

IAF Advisors
Energy Market Outlook
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August 8, 2014

Price Action: The September contract rose 16.4 cents (4.3%) to \$3.962 on a 22.0 cent range.

Price Outlook: The consecutive lower streak ended, although this week's low was less than 4 cents from the previous spot weekly low. The slide was due to end. However, while the fundamentals do still appear to be improving on a temperature adjusted basis, absolute demand levels remain moderate and an extended rally is not expected. The CFTC data shows the managed money speculation remains in liquidation mode with the CME futures only position now actually net short. The net long position has been reduced to where it is the now the smallest managed money net long position since November 2013. Total open interest fell to 3.75 million as of August 5. CME futures aggregated open interest fell to 961,000 million as of August 7. The possibility of managed money establishing a short position is very real and could result in continued selling pressure.

Weekly Storage: US working gas storage for the week ending August 1 indicated a build of 82 bcf. Thus total working gas inventories rose to 2,389 bcf. Current inventories fall 552 bcf (18.8%) below last year and 606 bcf (20.2%) behind the 5 year average.

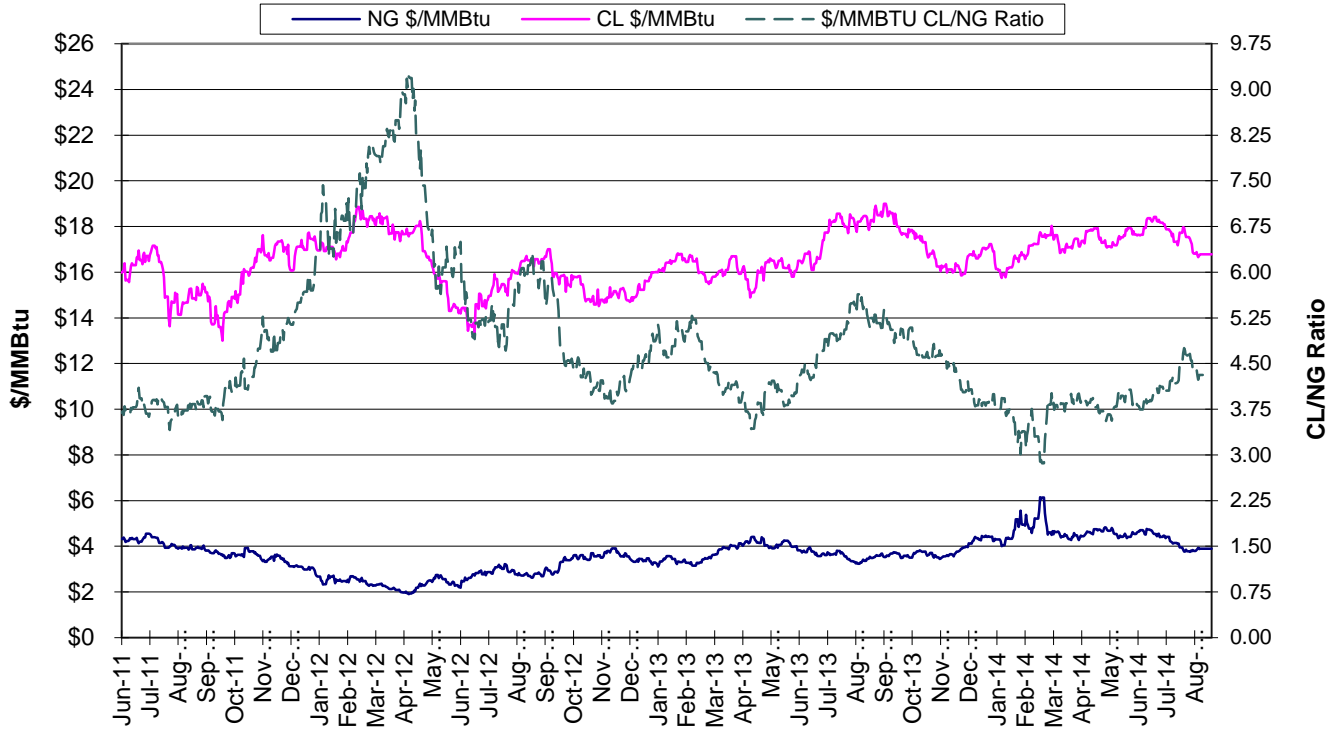
Storage Outlook: This week matched the unrevised 5 year maximum while exceeding the other two injection metrics. For our updated storage injection metrics, the 5 year weekly maximum for the upcoming week is 65 bcf. An injection of 53 bcf is required to equal 125% of the 5 year average and an injection of 57 bcf is needed to exceed the 5 year average by 15 bcf to put inventories on pace to reach 3,450 bcf in early November.

Supply Trends: Total supply rose 0.4 bcf/d to 71.3 bcf/d. US production and Canadian imports were higher with LNG and Mexican exports little changed. The US Baker Hughes rig count rose 19 with both oil and natural gas activity higher with the total count now at 1,908. The Canadian rig count fell 5 to 387. Thus, the total North American rig count rose 14 to 2,295 and now surpasses last year by 159. The higher efficiency US horizontal rig count rose 19 and stands at an all-time record of 1,317 and stands 252 above last year. US E&P companies continue to report impressive well results and efficiency improvements.

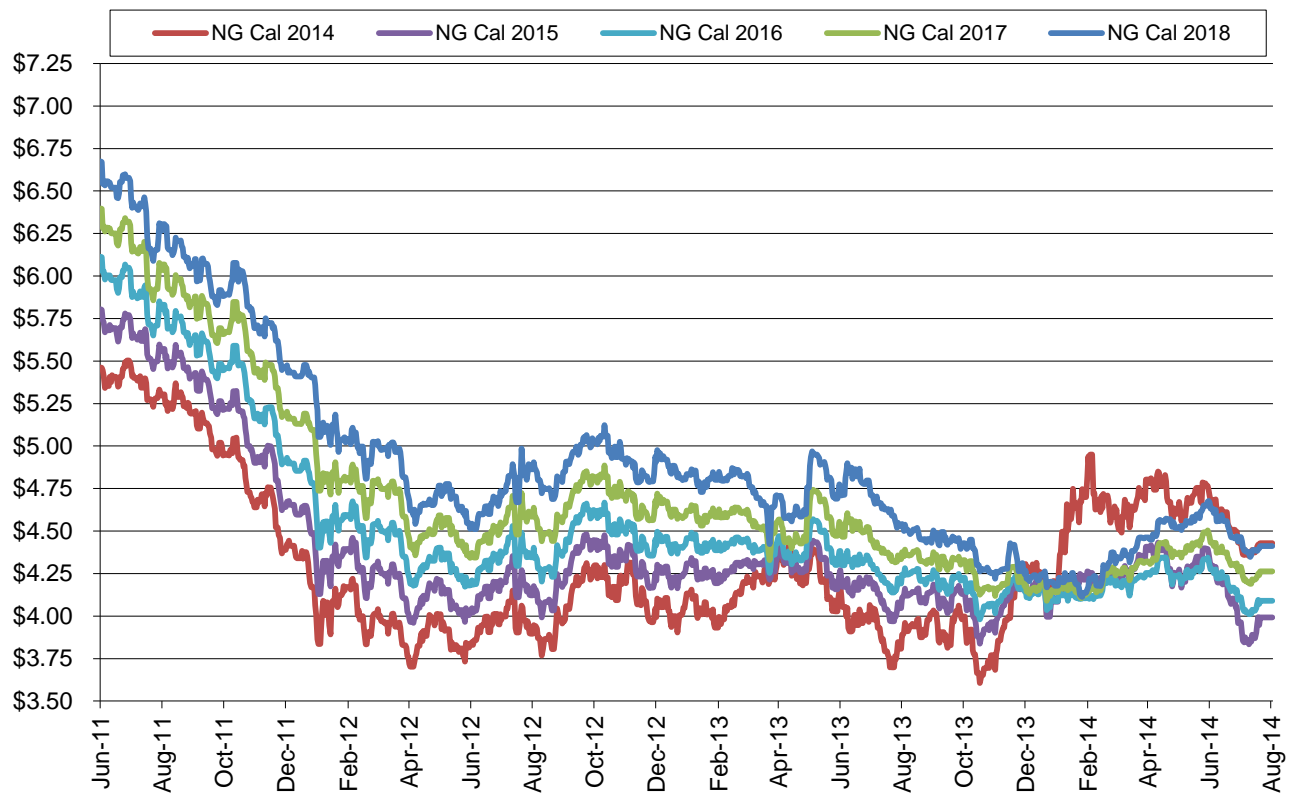
Demand Trends: Total demand rose 2.2 bcf/d to 59.4 bcf/d. Power and R&C demand were higher with industrial unchanged. Electricity demand fell 2,705 gigawatt-hrs to 84,199, which exceeds last year by 295 (0.4%) while trailing the 5 year average by 6,501 (7.2%). Our A/C index continues to highlight the differences between 2014 and recent years. The comparisons are astonishing. In the East, the 2014 A/C index measures 350 YTD compared to 680 in 2013 and 3,096 in 2012. In the Producing Region, the A/C index is at 216 with last year at 546 and 547 in 2012. The West is at 1,652 with last year at 1,934 and 1,959 in 2012. Considering the non-linear nature of summer time natural gas demand, this situation is incredibly influential.

Other Factors: The S&P 500 rebounded despite ongoing geopolitical tensions. The fluctuation in renewable electricity output has been extreme with output changing by nearly 20,000 MW in a recent 4 day span. This is an electric grid stability nightmare and a true testament to the engineers who keep the lights on reliably and around the clock.

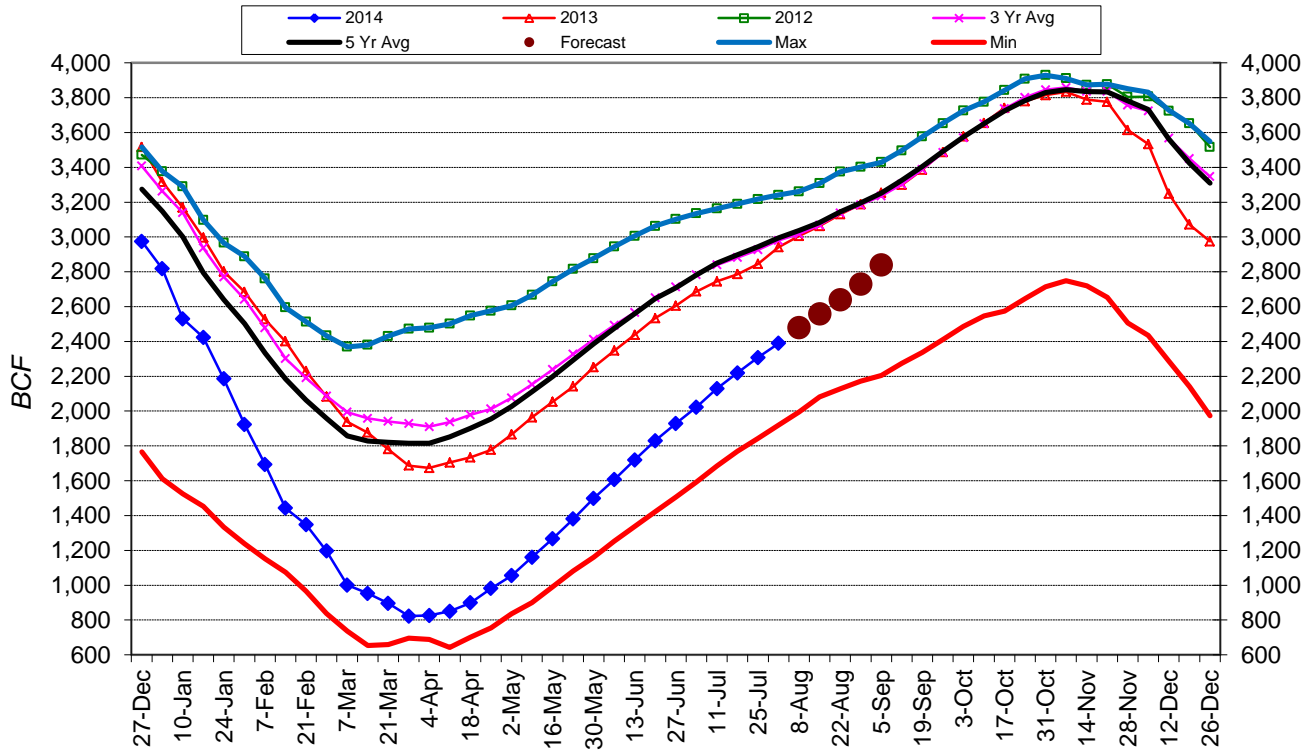
\$/MMBtu Ratio of NYMEX CL and NG



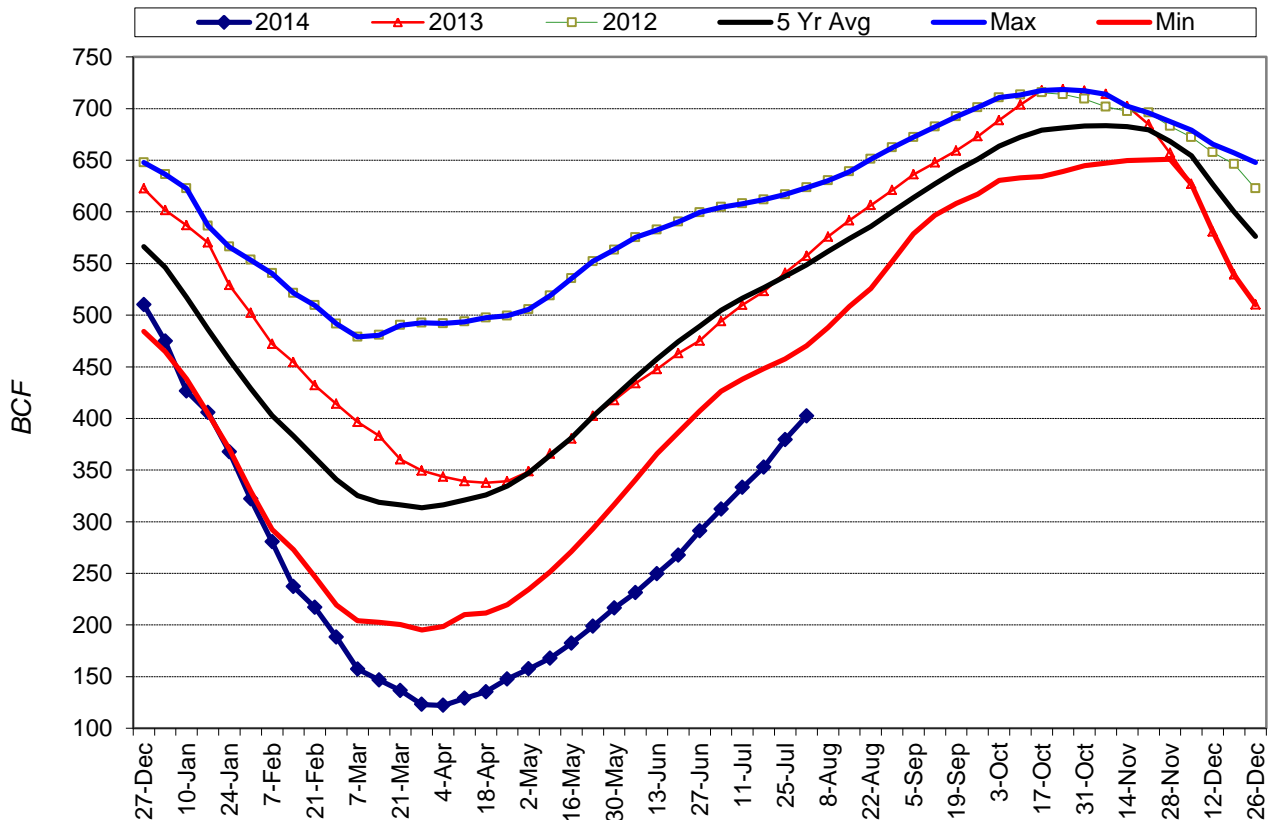
NYMEX Calendar Strips



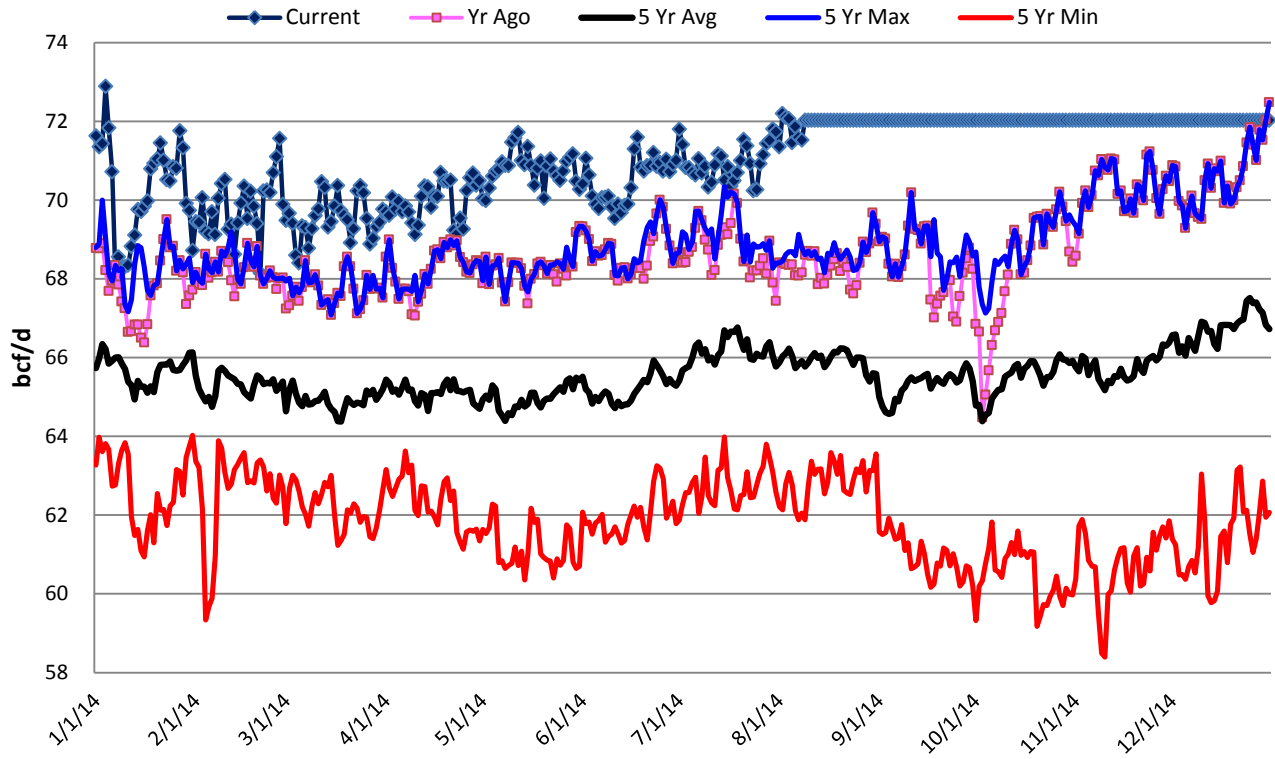
US Working Gas Storage - Source - EIA



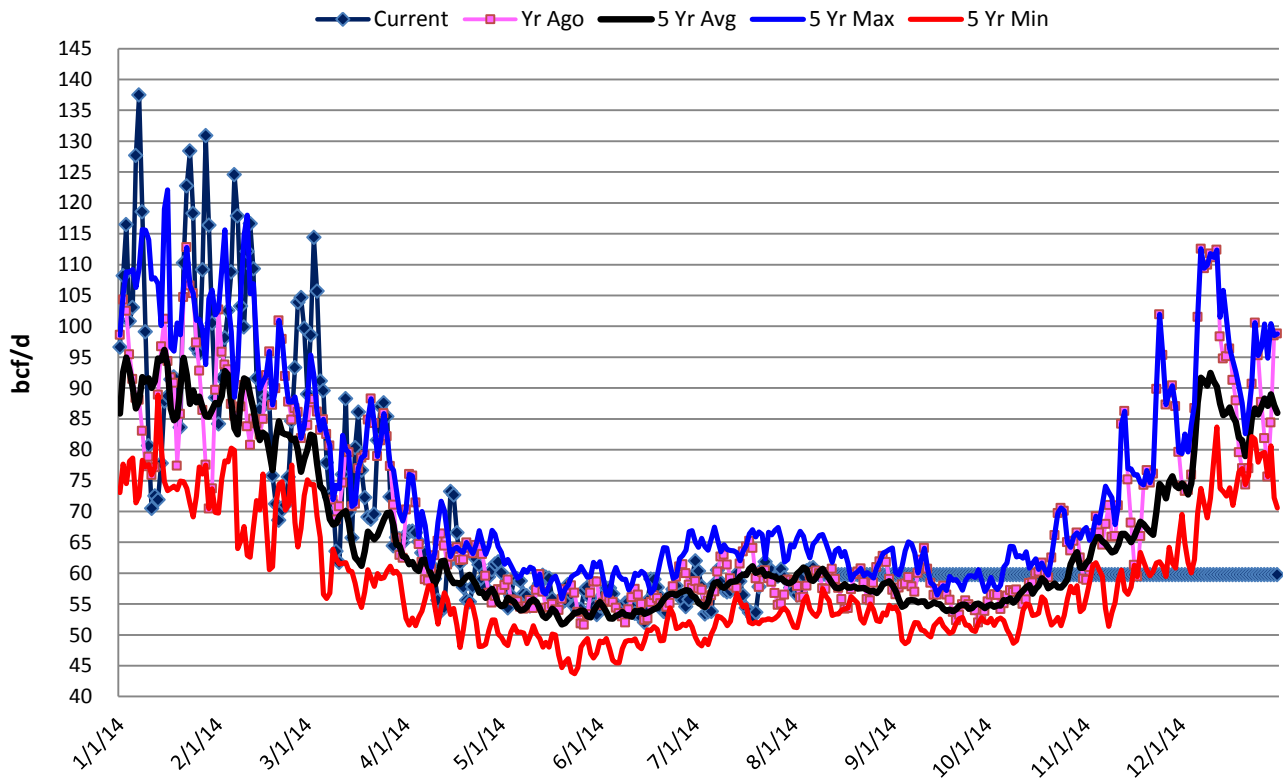
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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