

IAF Advisors
Energy Market Outlook
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Price Action: June prices rose 1.6 cents (0.3%) to \$4.647 on a 20.4 cent range.

Price Outlook: Prices did establish a new high despite a slightly larger than expected EIA storage report. The market has risen 4 consecutive weeks. Since 2000, 37 weeks have ended at exactly 4 weeks higher with 17 ending at 5. Considering prices and expectations for increasing injections, a new low seems most likely despite a still bullish fundamental outlook. The CFTC data for April 27 revealed a rather substantial drop in the managed money net long position. Total open interest also fell, but the net result was a sizable reduction in the position on a percentage basis. Total open interest fell to 4.05 million contracts. CME futures open interest was barely lower at 1.09 million contracts as of May 1. Open interest had fallen to just 1.08 million on April 28.

Weekly Storage: US working gas storage for the week ending April 25 indicated a build of 82 bcf. Current inventories of 981 bcf fall 796 bcf (44.8%) below last year and 974 bcf (49.8%) behind the 5 year average.

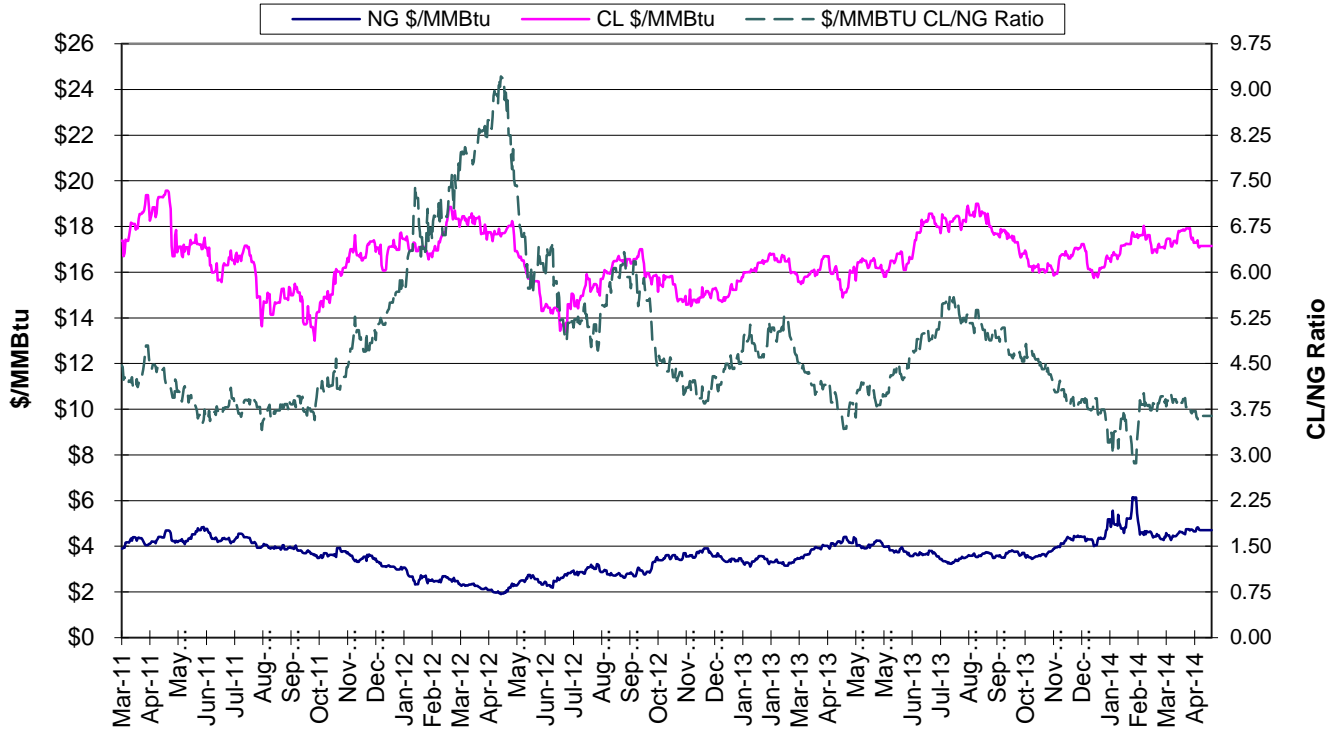
Storage Outlook: The storage deficit continues to dwindle, but at a rather tepid pace. The deficit is currently projected to contract only marginally in May as the supply/demand balance is simply not suggesting record injections in the coming weeks. At the same time, 2013 injections were above average, thus making storage comparisons a bit more difficult. The weekly injections have yet to meet or exceed the 5 year weekly maximum. If injections match the 5 year maximum, 2,503 bcf will be added to storage facilities and lift inventories to 3,484 bcf. This week needs to equal an 88 bcf injection to match the 5 year maximum. Injections must equal 128% of the 5 year average to reach 3,400 bcf by early November and for this week must equal 93 bcf.

Supply Trends: Total supply was unchanged at 70.1 bcf/d. US production slipped, but was offset by higher Canadian imports and lower Mexican exports. LNG imports were unchanged. The US Baker Hughes rig count fell 7 to 1,854 with oil activity slipping while natural gas was unchanged. The Canadian rig count dropped 5 to 163 as the normal seasonal decline remains in place. Thus, the total North American rig count fell 12 to 2,017 and now surpasses last year by 132. The higher efficiency US horizontal rig count rose 2 to 1,247 and stands 155 above last year. The monthly EIA report indicated a slightly rise in US lower 48 dry gas production that still falls just short of the November 2013 record.

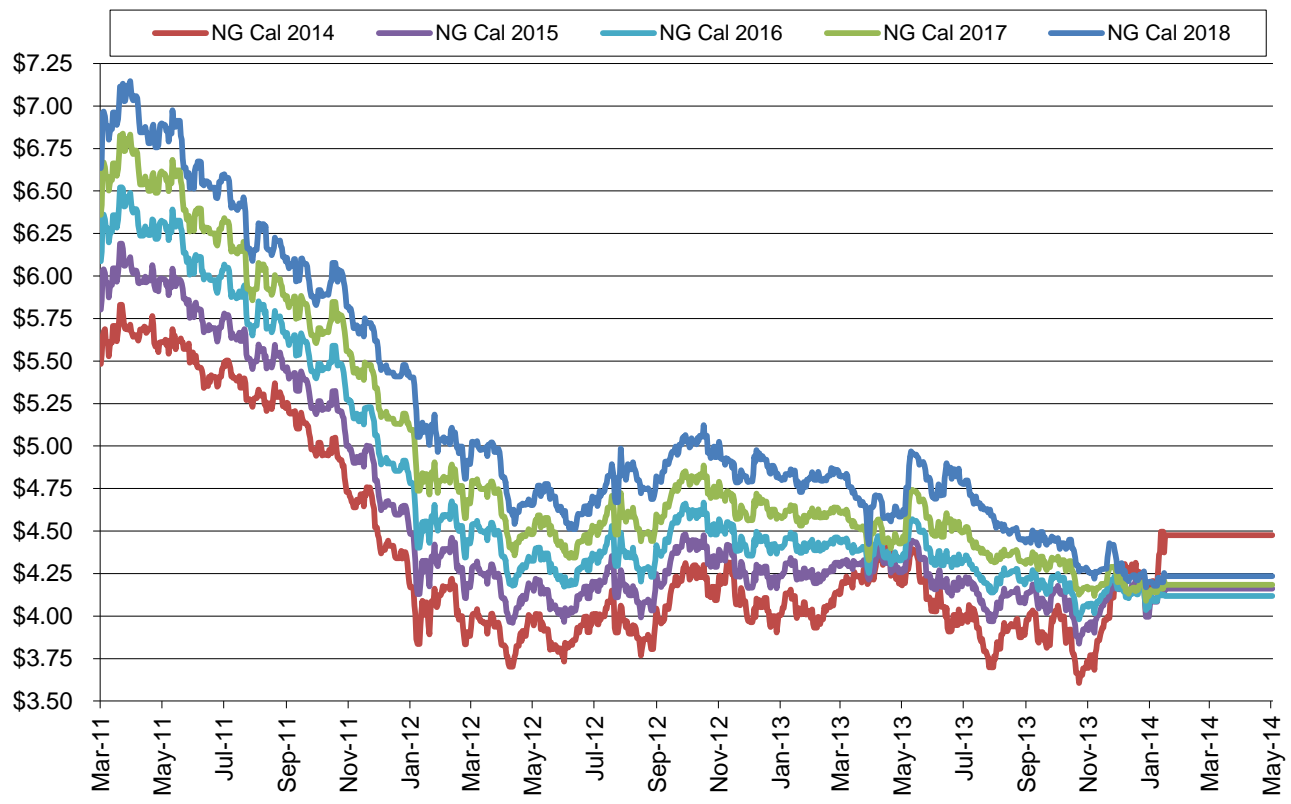
Demand Trends: Total demand fell 3.7 bcf/d to 59.8 bcf/d. R&C lead the drop with power a distant second. Electricity demand fell 889 gigawatt-hrs to 67,430, which trails last year by 199 (0.3%) and the 5 year average by 876 (1.3%). The monthly EIA report indicated demand easily posted a new February record while slipping from the all-time record January.

Other Factors: The S&P 500 was higher on the week even after a slight fall on Friday as the market digested a generally positive US jobs report.

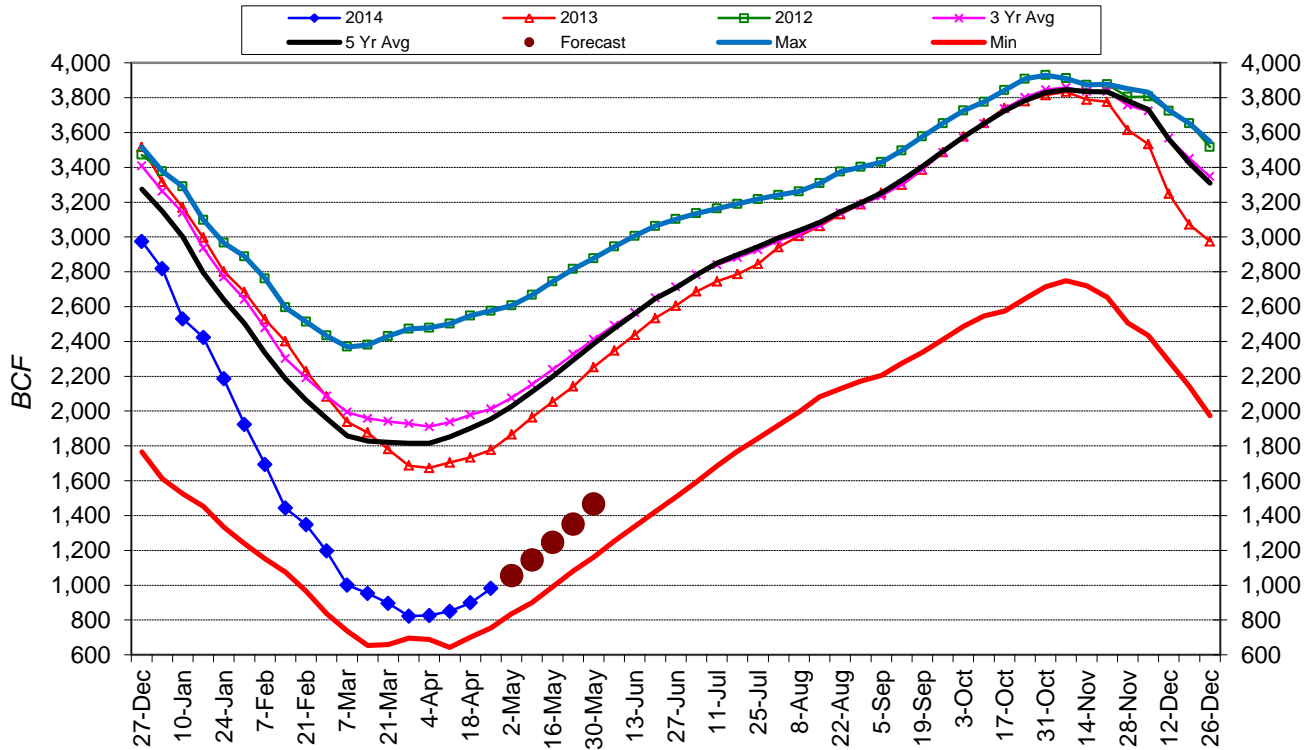
\$/MMBtu Ratio of NYMEX CL and NG



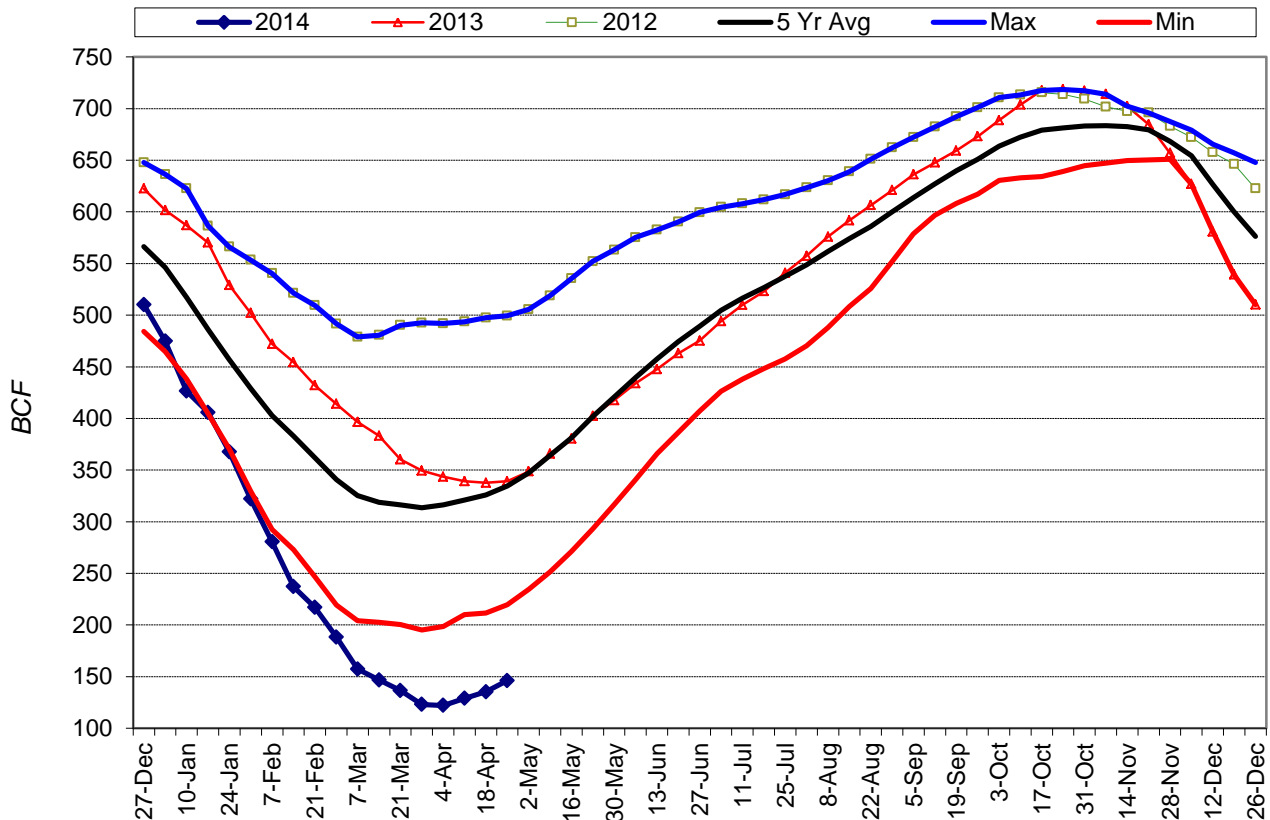
NYMEX Calendar Strips



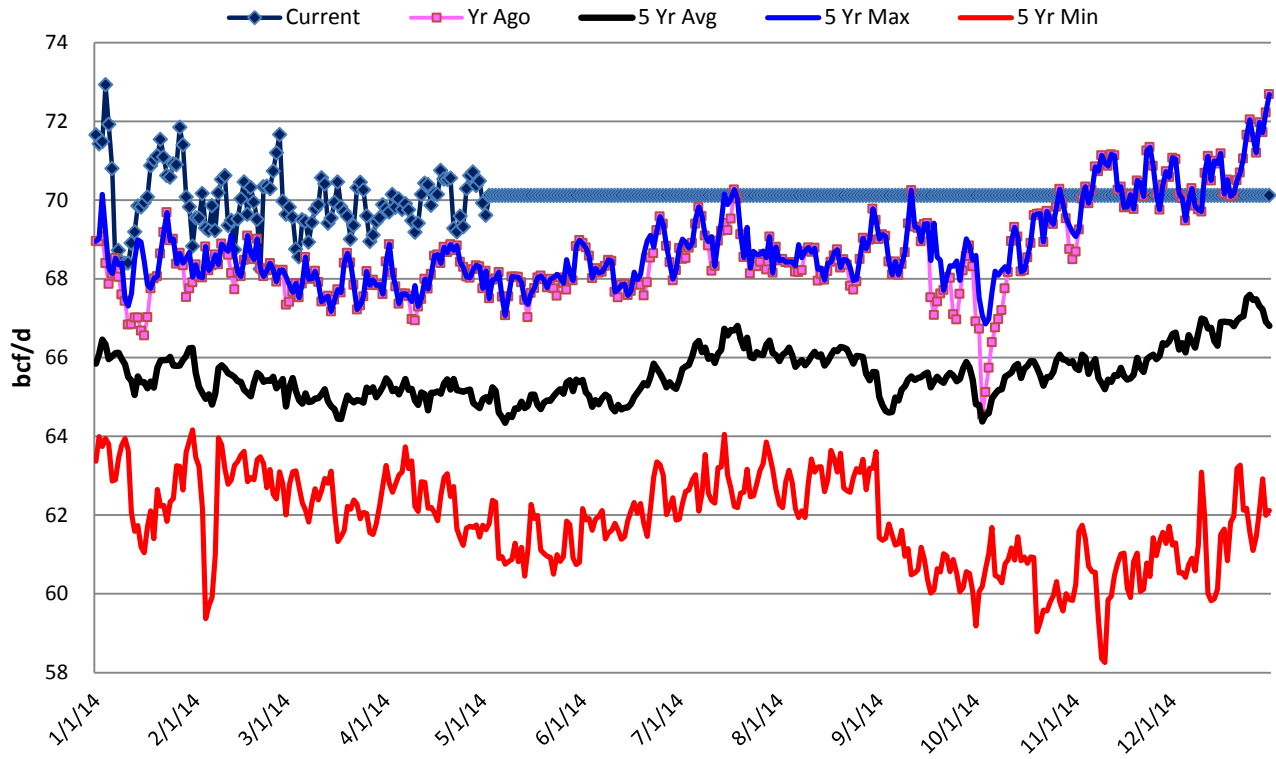
US Working Gas Storage - Source - EIA



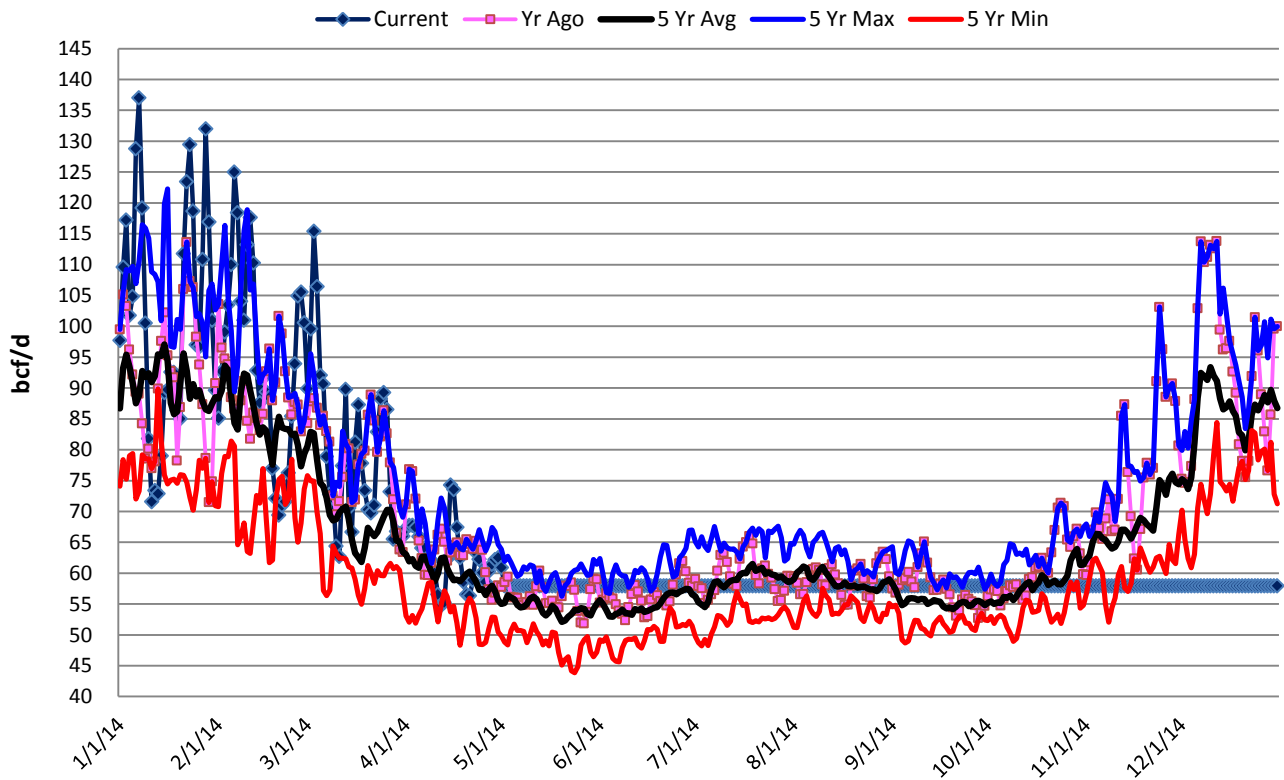
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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