

IAF Advisors
Energy Market Outlook
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Price Action: The August contract fell 26.0 cents (5.9%) to \$4.146 on a 25.0 cent range.

Price Outlook: The market easily established a new low as the EIA reported an injection above consensus and weather forecasts remain moderate. Despite a view that this price level represents good value, peak temperatures remain subdued and this is resulting in a lack of incremental natural gas demand. The CFTC data revealed a continued plunge in the speculative managed money net long position to the lowest level since early December 2013. Total open interest actually rose to 3.88 million as of July 8. CME futures aggregated open interest was barely higher at 1.04 million as of July 10. There remains no bias from the CFTC data with the ability to easily add length or further weakness precipitating more selling. However, bearish sentiment and liquidation of the still sizable speculative net long position could pressure prices lower.

Weekly Storage: US working gas storage for the week ending July 4 indicated a build of 93 bcf. Thus total working gas inventories rose to 2,022 bcf. Current inventories fall 665 bcf (24.7%) below last year and 759 bcf (27.3%) behind the 5 year average.

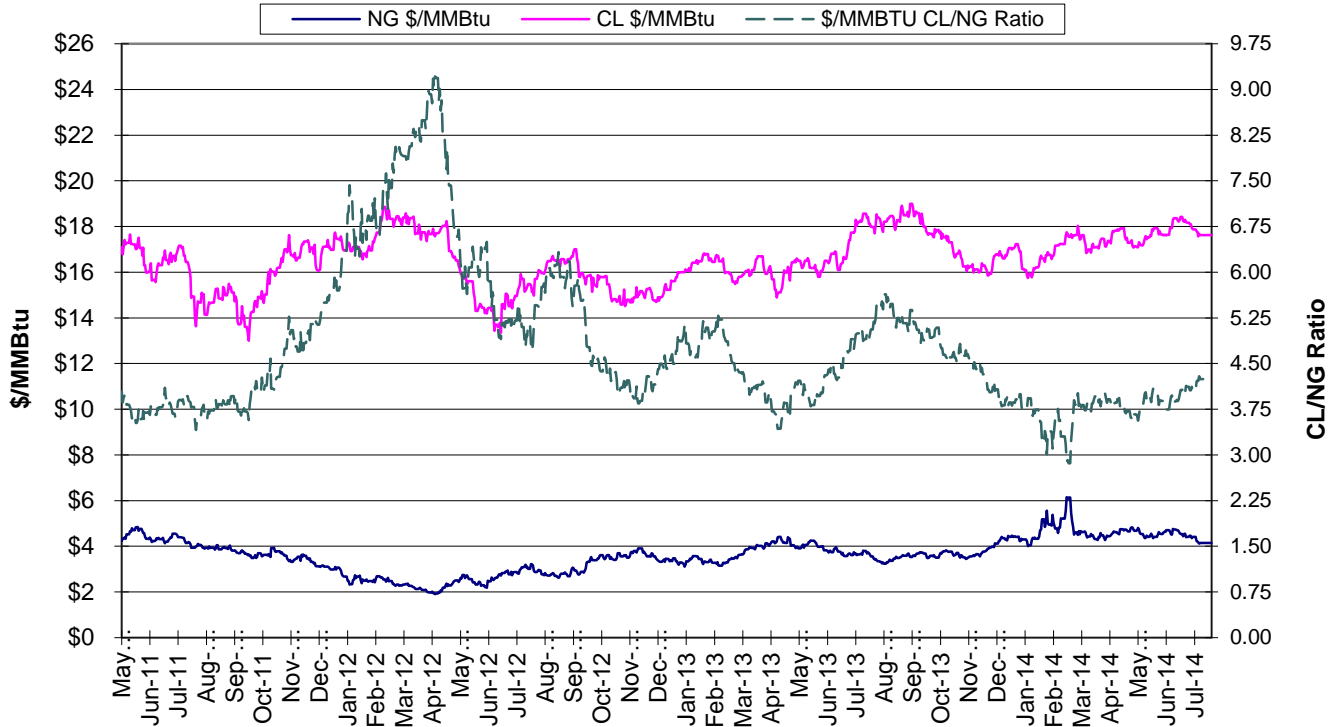
Storage Outlook: This week was close to establishing a new record 5 year maximum and also barely missed the 130% level of the 5 year average needed for inventories to reach 3,400 bcf in early November. The injection did exceed the 5 year average by more than 18 bcf. For our storage injection metrics, the 5 year weekly maximum for the upcoming week is 90 bcf. An injection of 88 bcf is required to equal 130% of the 5 year average and an injection of 85 bcf is needed to exceed the 5 year average by 18 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 3,515 bcf in early December.

Supply Trends: Total supply rose 0.2 bcf/d to 71.2 bcf/d. US production and Canadian imports rose with LNG imports and Mexican exports unchanged. The US Baker Hughes rig count rose 1 with oil activity higher and natural gas unchanged with the total count now at 1,875. The Canadian rig count rose 6 to 315. Thus, the total North American rig count rose 7 to 2,190 and now surpasses last year by 137. The higher efficiency US horizontal rig count rose 8 to 1,276 and stands 218 above last year. The US E&P companies will begin releasing Q2 results in the coming weeks and they will be analyzed closely.

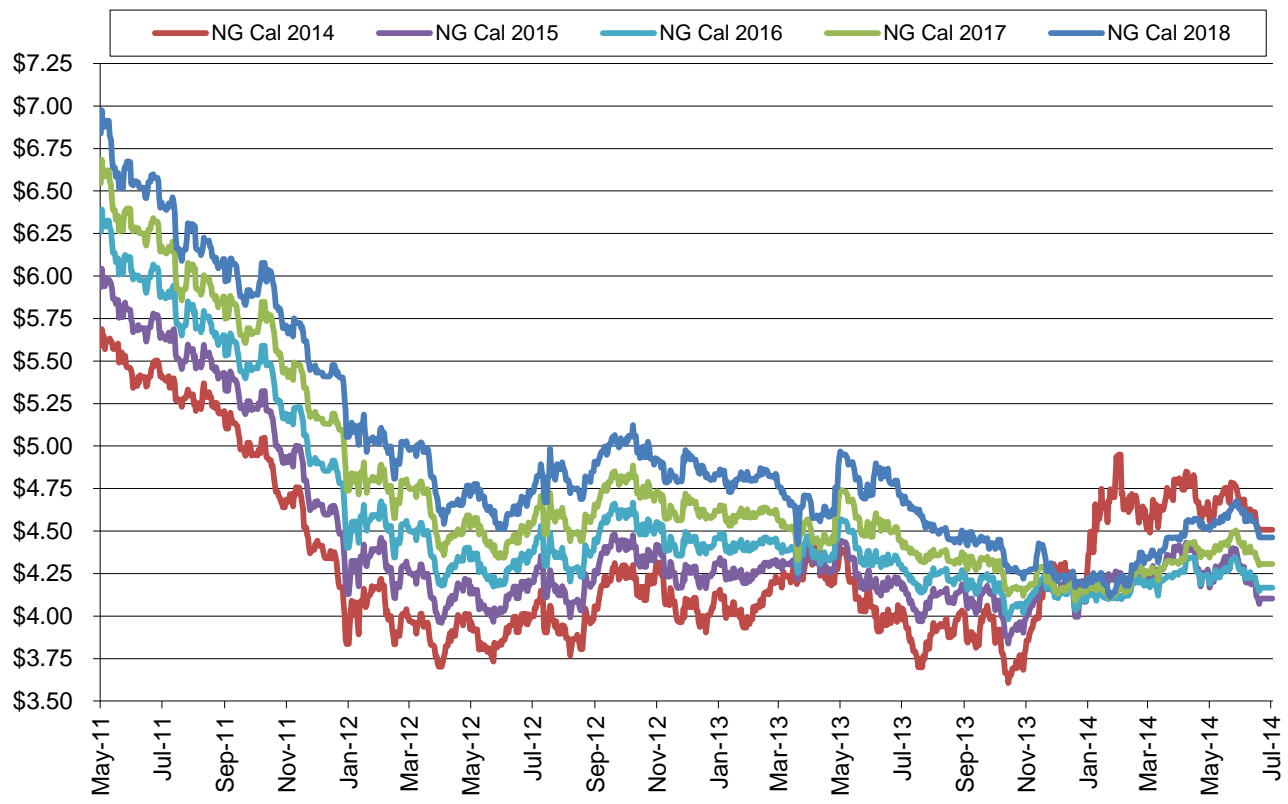
Demand Trends: Total demand rose 2.0 bcf/d to 57.9 bcf/d. Power demand rose with R&C and industrial lower. Electricity demand rose 223 gigawatt-hrs to 83,612, which exceeds last year by 1,808 (2.2%) while trailing the 5 year average by 1,488 (1.7%).

Other Factors: The S&P 500 slipped from the recent record.

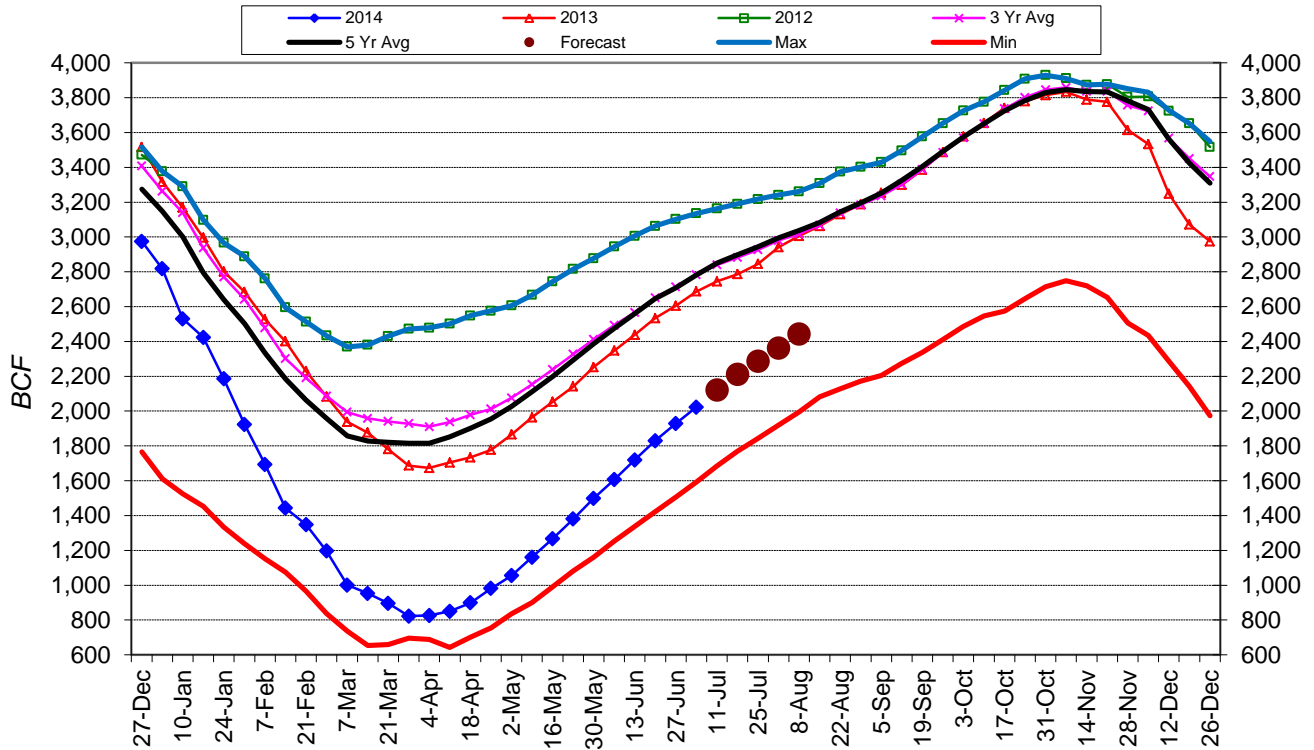
\$/MMBtu Ratio of NYMEX CL and NG



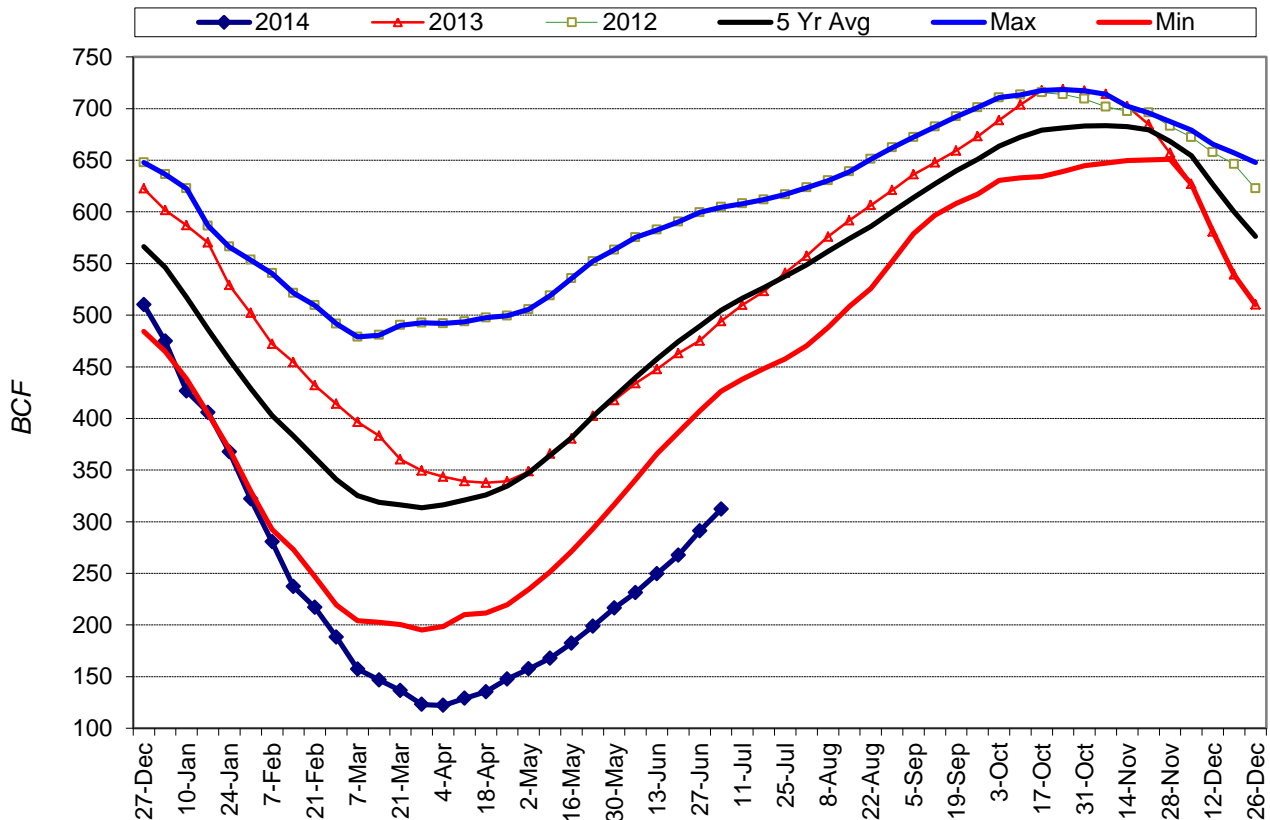
NYMEX Calendar Strips



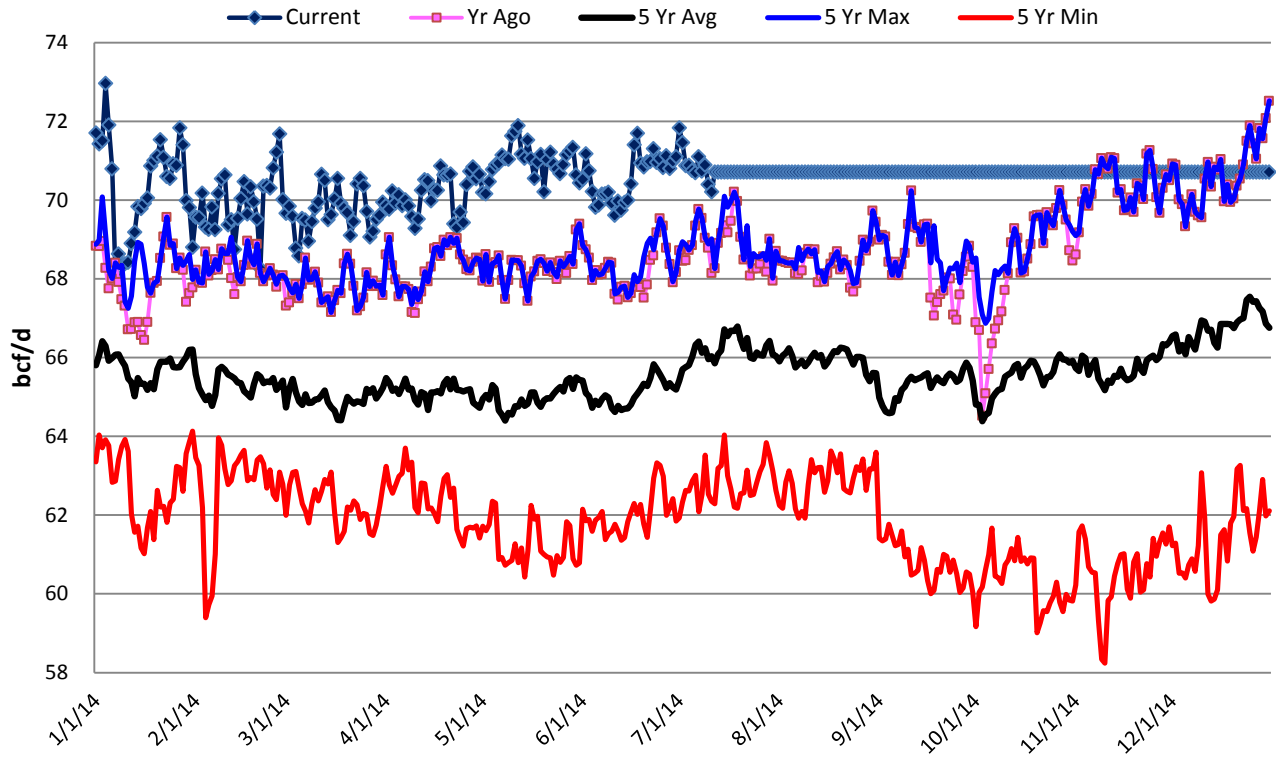
US Working Gas Storage - Source - EIA



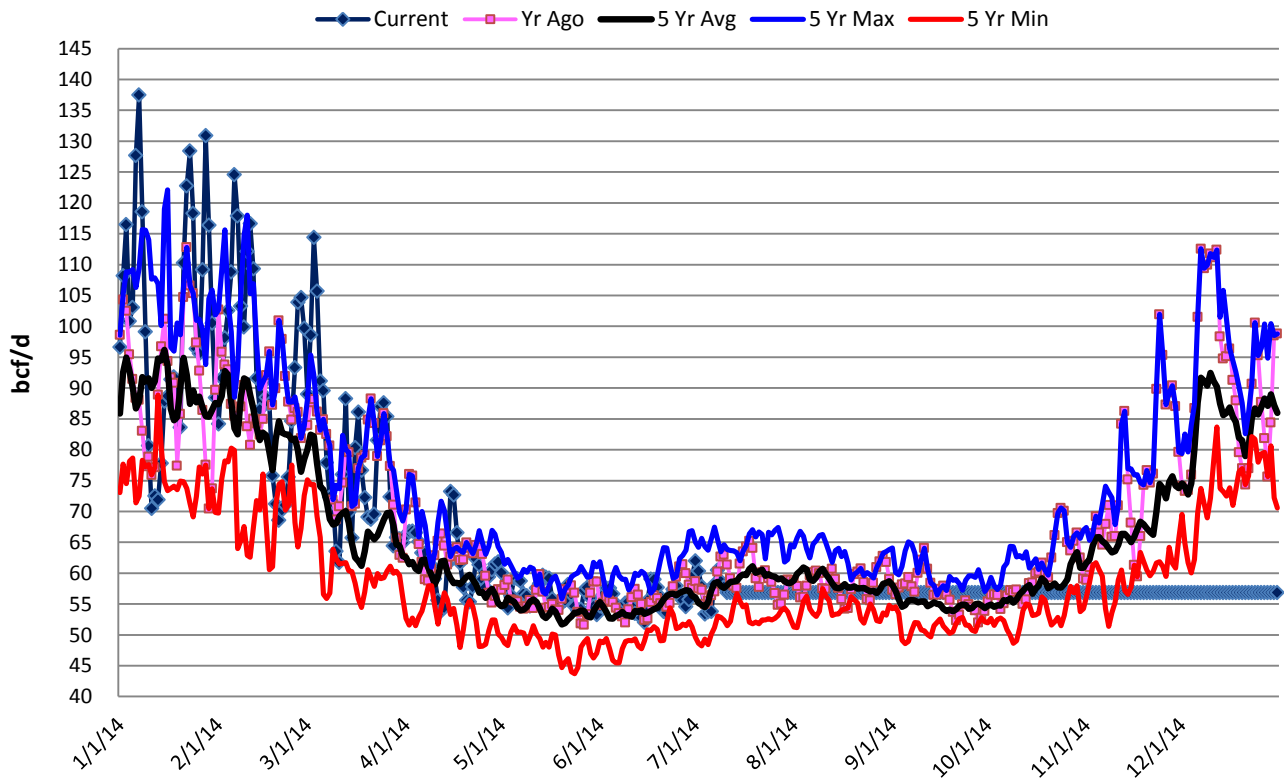
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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