

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
June 20, 2014

Price Action: The July contract fell 20.8 cents (4.4%) to \$4.531 on a 37.0 cent range.

Price Outlook: The market rose early in the week to establish a new high for the 5th week in a row. However, that is again misleading as the new high was recorded on Monday and then saw prices only barely miss posting a new low as well. With expectations of another large injection, a new low is expected next week. The CFTC data revealed a rather decent rise in the speculative managed money net long position. However, it still remains below the levels of May. Total open interest also rose to 3.97 million as of June 17. CME futures aggregated open interest was basically unchanged at 1.06 million as of June 19.

Weekly Storage: US working gas storage for the week ending June 13 indicated a build of 113 bcf. Thus total working gas inventories rose to 1,719 bcf. Current inventories fall 719 bcf (29.5%) below last year and 841 bcf (32.9%) behind the 5 year average.

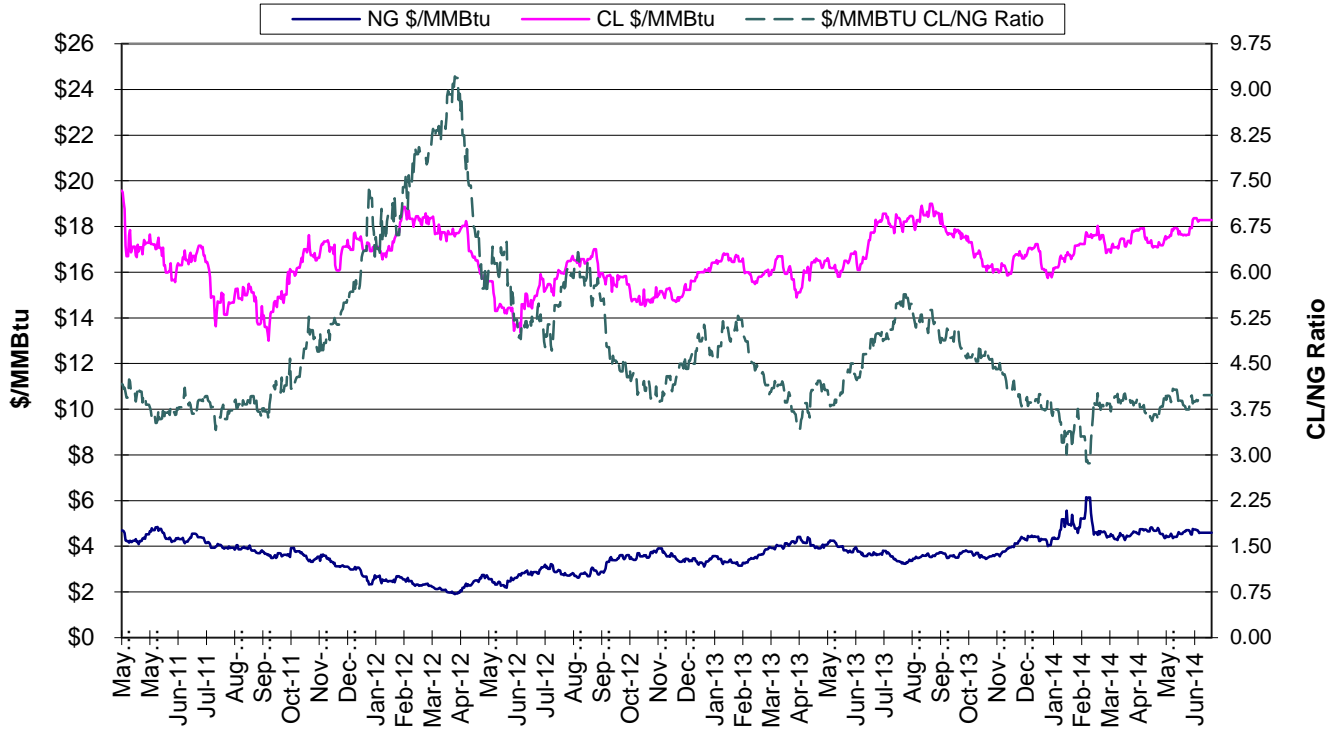
Storage Outlook: This week barely missed establishing a new 5 year weekly maximum while it did exceed both the comparisons to the 5 year average we use as storage injection metrics. For our storage injection metrics, the 5 year weekly maximum for the upcoming week is 98 bcf. An injection of 112 bcf is required to equal 131% of the 5 year average and an injection of 104 bcf is needed to exceed the 5 year average by 19 bcf to put inventories on pace to reach 3,400 bcf in early November. If weekly injections match the 5 year weekly maximum injection, inventories will rise to 3,483 bcf in early December. Injections must equal 131% of the 5 year average or exceed the 5 year average by 19 bcf per week to reach 3,400 bcf by early November.

Supply Trends: Total supply fell 0.5 bcf/d to 70.0 bcf/d. US production and Canadian imports fell with Mexican exports and LNG imports unchanged. The US Baker Hughes rig count rose 4 with both oil and natural gas activity higher with the total count now at 1,858. The Canadian rig count rose 21 to 214. Thus, the total North American rig count rose 25 to 2,123 and now surpasses last year by 167. This represents the largest year-on-year increase since April 2012. **The higher efficiency US horizontal rig count rose 2 to 1,250 and stands 171 above last year.**

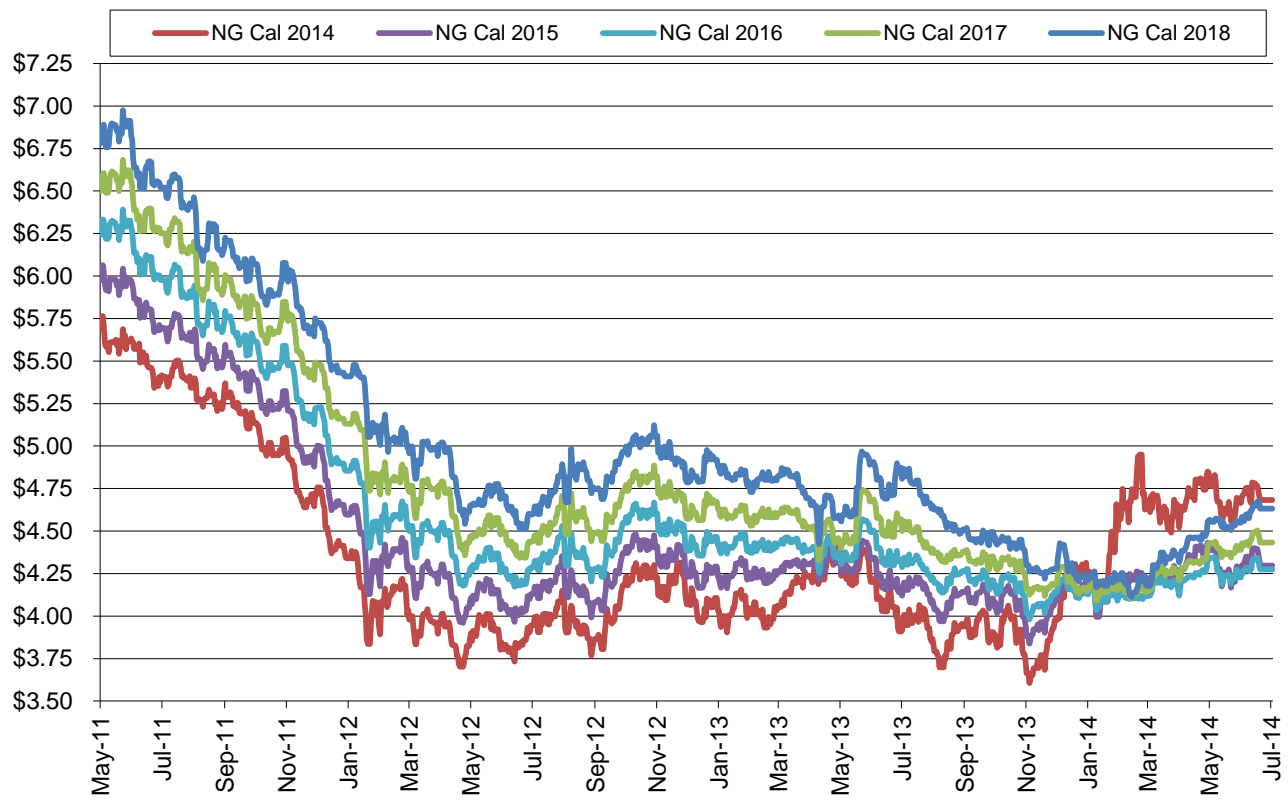
Demand Trends: Total demand fell 1.3 bcf/d to 54.5 bcf/d. Power and industrial demand fell with R&C barely higher. Electricity demand fell 1,304 gigawatt-hrs to 78,258, which trails last year by 2,679 (3.3%) and the 5 year average by 2,967 (3.7%).

Other Factors: Western Canadian storage remains extremely low and the need to refill may eventually impact Canadian exports to the US more dramatically. The S&P 500 rose to a new record despite uncertainty in Iraq.

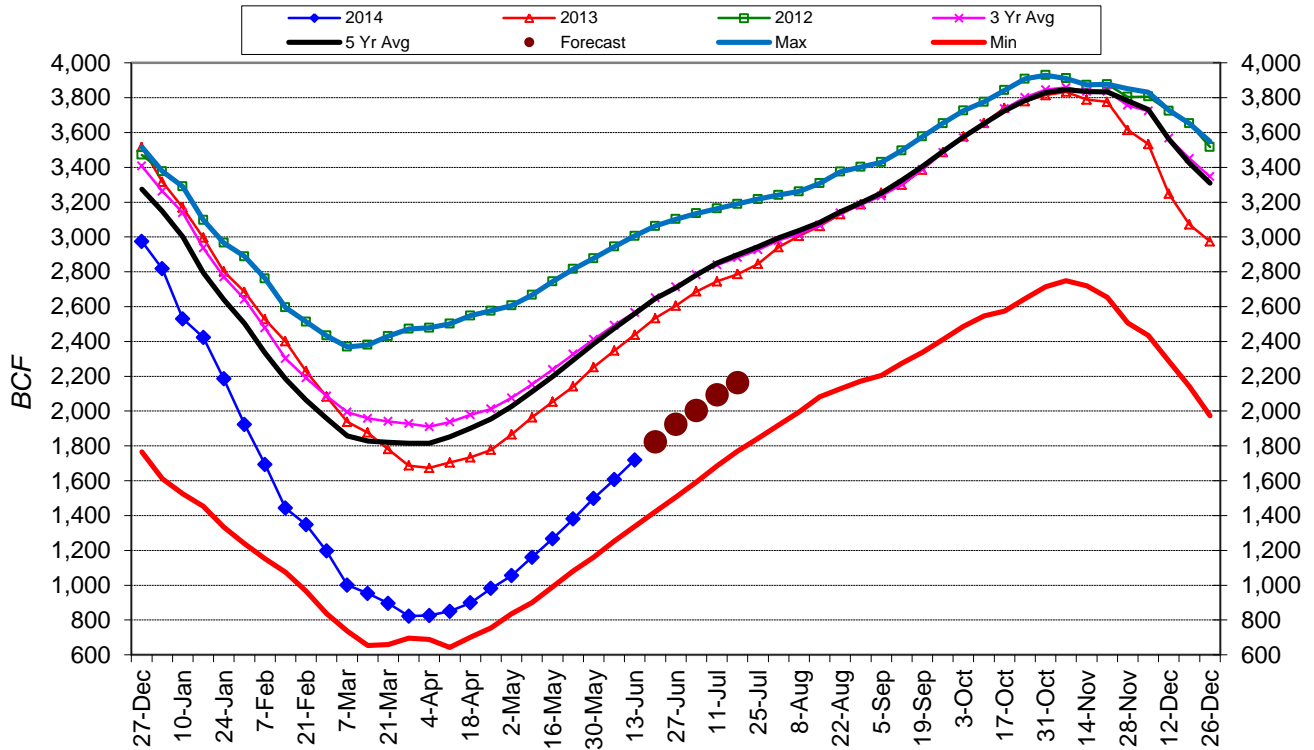
\$/MMBtu Ratio of NYMEX CL and NG



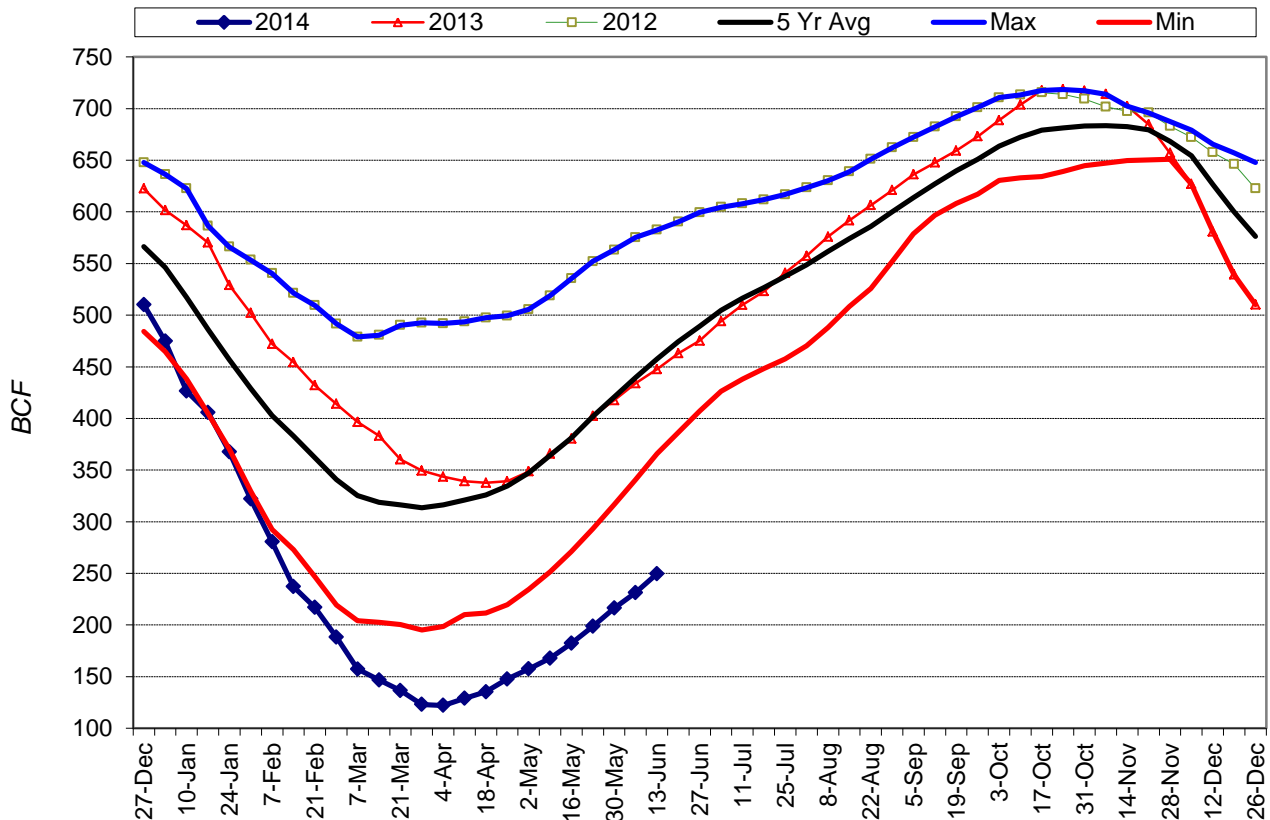
NYMEX Calendar Strips



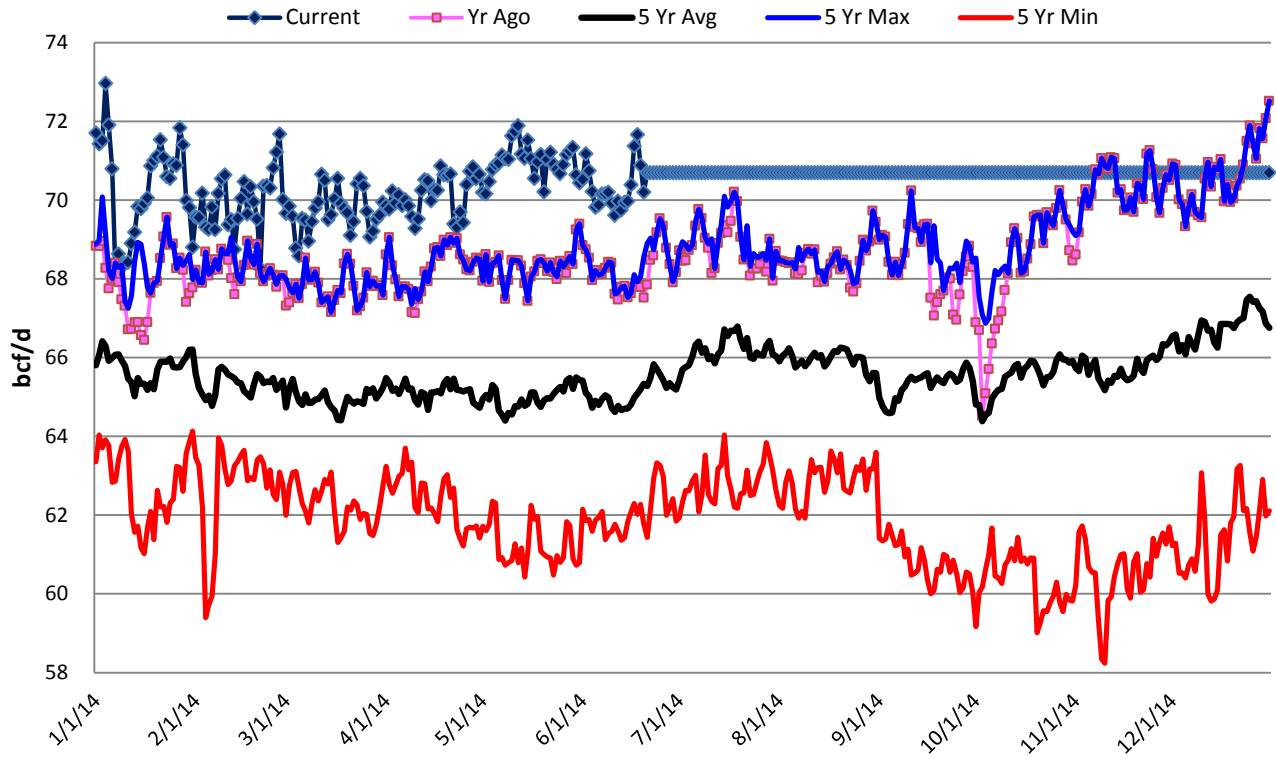
US Working Gas Storage - Source - EIA



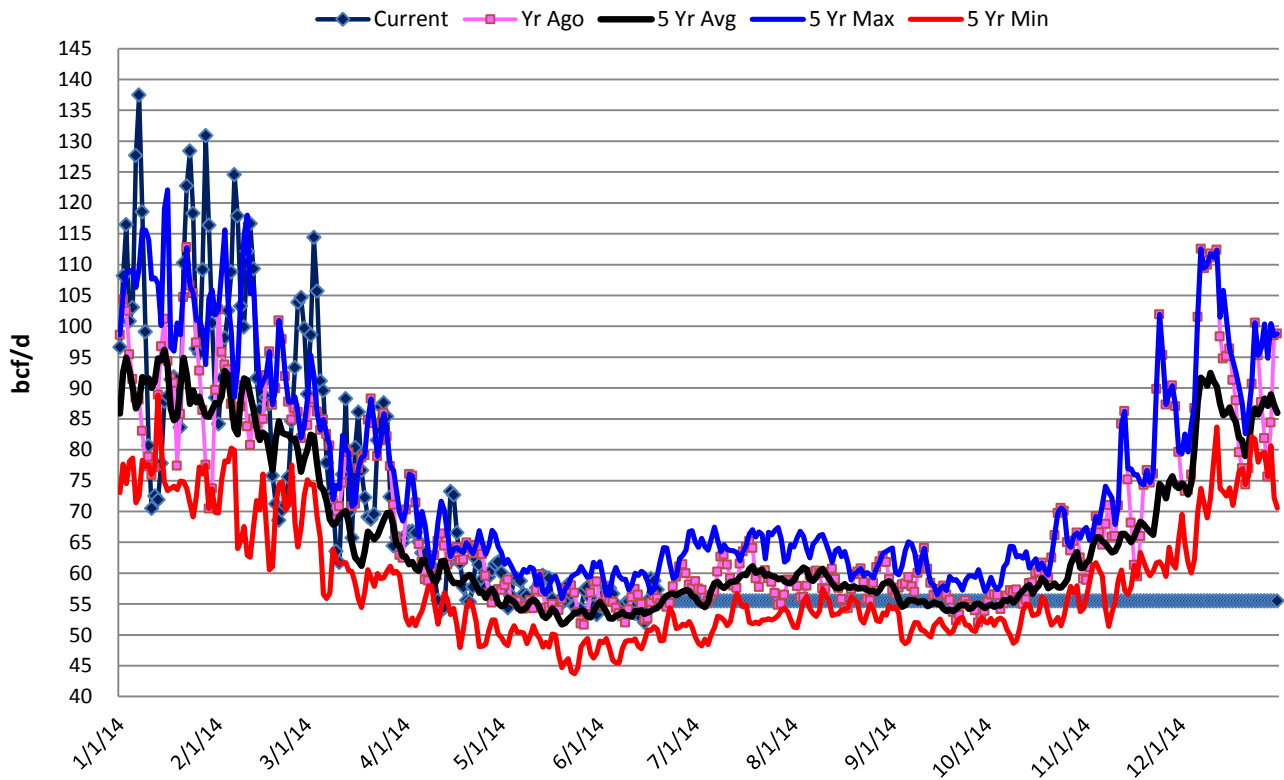
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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