

IAF Advisors  
Energy Market Outlook  
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March 21, 2014

**Price Action:** Prices slipped 11.2 cents (2.5%) to \$4.313 on a 30.1 cent range. April futures expire on Thursday.

**Price Outlook:** Prices easily established a new low as warming weather forecasts both on an absolute and relative basis combined with a smaller than expected storage withdrawal to push prices lower. While this is only the 2nd consecutive week lower and that is not extended at all, the absolute price level is deemed rather low. Still, with a new low of just \$4.285 needed next week, that certainly seems like the most probable scenario. The CFTC data for March 18 indicated a slight drop from the previous week within a continued decline of total open interest to just 4.44 million contracts. Thus the net long position as a percentage of open interest remains just shy of the record from a percentage basis. CME futures open interest remains quite depressed at 1.16 million contracts as of March 21.

**Weekly Storage:** US working gas storage for the week ending March 14 indicated a withdrawal of 48 bcf. Current inventories of 953 bcf fall 923 bcf (49.2%) below last year and 875 bcf (38.9%) behind the 5 year average.

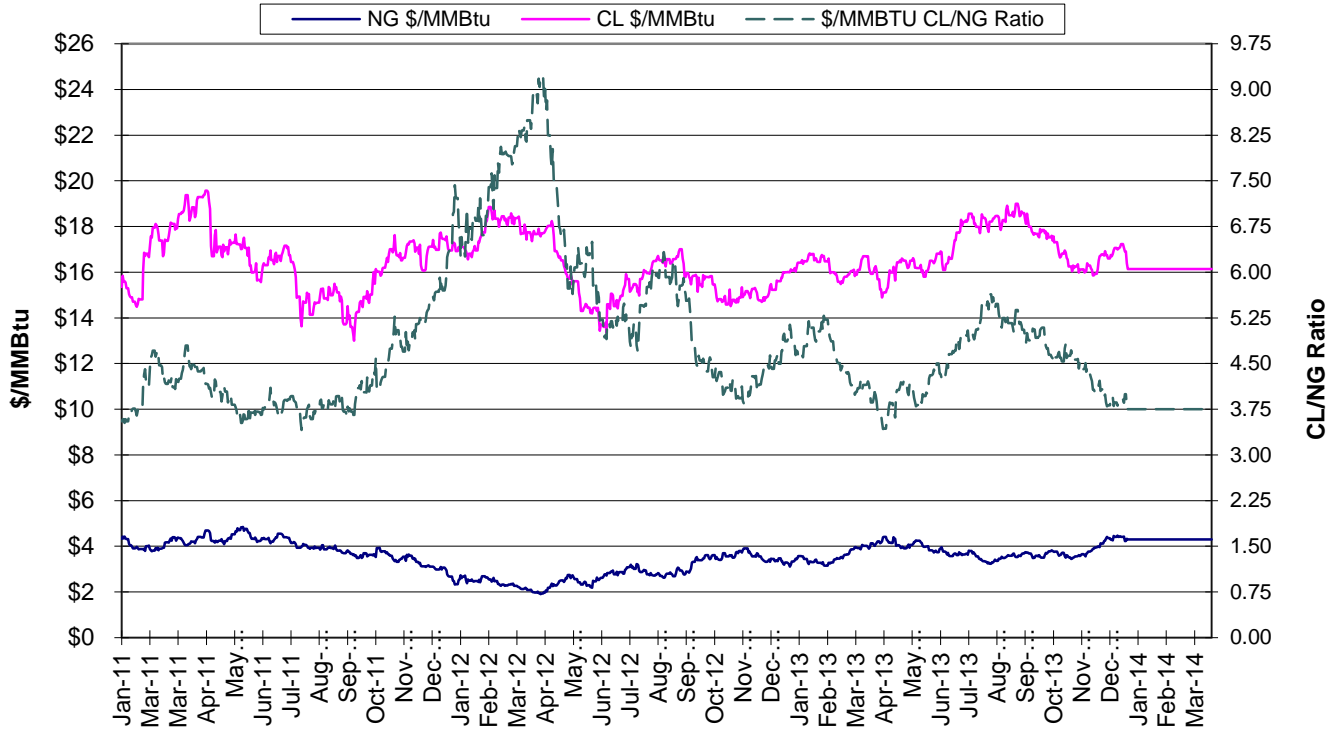
**Storage Outlook:** While the 923 bcf shortfall remains below the 957 bcf YOY peak deficit of February 14, the percentage gap is the largest with the percentage calculated on the declining overall level. The pace of early April injections will clearly be key for projected November storage levels and market sentiment.

**Supply Trends:** Total supply rose 0.3 bcf to 69.6 bcf/d. US production continued to rebound with Canadian and LNG imports lower. Mexican exports slipped slightly. The US Baker Hughes rig count fell 6 as a rise in oil activity was more than offset by a decline in natural gas. The Canadian count dropped 133 as the normal seasonal decline continues in earnest. Thus the total North American rig count fell by 139 to 2,192 and now surpasses last year by 109. The higher efficiency US horizontal rig count fell 6 to 1,206 and stands 106 above last year. The market seems very comfortable with an ability to inject not a just a record level, but well above record level this season. With supply the dominant theme, we note simply that US production remains below the November peak and many of the infrastructure projects coming on stream will be fractionation facilities that in general will also be lowering btu content of the nearby natural gas stream. Natural gas is sold on a heat content basis, not by volume.

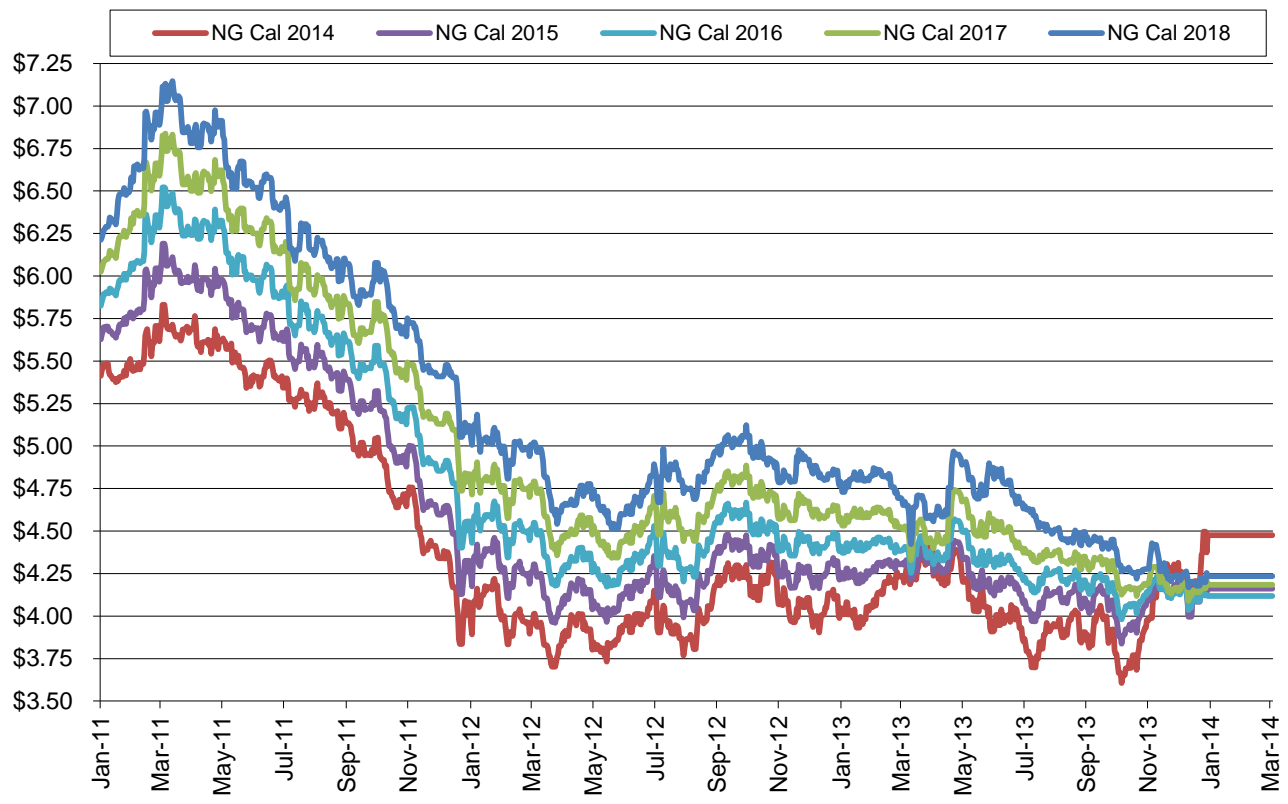
**Demand Trends:** Total demand plummeted 25.2 bcf/d to 74.0 bcf/d. R&C demand lead the collapse with all sectors also lower. Electricity demand fell 8,700 gigawatt-hrs to 71,442, which exceeds last year by 102 (0.1%) and the 5 year average by 694 (1.0%). One very noteworthy item across the complex is the recent surge in renewable electricity generation. Driven in part by a major recovery in Pac NW hydro levels that is sustainable, other renewable generation increases from wind in particular may not be as sustainable. Renewable generation in general displaces fossil fuel units and thus a potential drop will likely increase both coal and natural gas generation.

**Other Factors:** The S&P 500 rebounded from the previous weeks' slide and is just shy of the previous record levels.

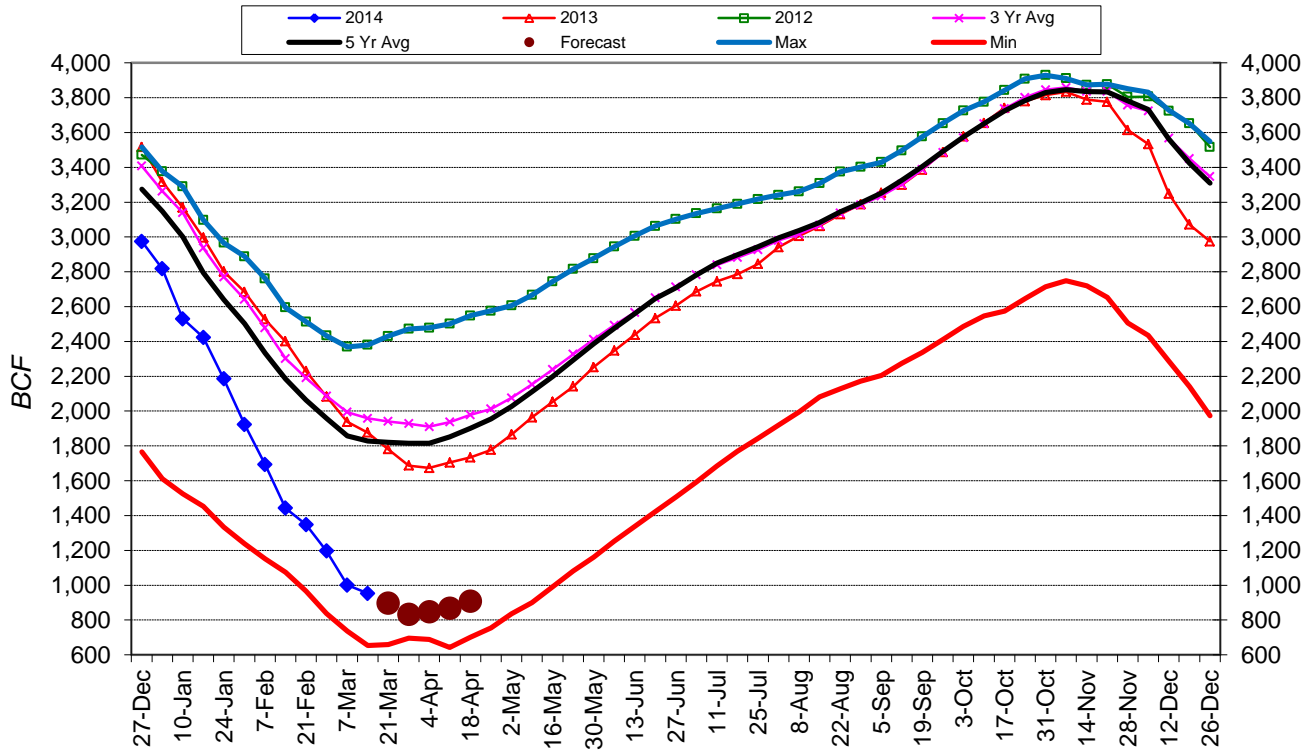
### \$/MMBtu Ratio of NYMEX CL and NG



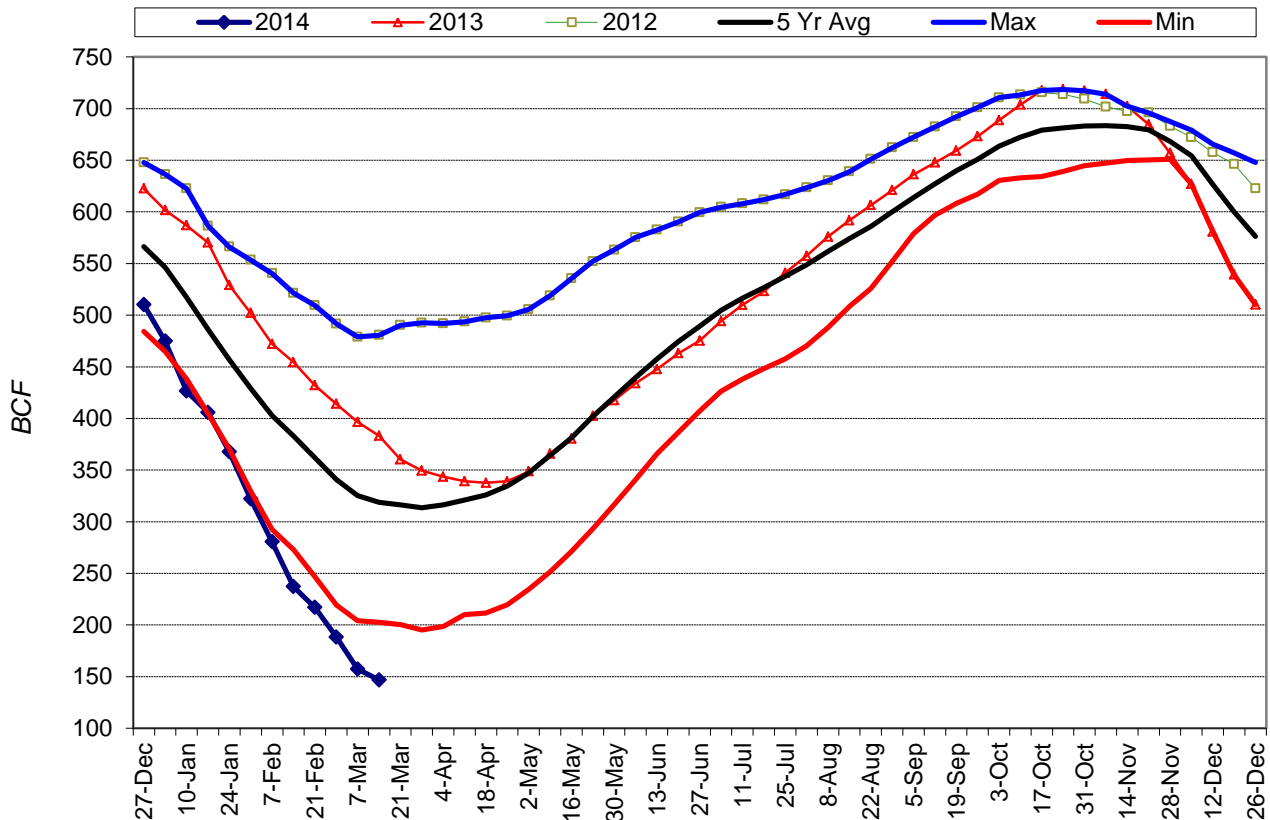
### NYMEX Calendar Strips



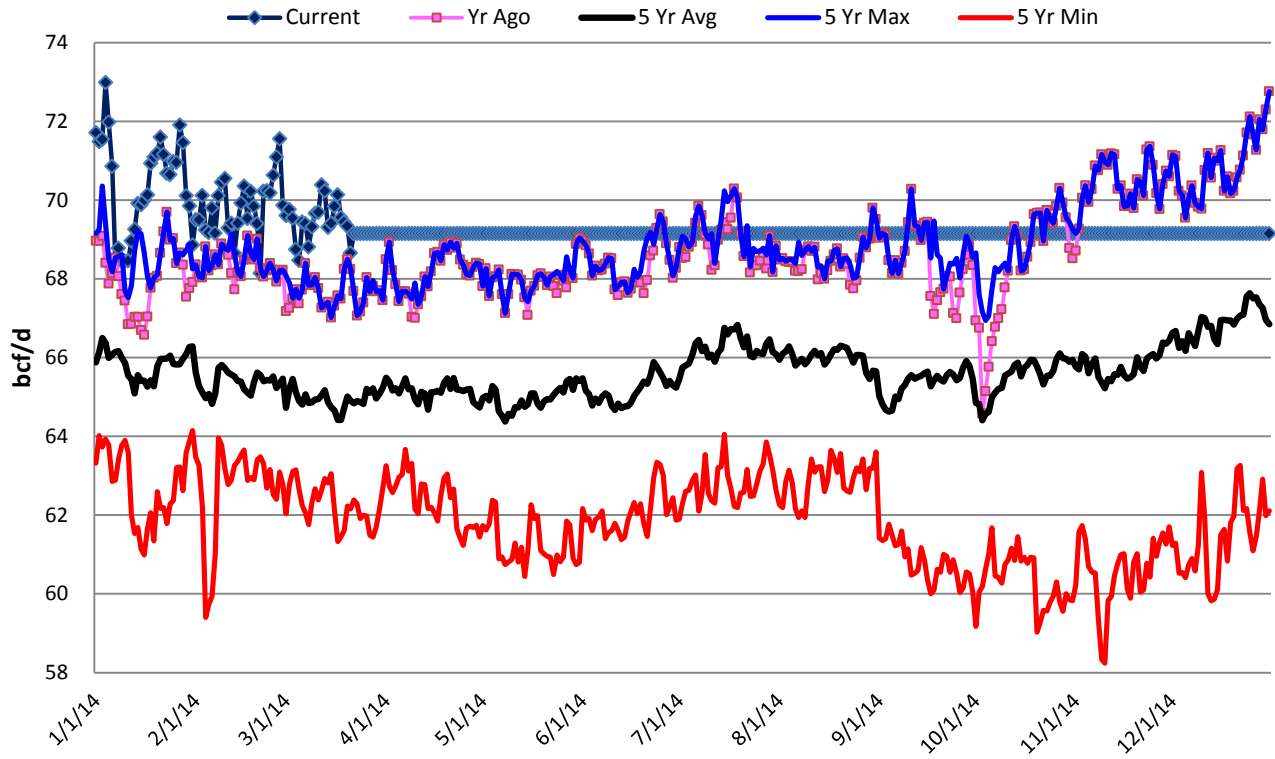
## US Working Gas Storage - Source - EIA



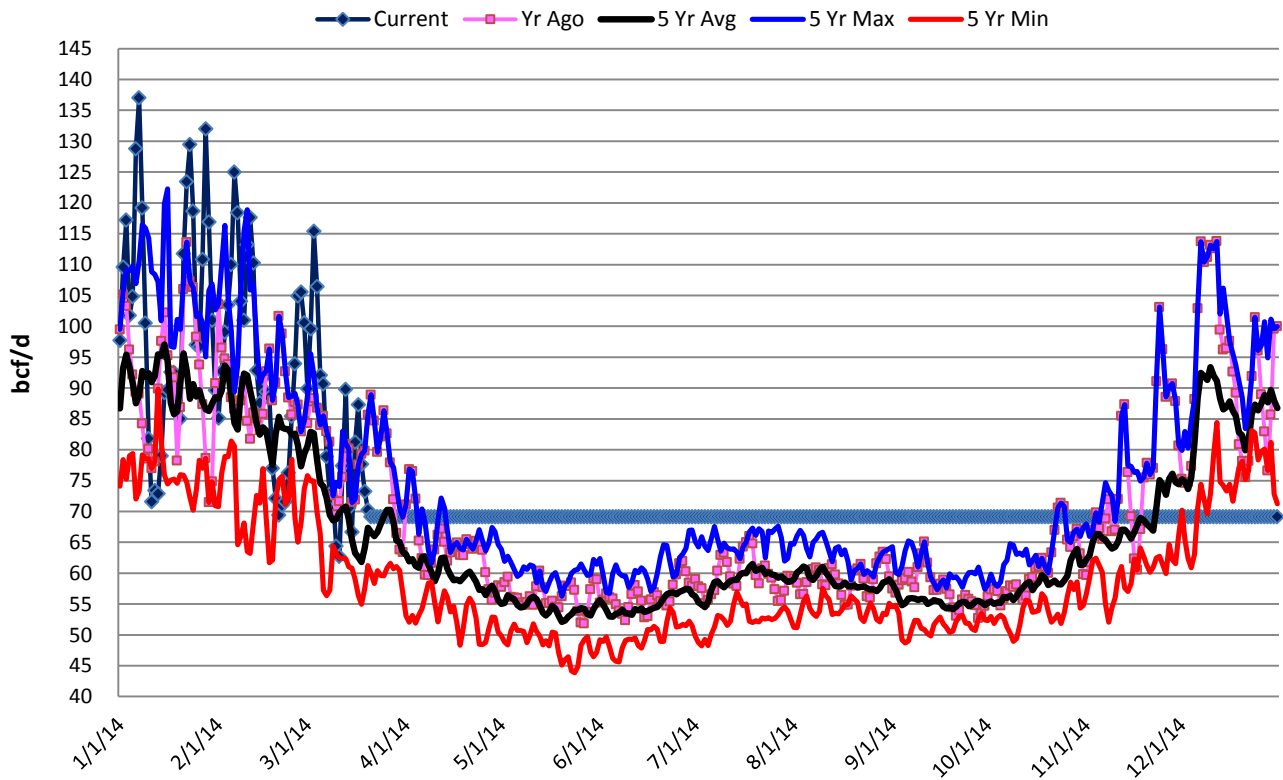
## Canadian Working Gas Storage - Enerdata



## US Total Supply



## US Total Demand



#### **ADDITIONAL INFORMATION AVAILABLE UPON REQUEST**

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