

IAF Advisors
Energy Market Outlook
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Price Action: The August contract fell 17.0 cents (4.3%) to \$3.781 on a 14.9 cent range.

Price Outlook: The market again easily established a new low and will likely do so again this week even though the EIA reported an injection below consensus. The market is clearly extended to the downside with 5 consecutive weeks down. Since 2000, the market has fallen exactly 5 weeks in a row 19 times. There have been 9 instances where the market fell 6 weeks in a row. While the market is due to bounce, there are few bullish fundamental factors. The CFTC data continues to indicate a dramatic reduction in the speculative managed money net long position while it still remains above the early December 2013 level. Total open interest rose again to 4.03 million as of July 22. CME futures aggregated open interest fell to 990,000 million as of July 24. Continued liquidation could continue to pressure prices lower. However, the market is extended and a rebound is possible, even if not fundamentally warranted.

Weekly Storage: US working gas storage for the week ending July 18 indicated a build of 90 bcf. Thus total working gas inventories rose to 2,219 bcf. Current inventories fall 567 bcf (20.4%) below last year and 679 bcf (23.4%) behind the 5 year average.

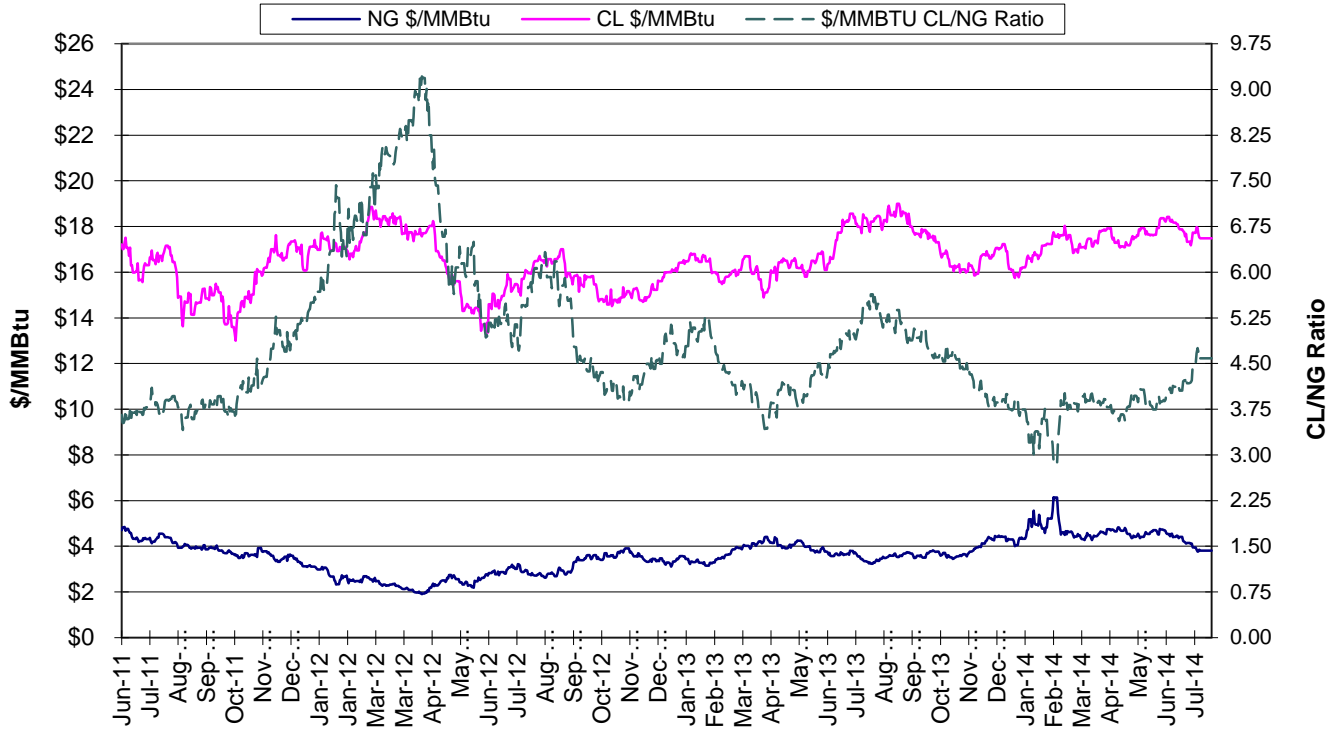
Storage Outlook: This week easily exceeded all our storage injection metrics and is likely to do so again next week. For our updated storage injection metrics, the 5 year weekly maximum for the upcoming week is 71 bcf. An injection of 60 bcf is required to equal 131% of the 5 year average and an injection of 64 bcf is needed to exceed the 5 year average by 18 bcf to put inventories on pace to reach 3,450 bcf in early November.

Supply Trends: Total supply rose 0.1 bcf/d to 70.8 bcf/d. All supply components were little changed. The US Baker Hughes rig count rose 12 with both oil and natural gas higher with the total count now at 1,883. The Canadian rig count rose 14 to 395. Thus, the total North American rig count rose 26 to 2,278 and now surpasses last year by 173. The higher efficiency US horizontal rig count rose 5 to 1,293 and stands 226 above last year.

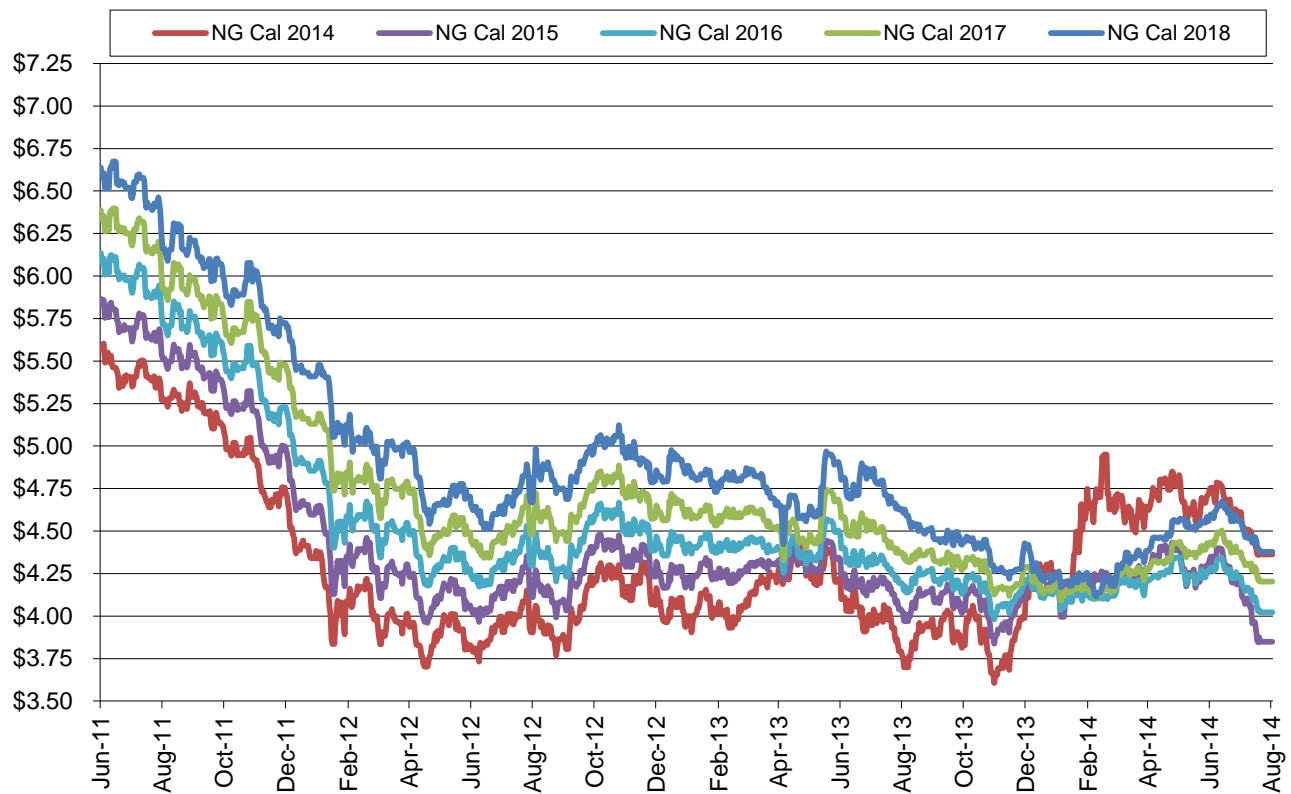
Demand Trends: Total demand rose 0.8 bcf/d to 57.3 bcf/d. Power and R&C were higher with industrial unchanged. Electricity demand fell 4,129 gigawatt-hrs to 82,614, which trails last year by 9,971 (10.8%) while trailing the 5 year average by 8,499 (9.3%).

Other Factors: The S&P 500 pulled back to end the week after reaching a new high as the market digests Q2 earnings. US E&P companies will continue to report Q2 results and the monthly EIA report will also be released this week.

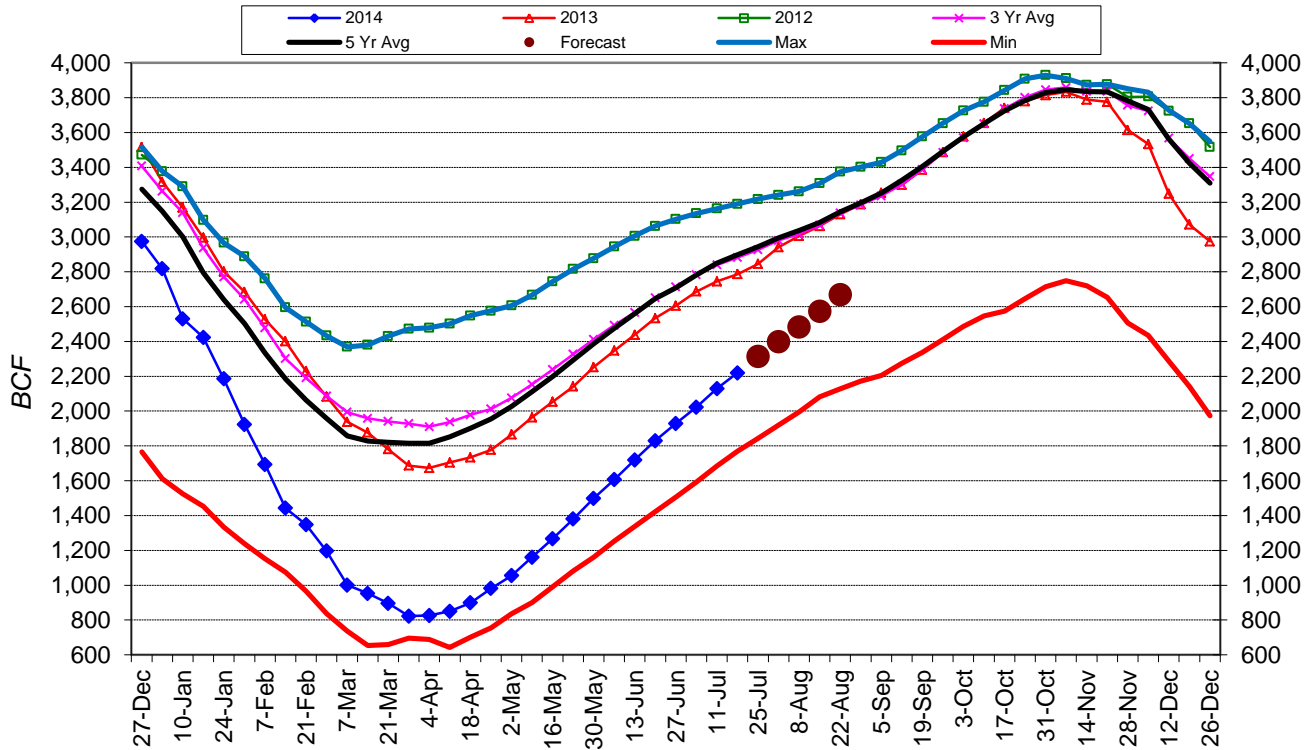
\$/MMBtu Ratio of NYMEX CL and NG



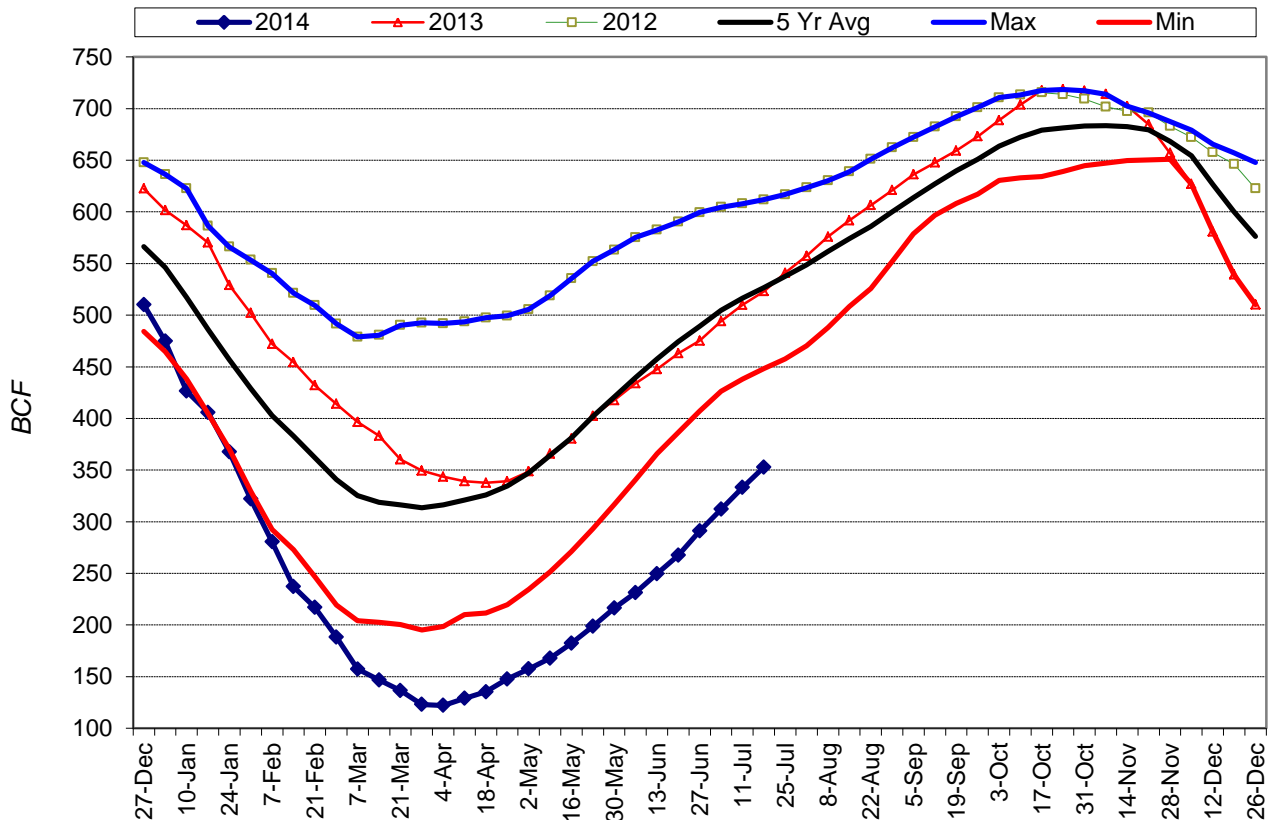
NYMEX Calendar Strips



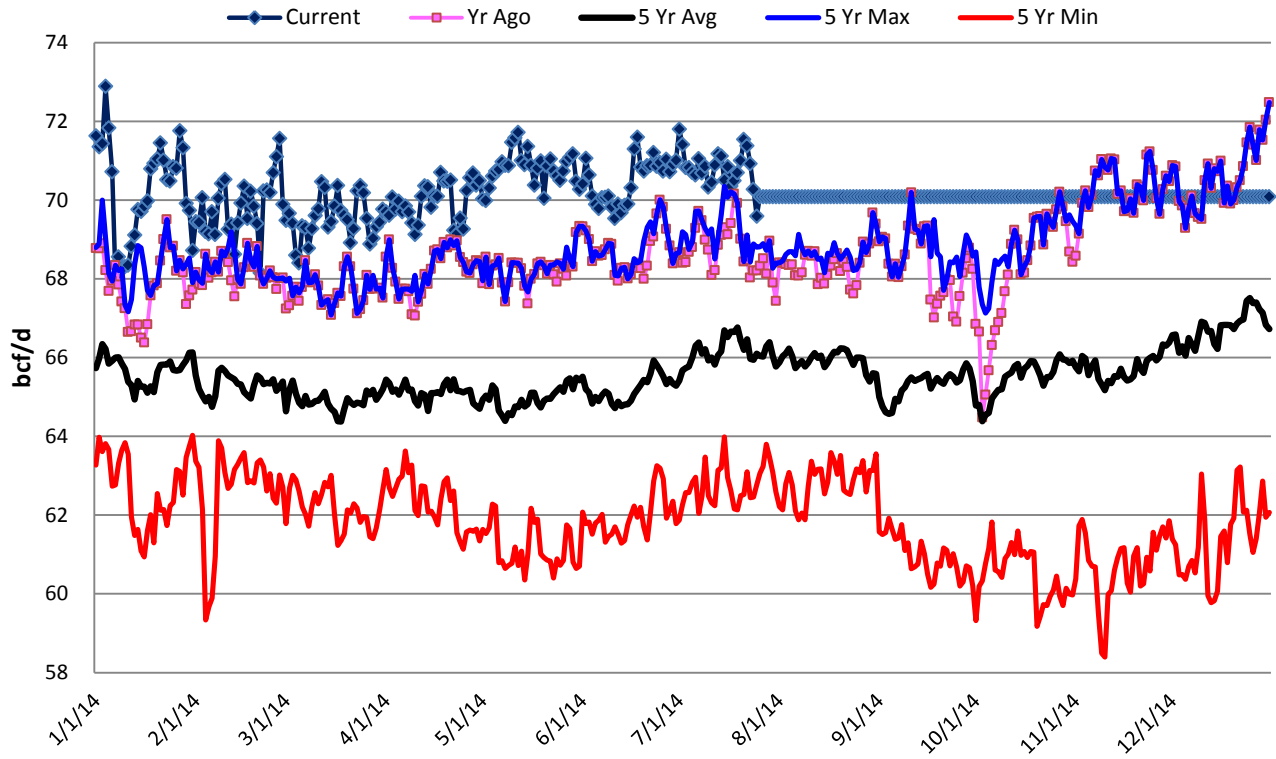
US Working Gas Storage - Source - EIA



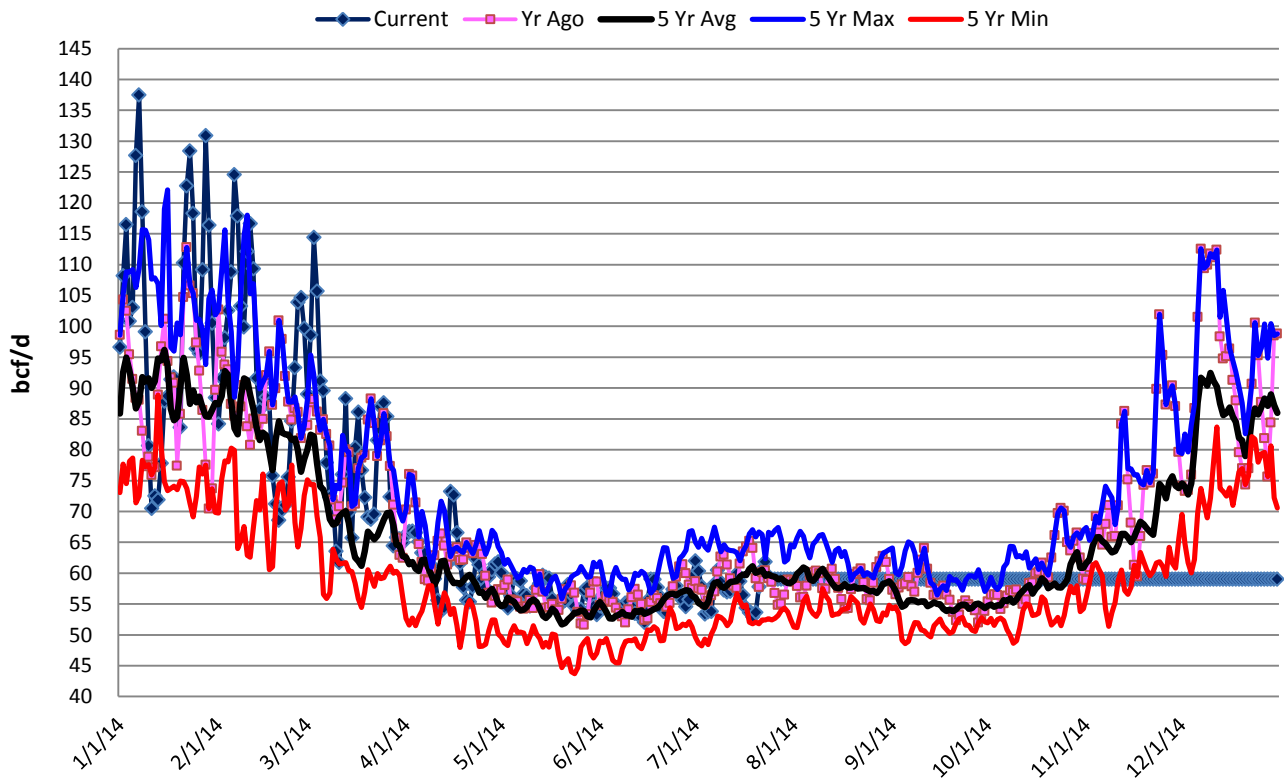
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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