

IAF Advisors
Energy Market Outlook
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Price Action: Prices slipped 11.8 cents (2.6%) to \$4.413 on a 26.0 cent range.

Price Outlook: Prices did indeed establish a new low, but ended very near the middle of the weekly range. While fundamentally higher prices are expected, sentiment remains quite bearish and another new low would not be surprising if speculative length continues to liquidate. The CFTC data for May 13 revealed a rather dramatic drop in the speculative managed money net long position to the lowest level since December 10, 2013. Total open interest also dropped below 4 million contracts for the first time since January 5, 2010. CME futures open interest was down to just 1.01 million contracts as of May 15. This is the lowest open interest since December 29, 2011.

Weekly Storage: US working gas storage for the week ending May 9 indicated a build of 97 bcf with a reclassification of 8 bcf of base gas to working gas, thus total working gas inventories rose to 1,060 bcf. Current inventories fall 804 bcf (40.9%) below last year and 950 bcf (45.0%) behind the 5 year average.

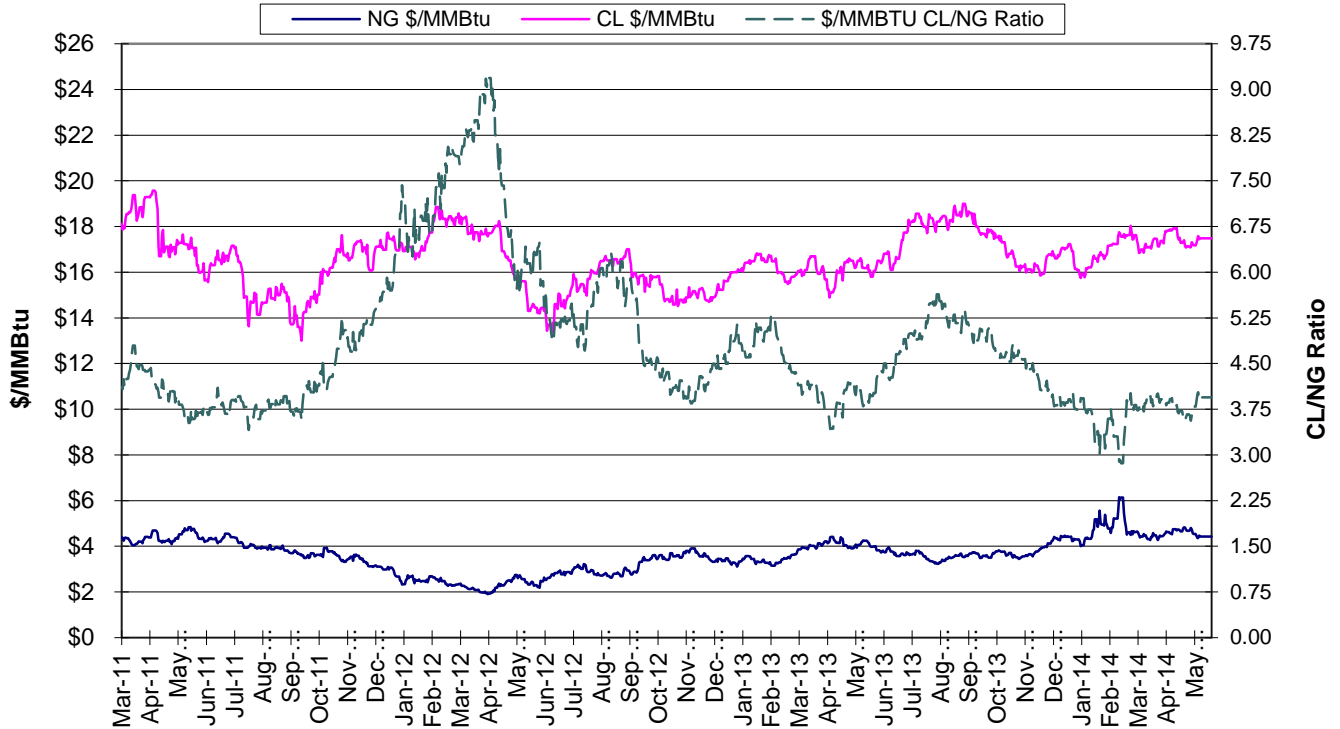
Storage Outlook: The reclassification is not completely out of the ordinary. While the net change did result in an increase of 105 bcf, the number of molecules added to facilities was only 97 bcf. Thus, this week again did not meet the 5 year weekly maximum nor did it achieve the 129% of the 5 year average injection used as the basis for our two storage injection metrics.

Supply Trends: Total supply rose 0.3 bcf/d to 70.6 bcf/d. US production and Canadian imports were both higher with Mexican exports and LNG imports unchanged. The US Baker Hughes rig count rose 6 to 1,861 with both oil and natural gas activity higher. The Canadian rig count rose 8 to 153 as the seasonal decline may have come to an end. Thus, the total North American rig count rose 14 to 2,014 and now surpasses last year by 122. The higher efficiency US horizontal rig count rose 5 to 1,248 and stands 152 above last year. There has been exceedingly little mention of the upcoming tropical storm season. Gulf of Mexico (GOM) production has plummeted. Still, companies seemingly shut in production more readily than in years past and this could affect supply this injection season.

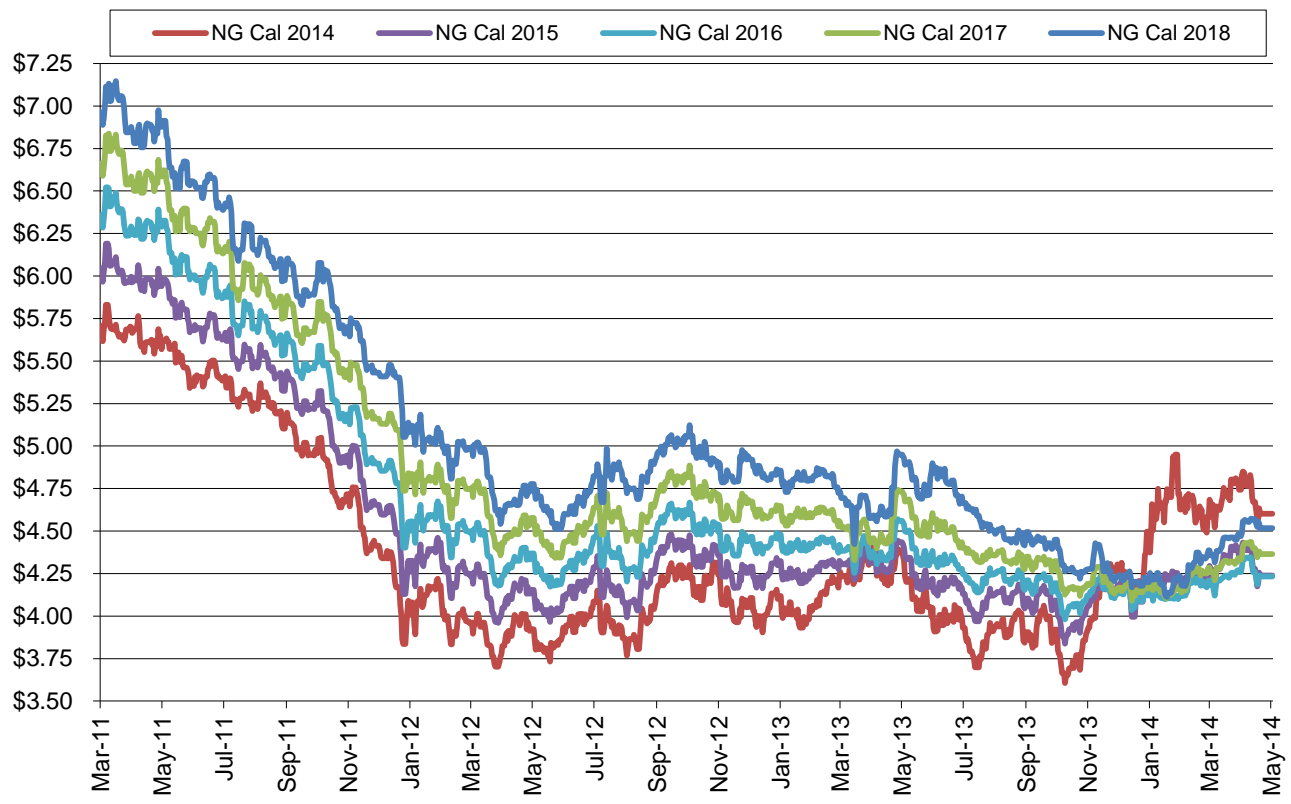
Demand Trends: Total demand fell 2.7 bcf/d to 58.4 bcf/d. Power demand was higher while R&C and industrial demand slipped. Electricity demand rose 1,356 gigawatt-hrs to 70,208, which surpasses last year by 2,520 (3.7%) and the 5 year average by 493 (0.7%). While market focus rests mainly on US production, demand remains very impressive. This is historically near the lowest demand period and thus the injections witnessed in the next couple of weeks will likely be the largest of the season.

Other Factors: The S&P 500 was barely lower as bonds rallied.

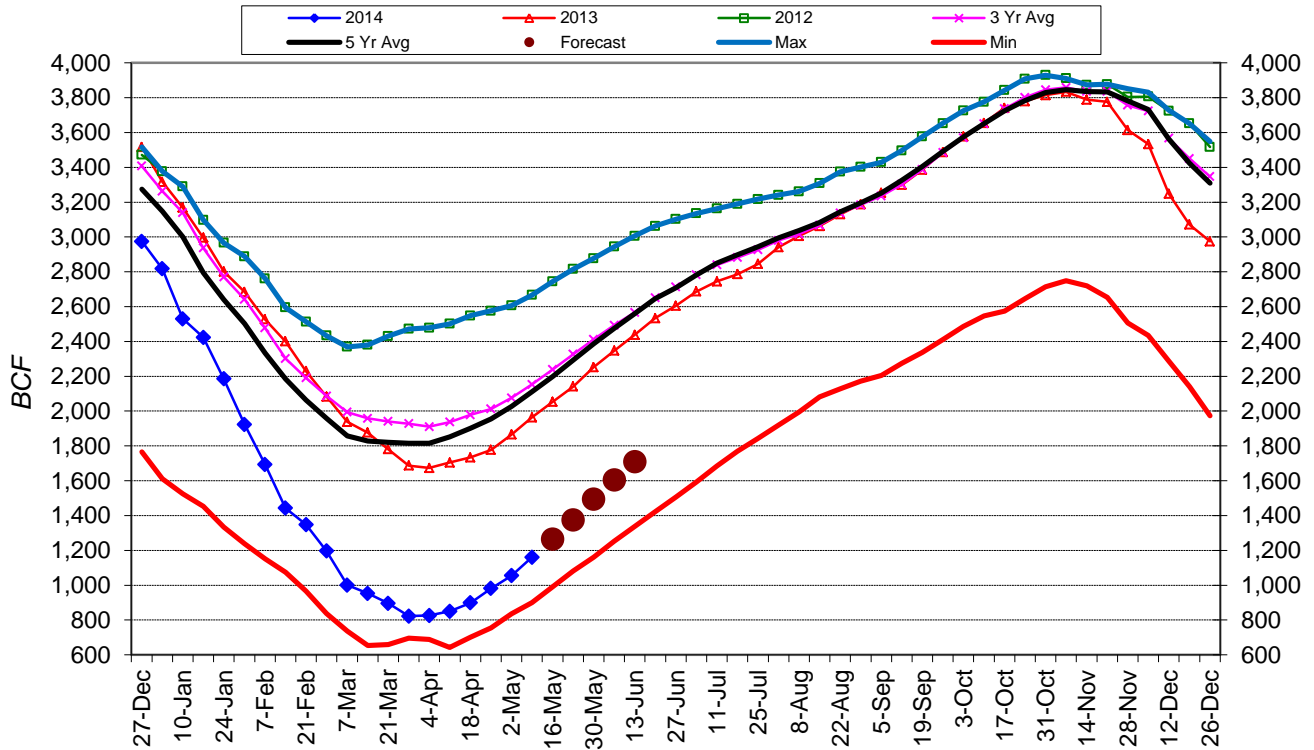
\$/MMBtu Ratio of NYMEX CL and NG



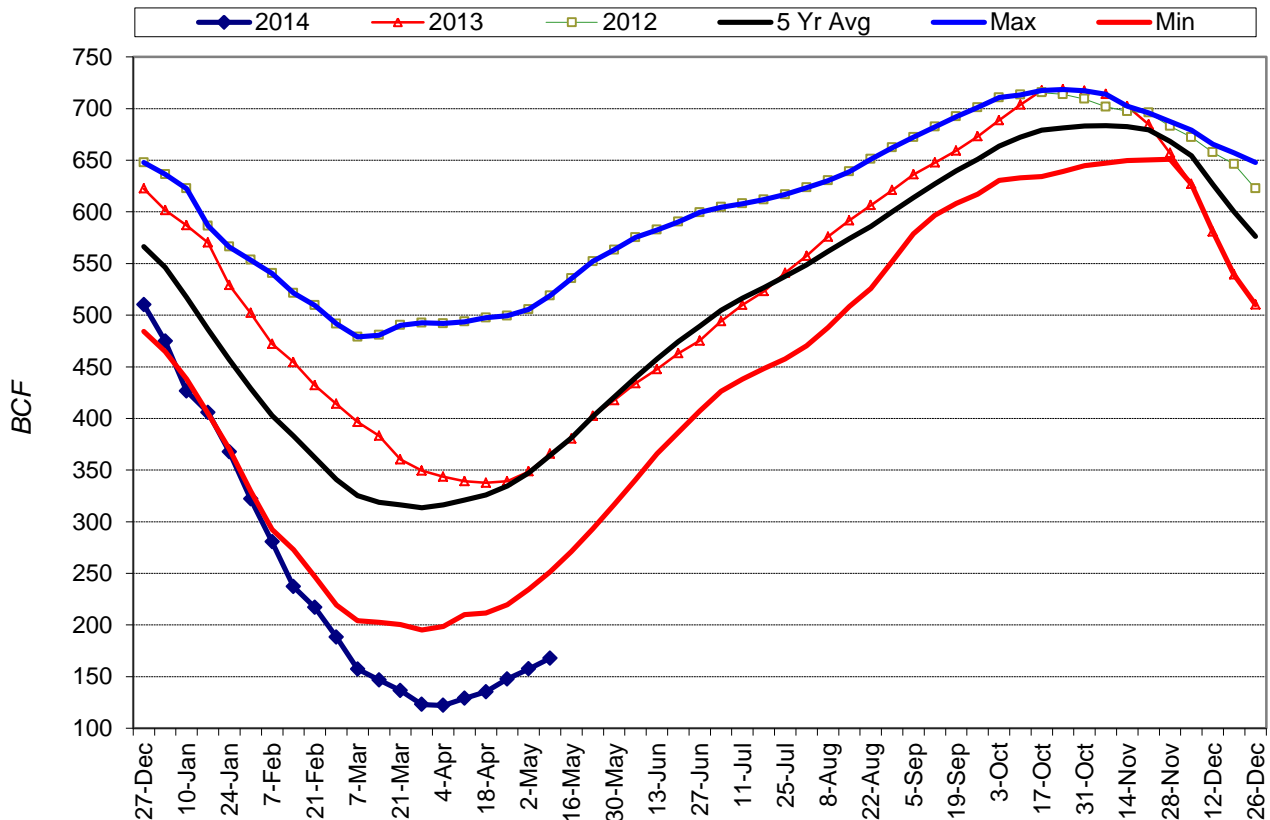
NYMEX Calendar Strips



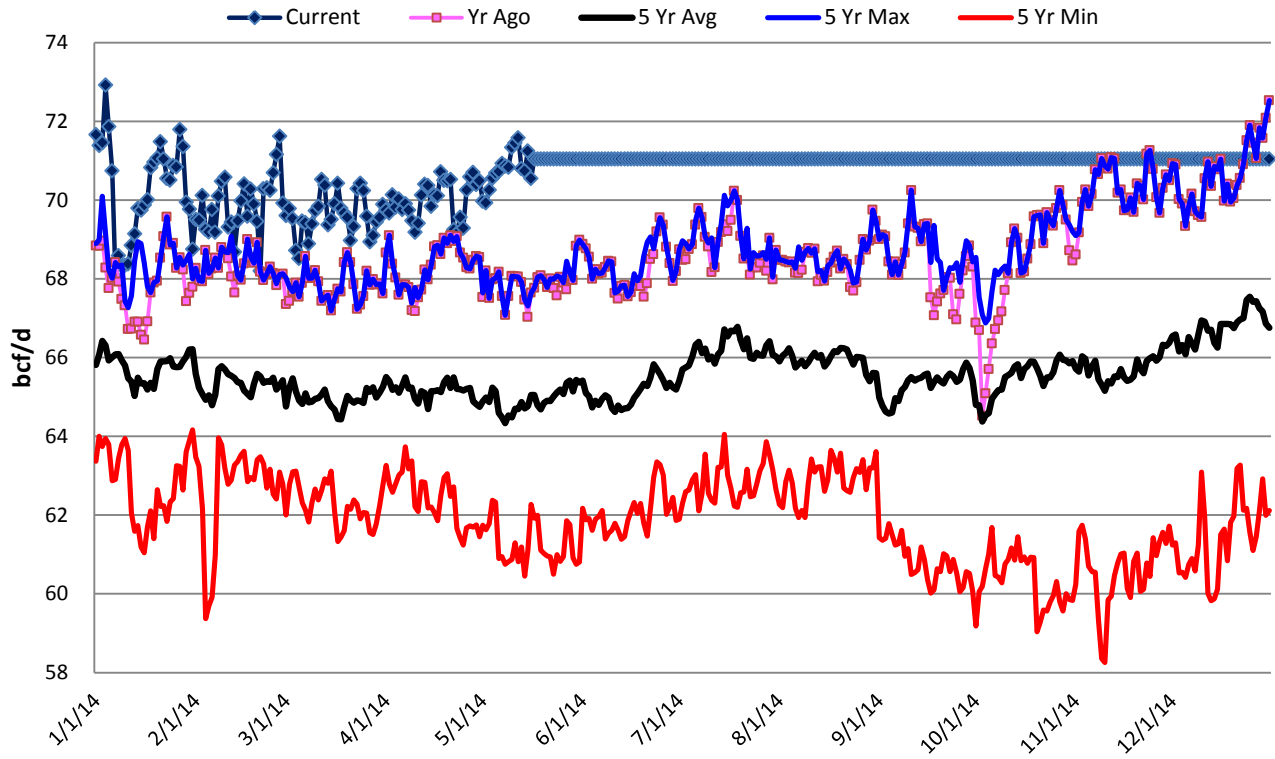
US Working Gas Storage - Source - EIA



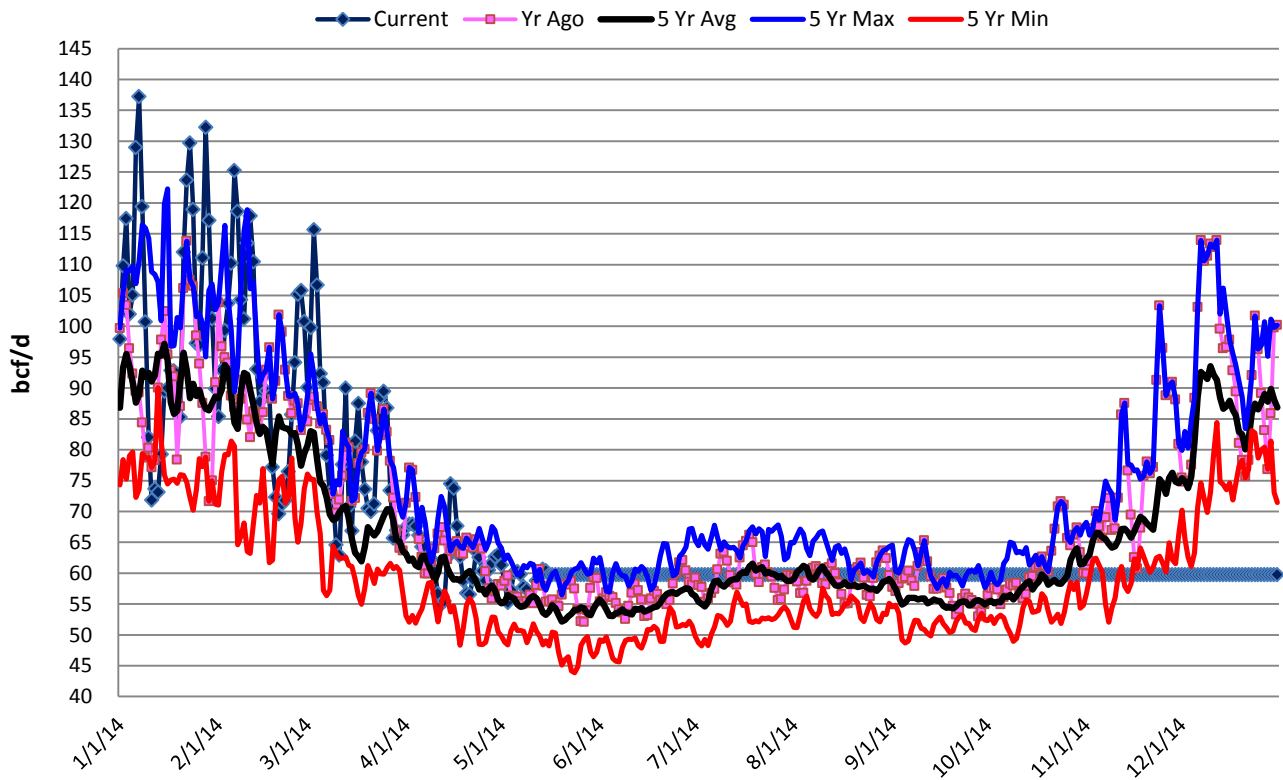
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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