

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
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Price Action: The July contract rose 13.7 cents (3.1%) to \$4.542 on a 30.1 cent range.

Price Outlook: Although a new low was not established as expected, the market held to historical form and avoided the rare inside week by recording a new high for the 2nd week in a row. With injections likely to peak in coming weeks and summer time temperatures on the horizon, another new high is expected. Since 2000, there have been 99 occurrences of exactly 2 weeks higher in a row with 56 times witnessing exactly 3 weeks higher. Thus, a third week higher would hardly be extreme. The CFTC data revealed a drop to the smallest speculative managed money net long position since December 10, 2013. Total open interest fell to the lowest on record since ICE contracts were added in January 2010. CME futures open interest was down to just 976,000 contracts as of May 29. This was actually a small increase from the 972,000 recorded on May 28.

Weekly Storage: US working gas storage for the week ending May 23 indicated a build of 114 bcf. Thus total working gas inventories rose to 1,380 bcf. Current inventories fall 761 bcf (35.5%) below last year and 912 bcf (39.8%) behind the 5 year average.

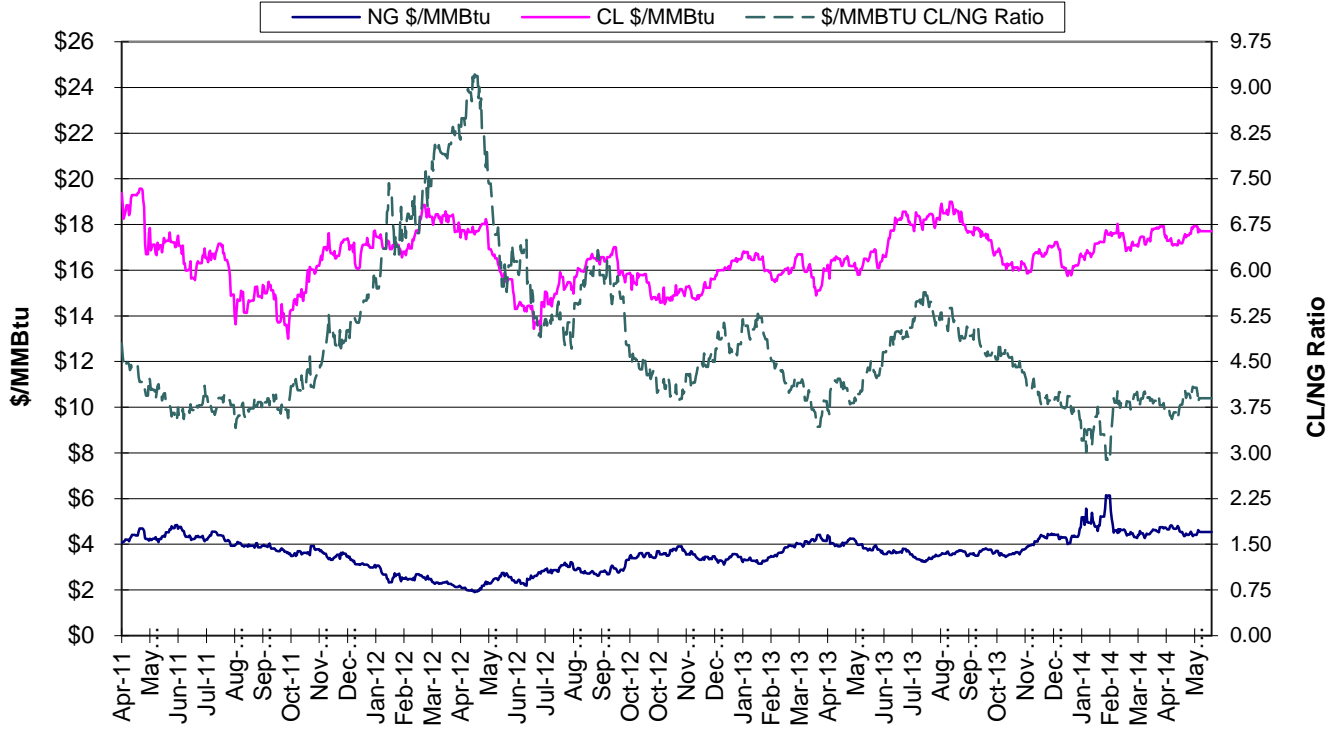
Storage Outlook: This week did establish a new weekly maximum for the 2nd time this year. For our storage injection metrics, the 5 year weekly maximum for the upcoming week is 124 bcf. If weekly injections match the 5 year weekly maximum injection, inventories will rise to 3,488 bcf in early December. An injection of 122 bcf is required to equal 130% of the 5 year average and an injection of 113 bcf is needed to exceed the 5 year average by 20 bcf to put inventories on pace to reach 3,400 bcf in early November. Storage facility data and implied supply/demand differences remain rather large with storage facility data indicating higher injections.

Supply Trends: Total supply fell 0.5 bcf/d to 70.7 bcf/d. US production fell with Canadian imports and LNG imports unchanged. Mexican exports were higher. The US Baker Hughes rig count rose 9 to 1,866 with both oil and natural gas activity higher. The Canadian rig count rose 44 to 198 as the seasonal decline may have come to an end. Thus, the total North American rig count rose 53 to 2,064 and now surpasses last year by 148. The higher efficiency US horizontal rig count rose 8 to 1,251 and stands 162 above last year. The monthly EIA report indicated a new record US production level in March.

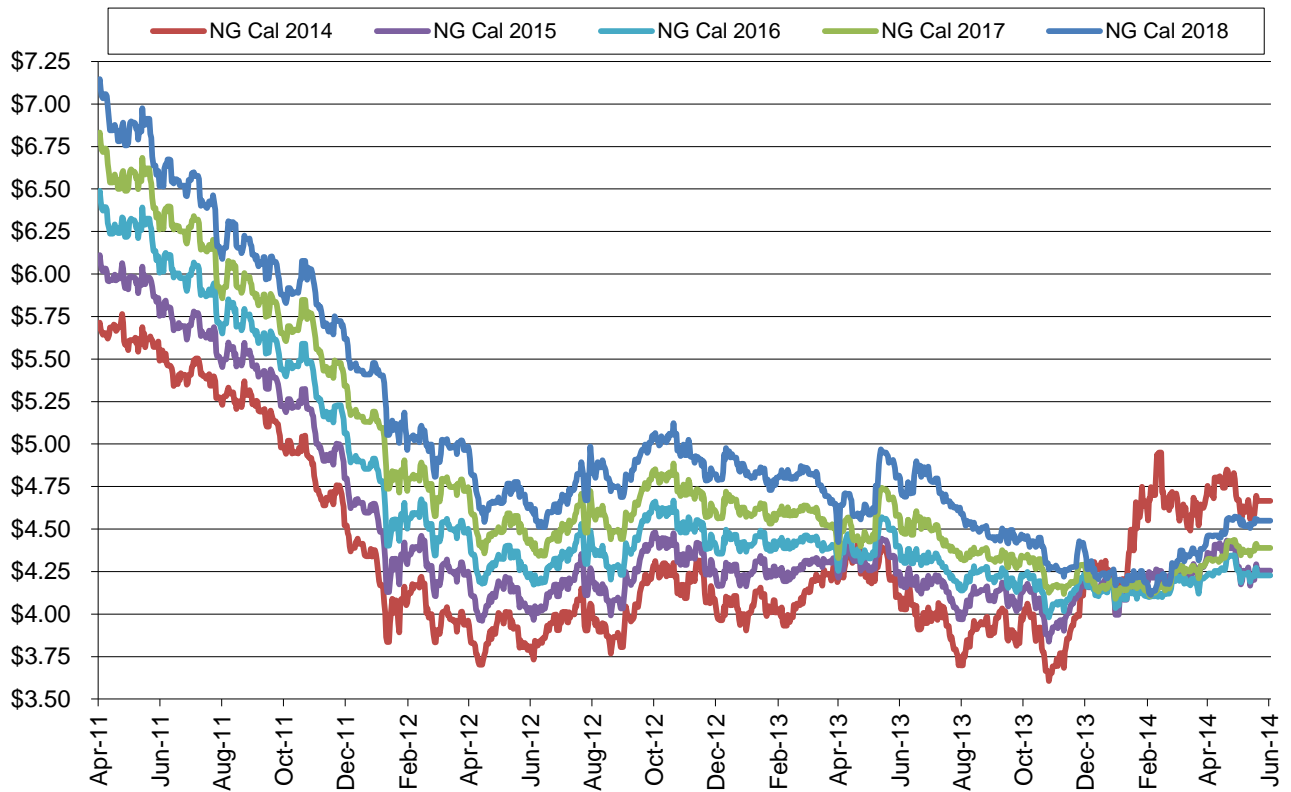
Demand Trends: Total demand fell 1.1 bcf/d to 57.3 bcf/d. Power demand fell while R&C and industrial demand rose. Electricity demand rose 293 gigawatt-hrs to 71,907, which trails last year by 3,006 (4.0%) and the 5 year average by 848 (1.2%). The monthly EIA report indicated a new March demand record.

Other Factors: The S&P 500 surged to yet another new record at 1,923. Equities continue to climb a “wall of worry” with many calling for a correction.

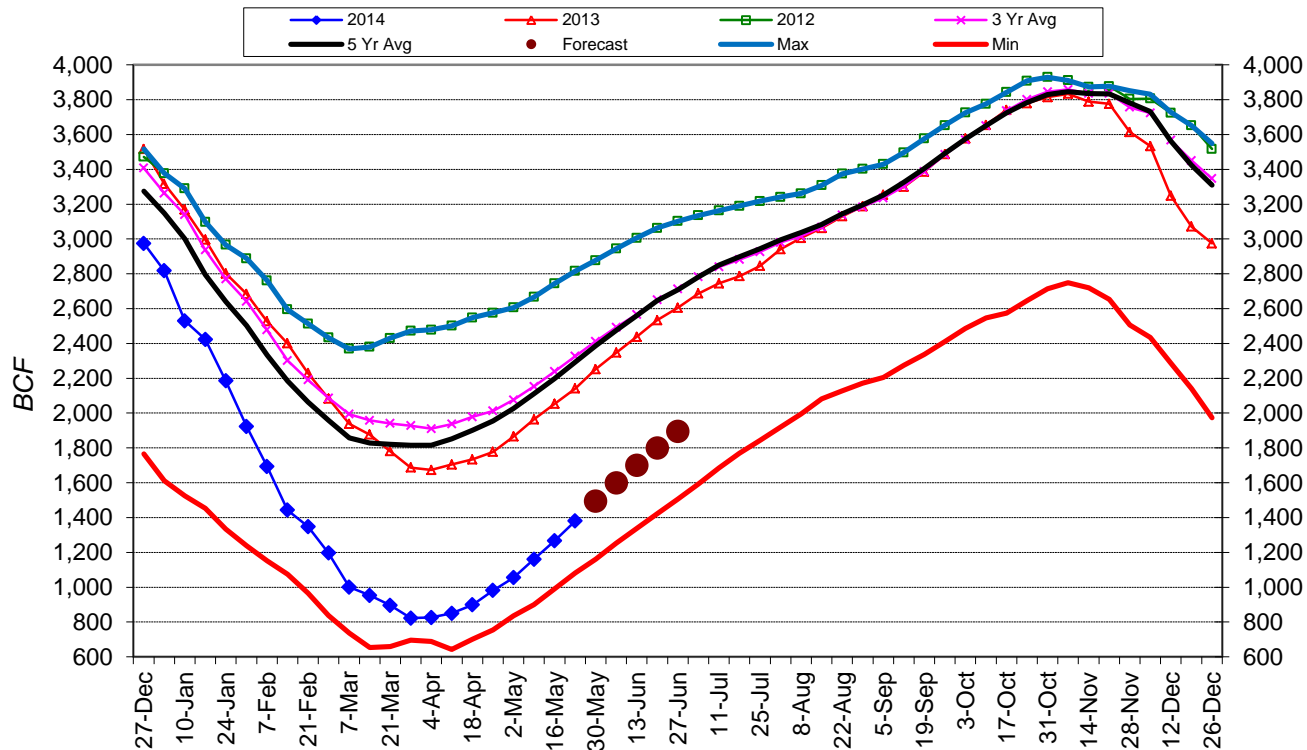
\$/MMBtu Ratio of NYMEX CL and NG



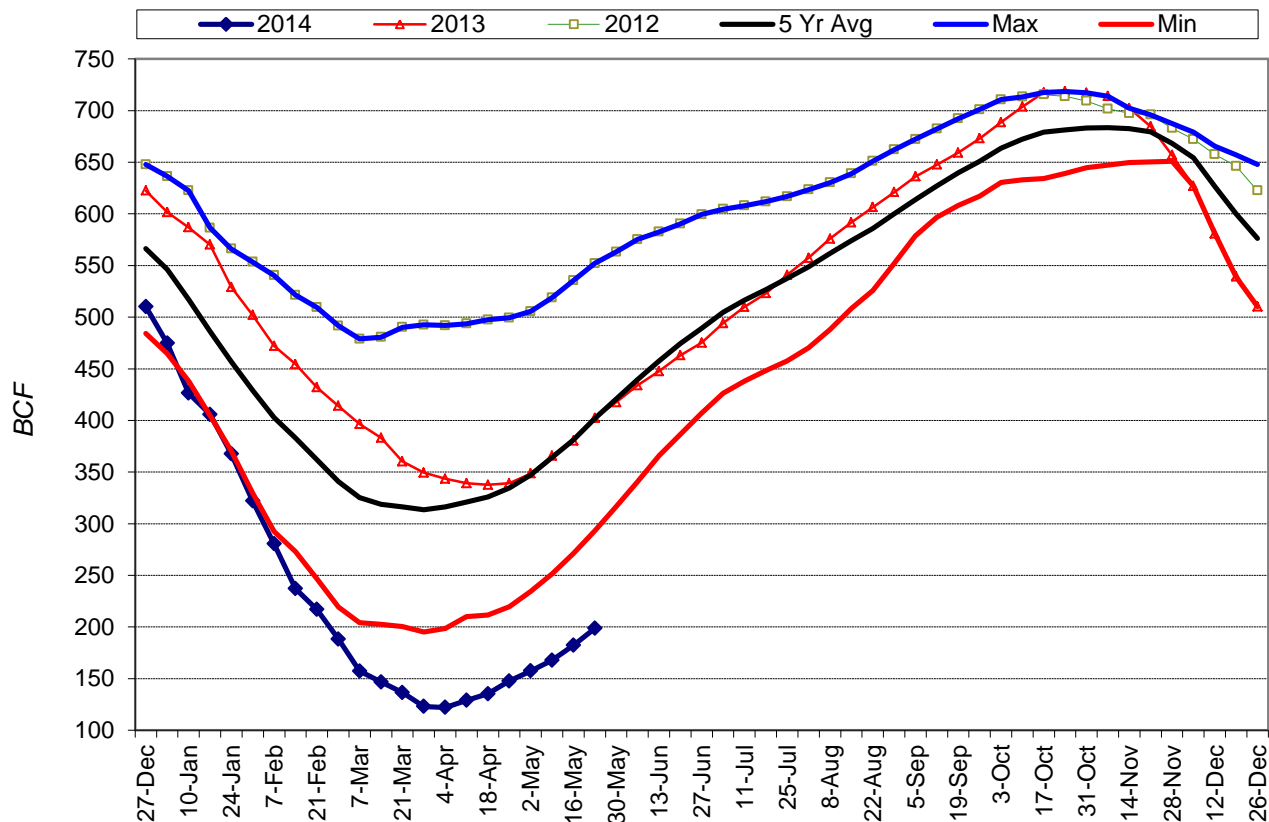
NYMEX Calendar Strips



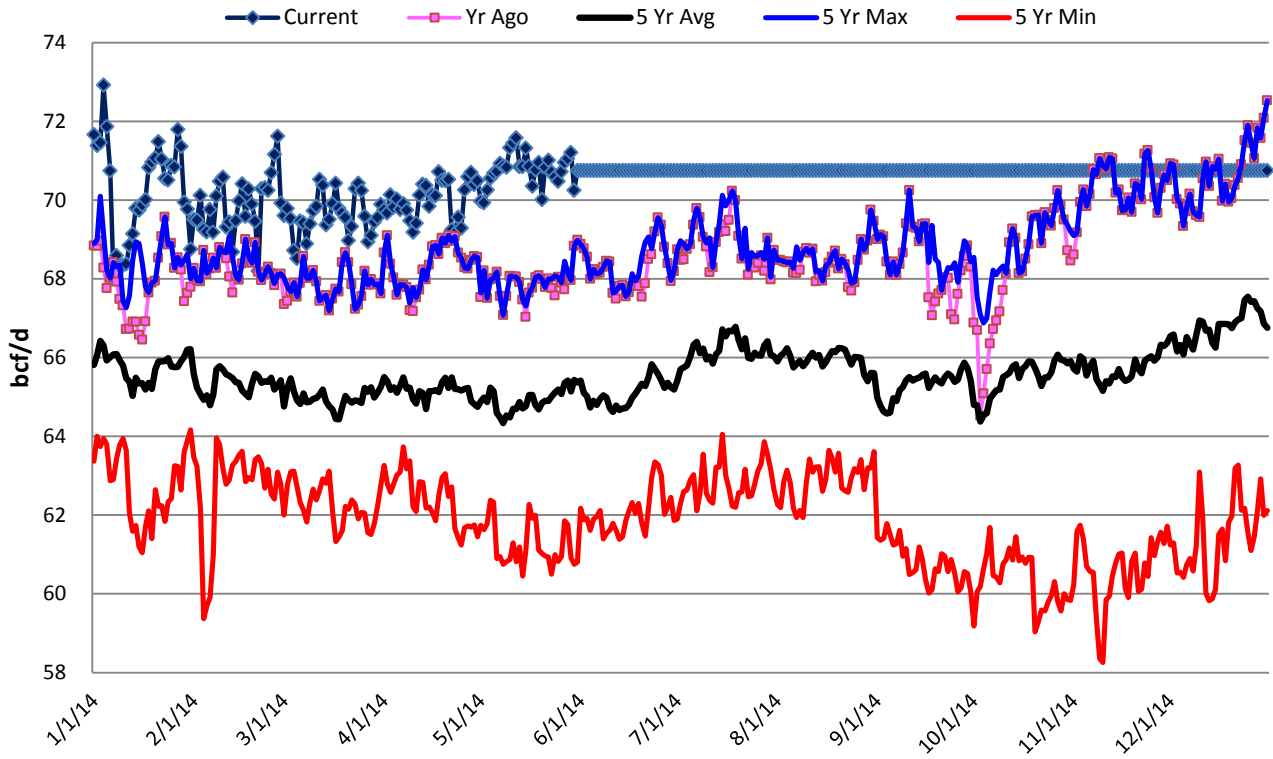
US Working Gas Storage - Source - EIA



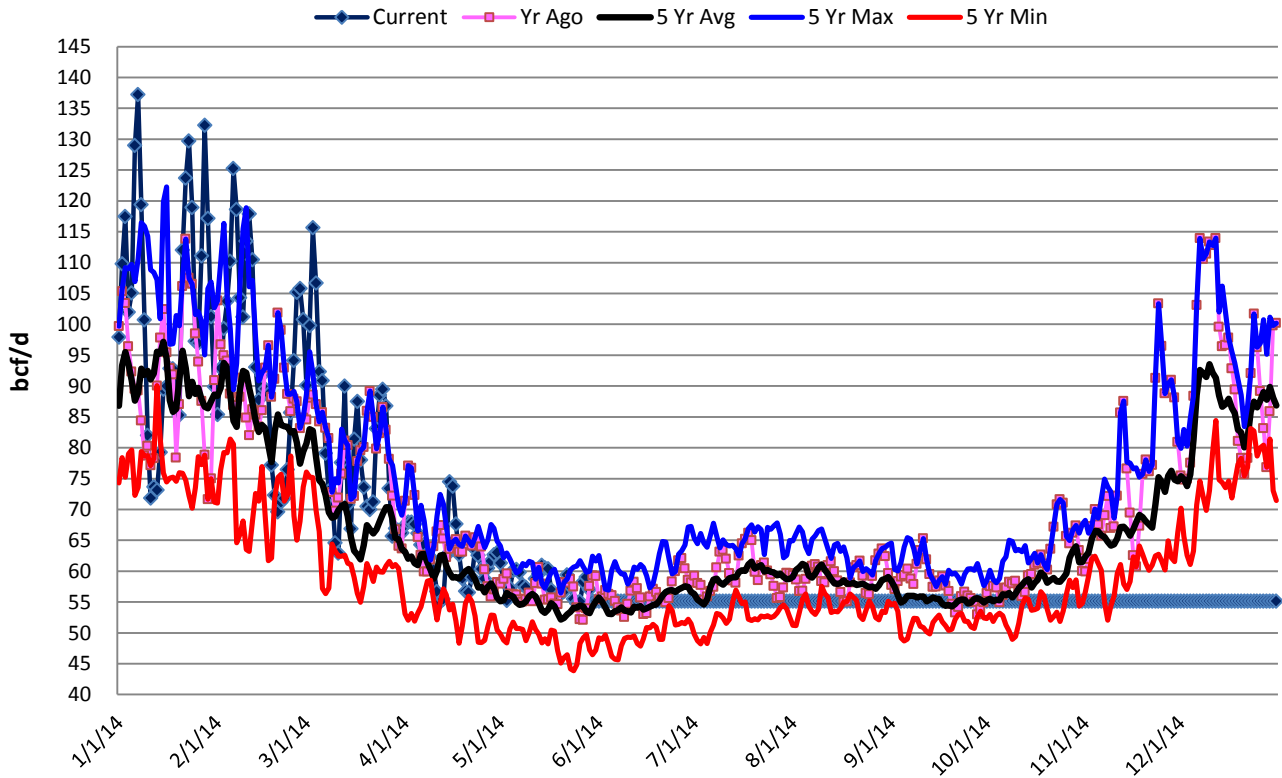
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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