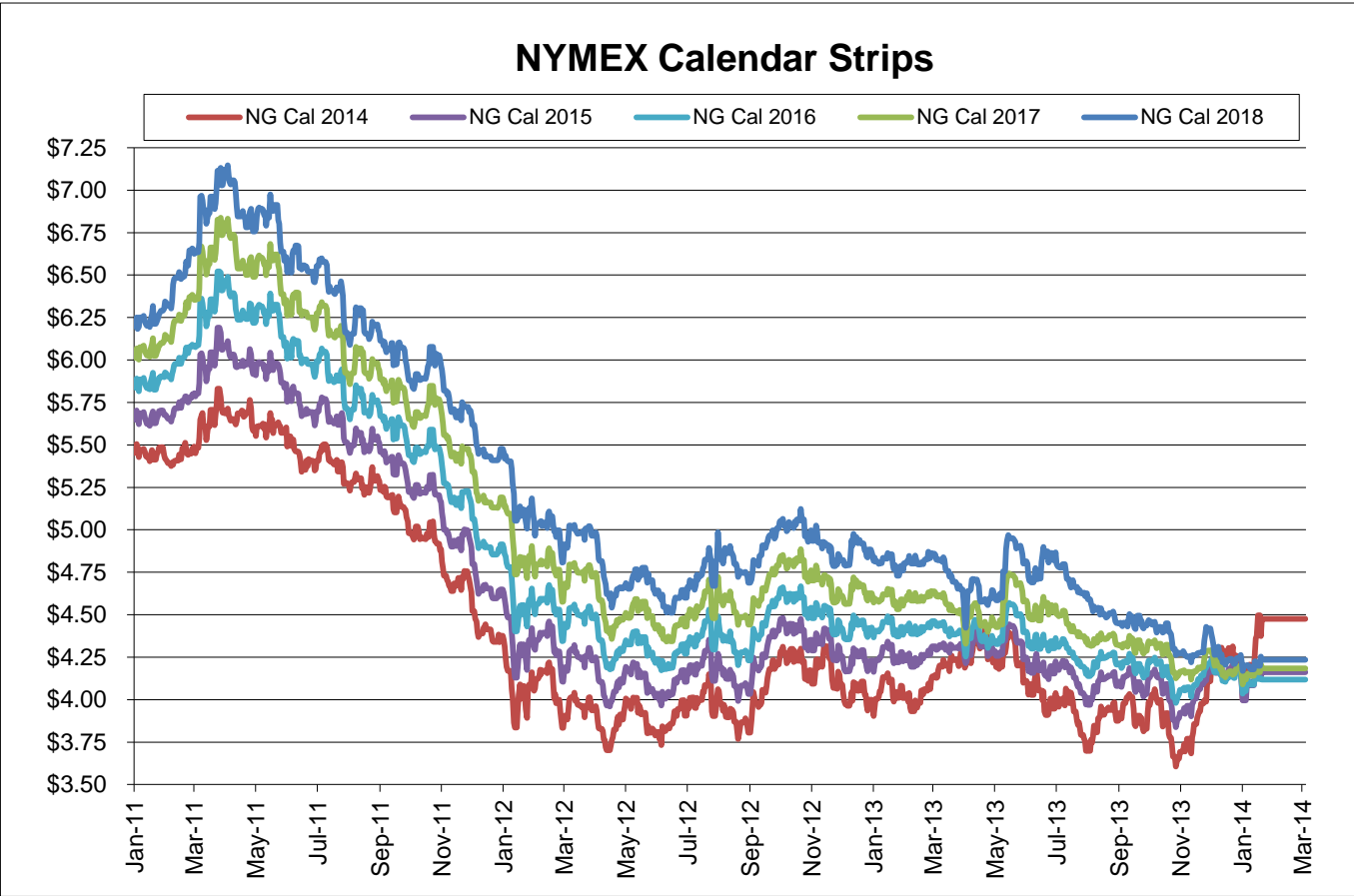
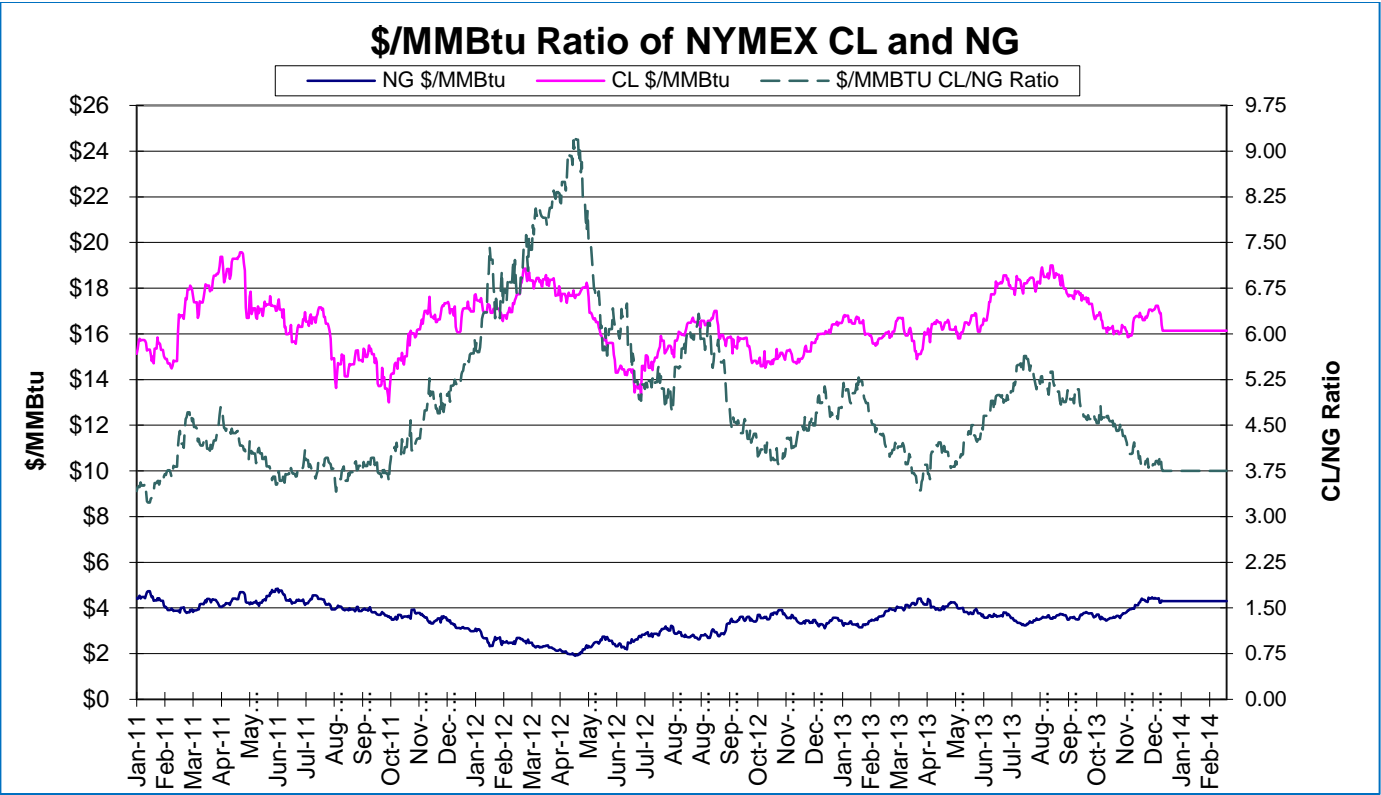
Weekly Storage: US working gas storage for the week ending February 21 indicated a withdrawal of 95 bcf. Current inventories of 1,348 bcf fall 881 bcf (39.5%) below last year and 716 bcf (34.7%) behind the 5 year average.

Storage Outlook: Mother Nature can deliver a wide range of March temperatures as clearly revealed by 2012 and 2013. Thus, while current forecasts suggest inventories will fall below 900 bcf, that clearly remains to be seen. However, with the apparent increased demand in recent days, it does still seem probable for inventories to fall below 900 bcf.

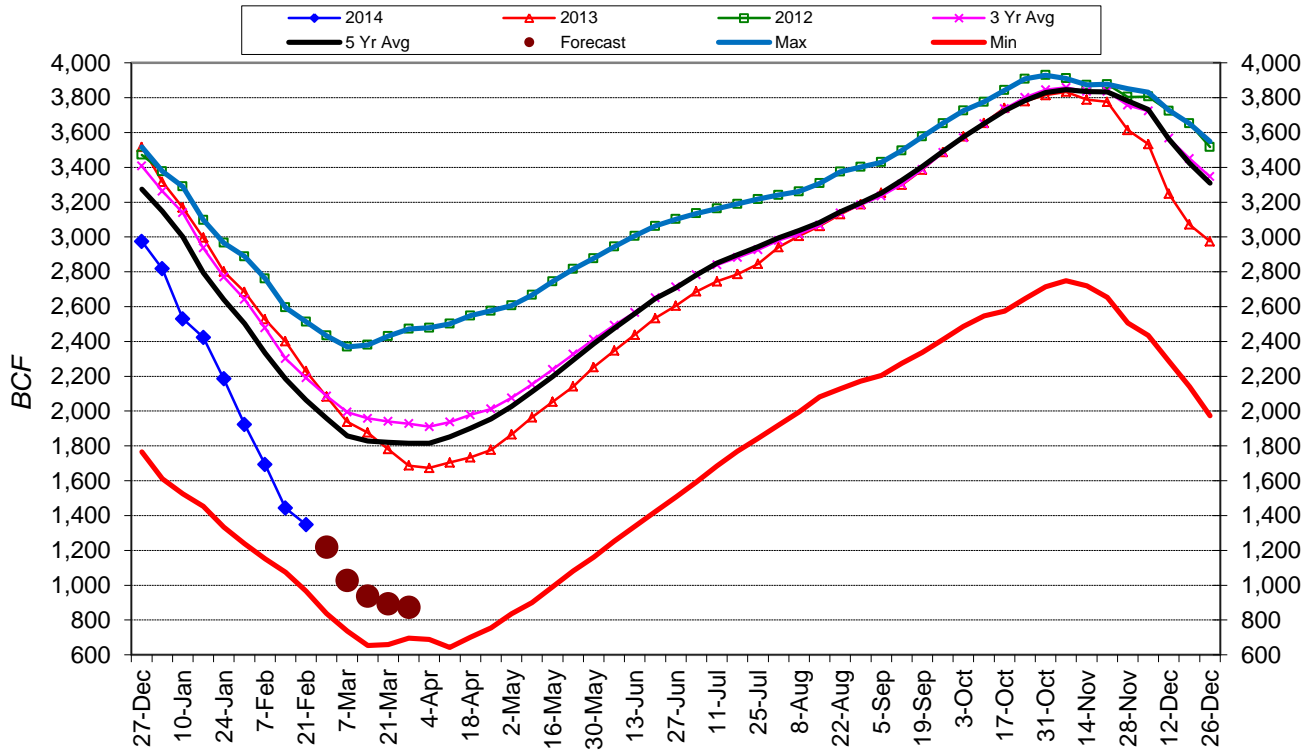
Supply Trends: Total supply rose 0.2 bcf to 69.9 bcf/d. US production surged while both Canadian and LNG imports were lower. Slightly lower Mexican exports also helped lift supply. The US Baker Hughes rig count fell 2 with increased oil activity not offsetting a natural gas drop. The Canadian count fell 6. Thus the total North American rig count fell by 8 to 2,395 and now trails last year by 17. The higher efficiency US horizontal rig count fell 1 to 1,181 and rises 40 above last year. The EIA monthly natural gas report revealed a slight drop in December dry production while also reporting a rise in net imports that resulted in a rather substantial YOY increase in total supply. The drop in production is not surprising with weather related freeze-offs affecting flows while January output is expected to be slightly lower still. However, February is expected to rise and March may represent a new production record.

Demand Trends: Total demand collapsed 26.0 bcf/d to 82.2 bcf/d. R&C demand lead the fall with power again a distant second. Electricity demand fell 10,088 gigawatt-hrs to 73,257, which trails last year by 3,842 (5.0%) and the 5 year average by 2,396 (3.2%).

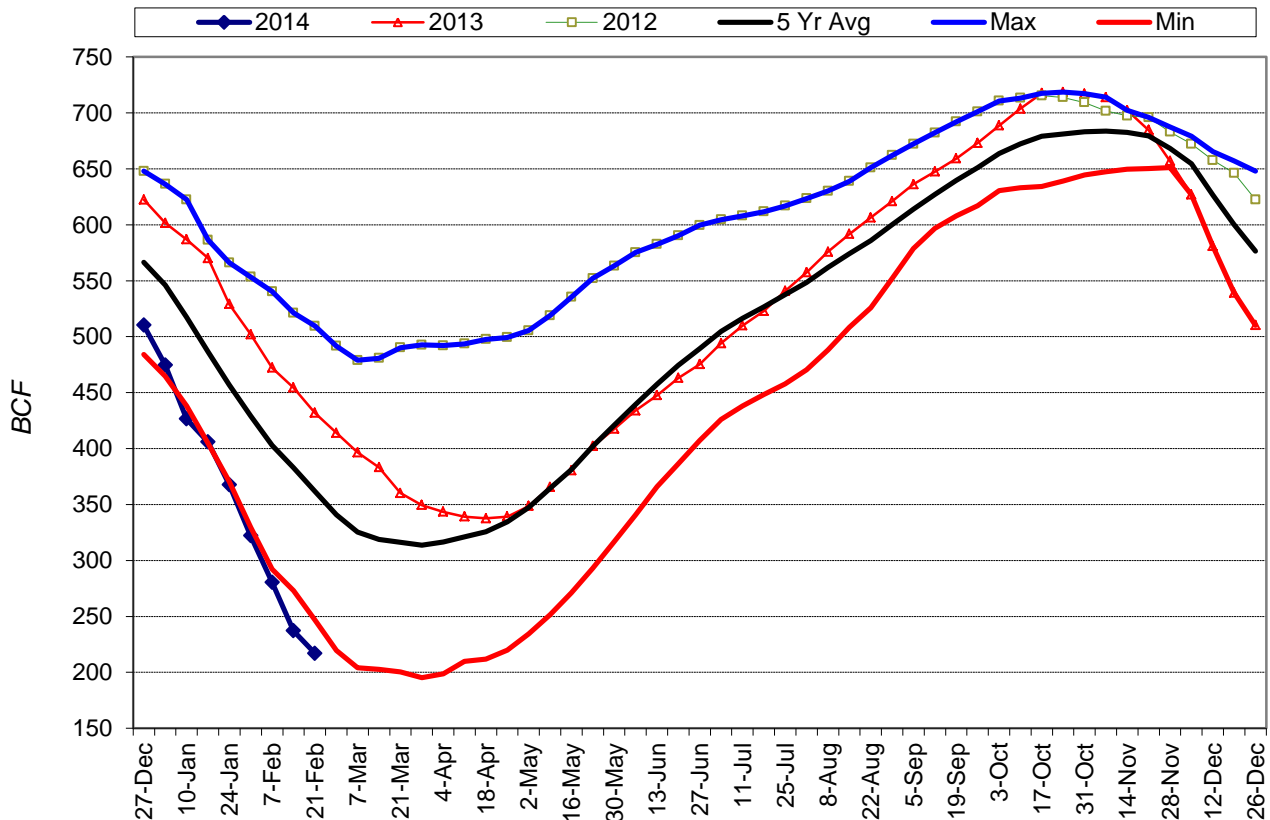
Other Factors: The S&P 500 rose to a new record close as market optimism remains high.



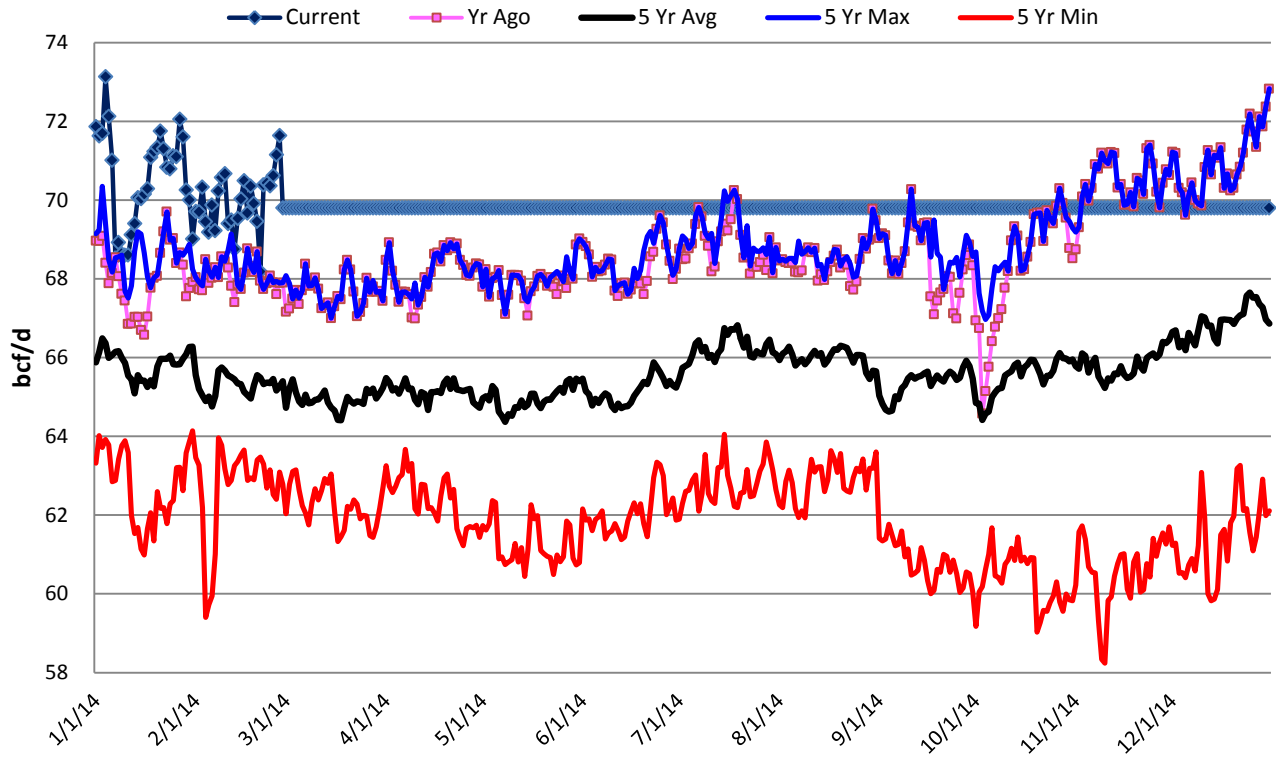
US Working Gas Storage - Source - EIA



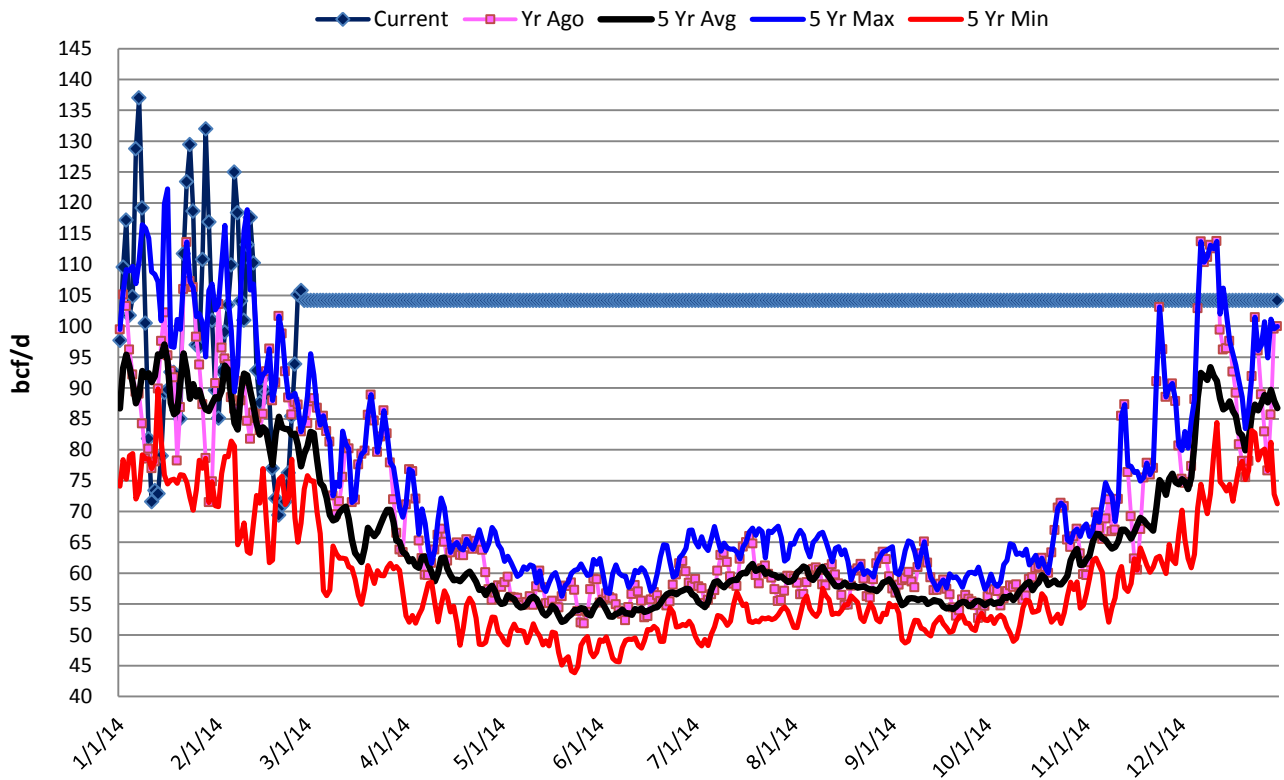
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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