

IAF Advisors
Energy Market Outlook
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Price Action: The October contract rose 18.2 cents (4.7%) to \$4.065 on a 20.0 cent range.

Price Outlook: The market did not establish a new low as was the bias. But true to form did not remain stagnant and established a new high instead. While increasing injections are considered bearish, the ability of the market to hold above \$4.00 is impressive and considering the proximity to the highs, an upward move is probably more likely. Last week's increase in the managed money net long position was not sustained as the net long position barely slipped. The net position remains quite low. Total open interest fell to 3.72 million as of August 26. CME futures aggregated open interest rose to 974,000 as of August 28.

Weekly Storage: US working gas storage for the week ending August 22 indicated a build of 75 bcf. Thus total working gas inventories rose to 2,630 bcf. Current inventories fall 500 bcf (16.0%) below last year and 514 bcf (16.3%) behind the 5 year average.

Storage Outlook: This week established another new 5 year weekly maximum while also exceeding the other two injection metrics. The 5 year weekly maximum for the upcoming week is 65 bcf. An injection of 65 bcf is required to equal 124% of the 5 year average and an injection of 67 bcf is needed to exceed the 5 year average by 15 bcf to put inventories on pace to reach 3,500 bcf in early November. Inventories remain on pace to exceed 3,500 bcf.

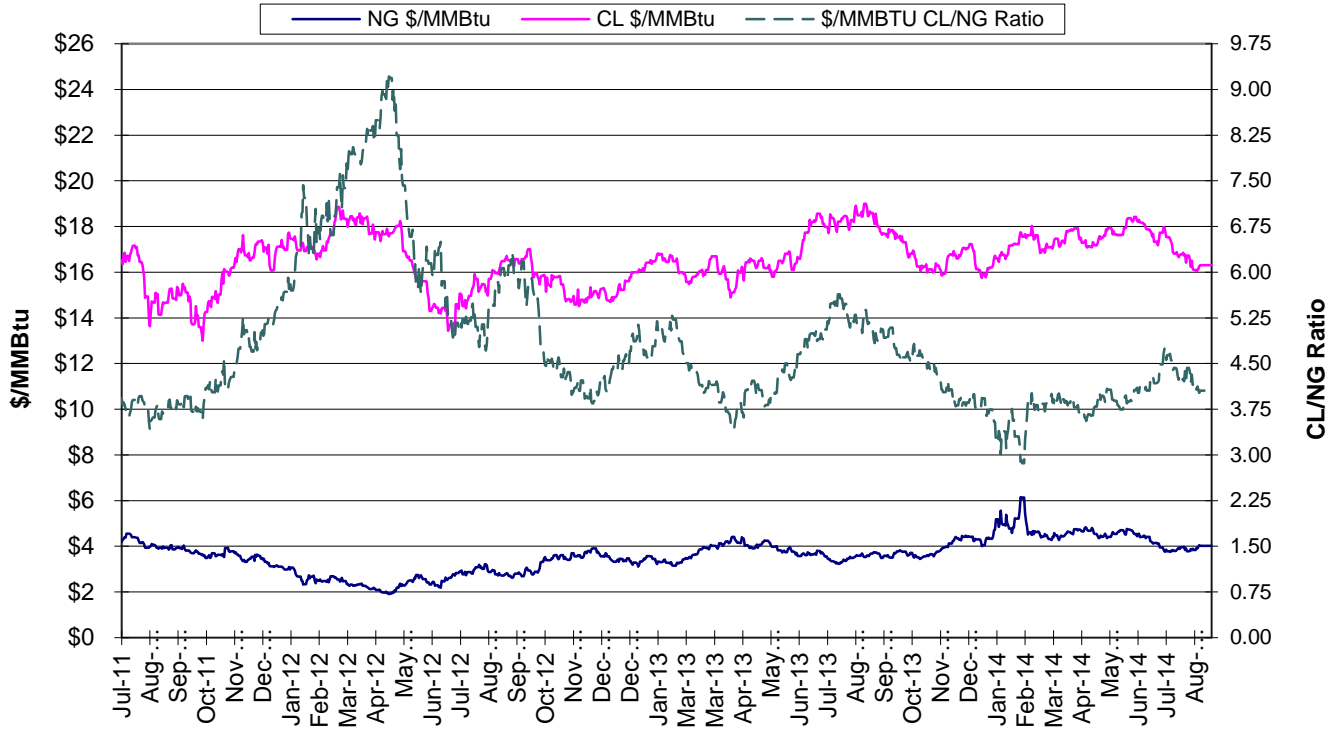
Supply Trends: Total supply fell 0.1 bcf/d to 71.7 bcf/d. US production and Mexican exports slipped while Canadian imports rose. LNG was unchanged. The US Baker Hughes rig count rose 18 with both oil and natural gas activity rising. The total US count now stands at 1,914. The Canadian rig count rose 4 to 409. Thus, the total North American rig count rose 22 to 2,323 and now surpasses last year by 148. The higher efficiency US horizontal rig count rose 9 to 1,330 and rises 252 above last year.

Demand Trends: Total demand rose 1.2 bcf/d to 59.3 bcf/d. Power demand rose with R&C and industrial both barely lower. Electricity demand rose 3,459 gigawatt-hrs to 86,684, which exceeds last year by 2,090 (2.5%) while trailing the 5 year average by 572 (0.7%).

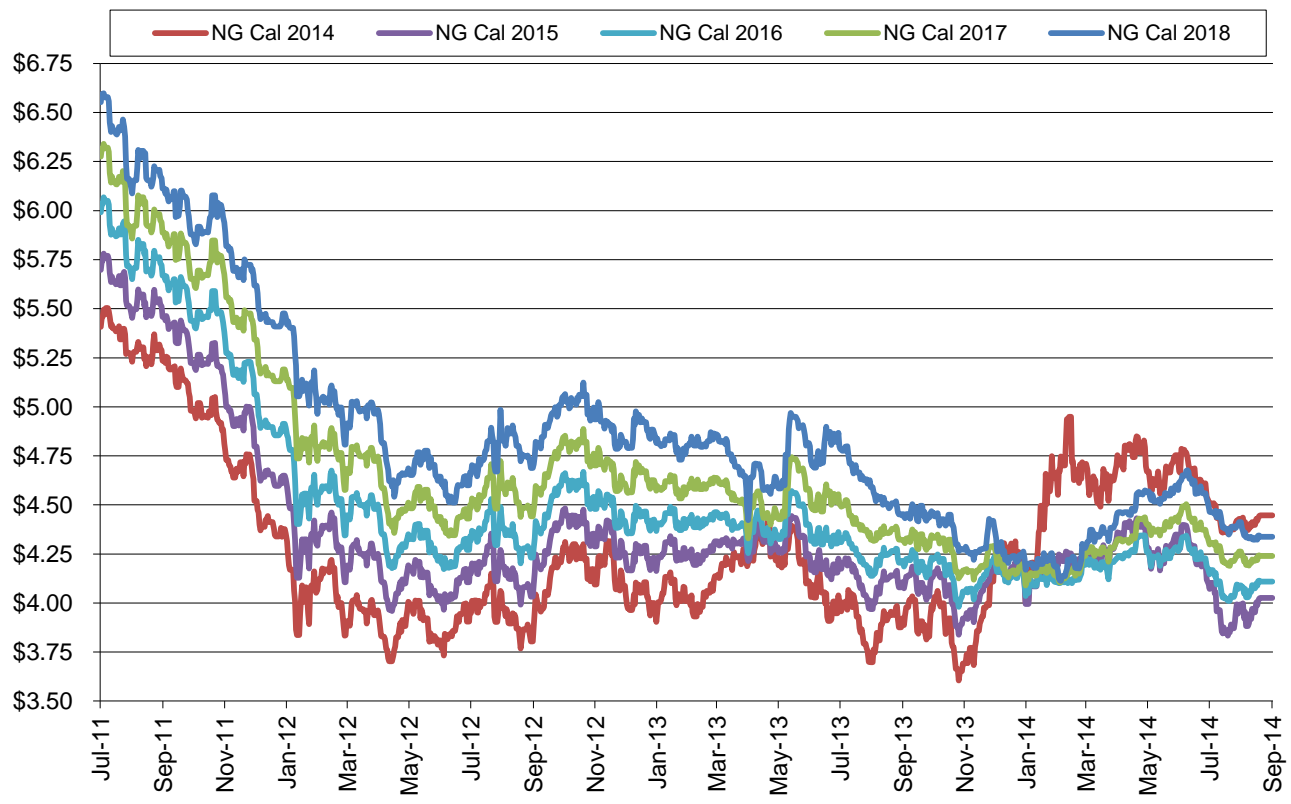
Other Factors: The S&P 500 rose above 2,000 for the first time as the market continues to climb a wall of worry.

- The summer is rapidly coming to a close, especially for the northern climes and we will soon begin issuing our heating index to assess the comparison of cooler temperatures. However, heating demand is more linear in nature and thus the differences in the extreme temperature readings are not as significant.
- However, cooler temperatures in the Southern climes are increasingly important. As US demographics shift to the South and due to human physiology, cold temperatures in the South will likely result in large draws. Southerners laugh at 95, but shiver at 45. This is a long term trend that will likely remain in place for the foreseeable future.

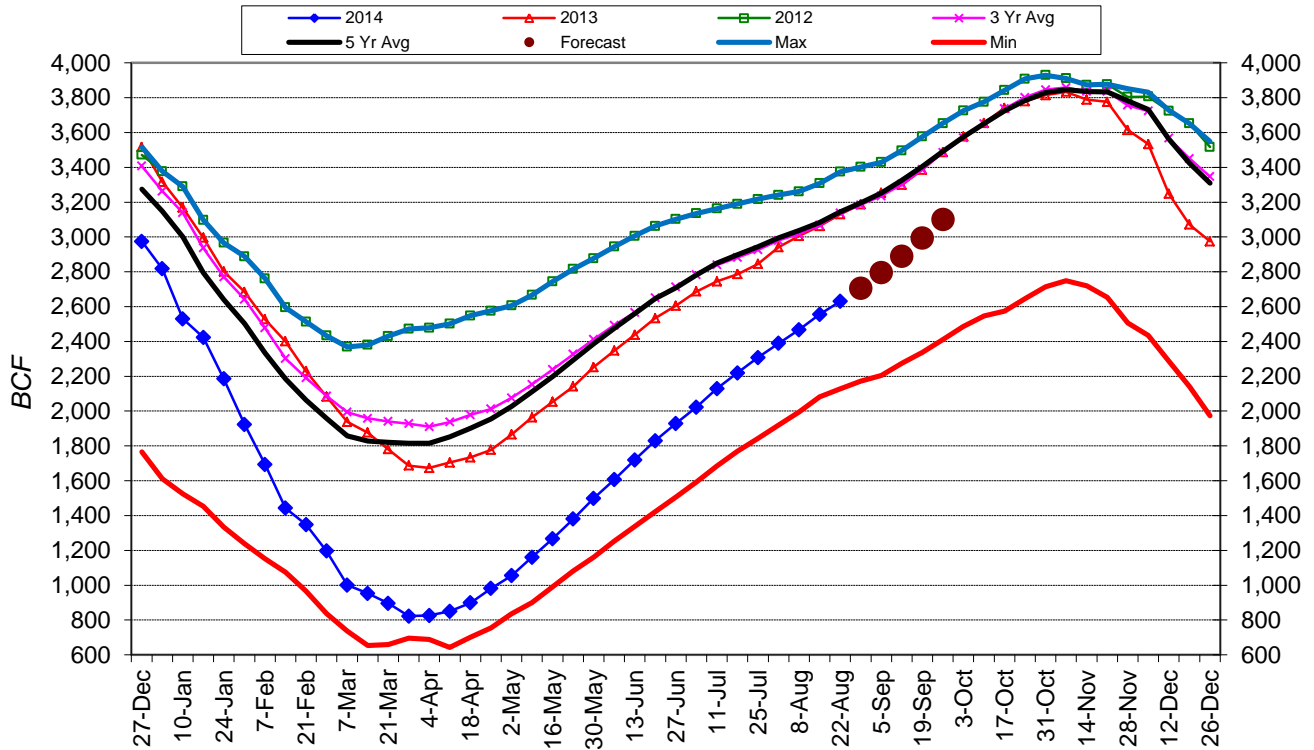
\$/MMBtu Ratio of NYMEX CL and NG



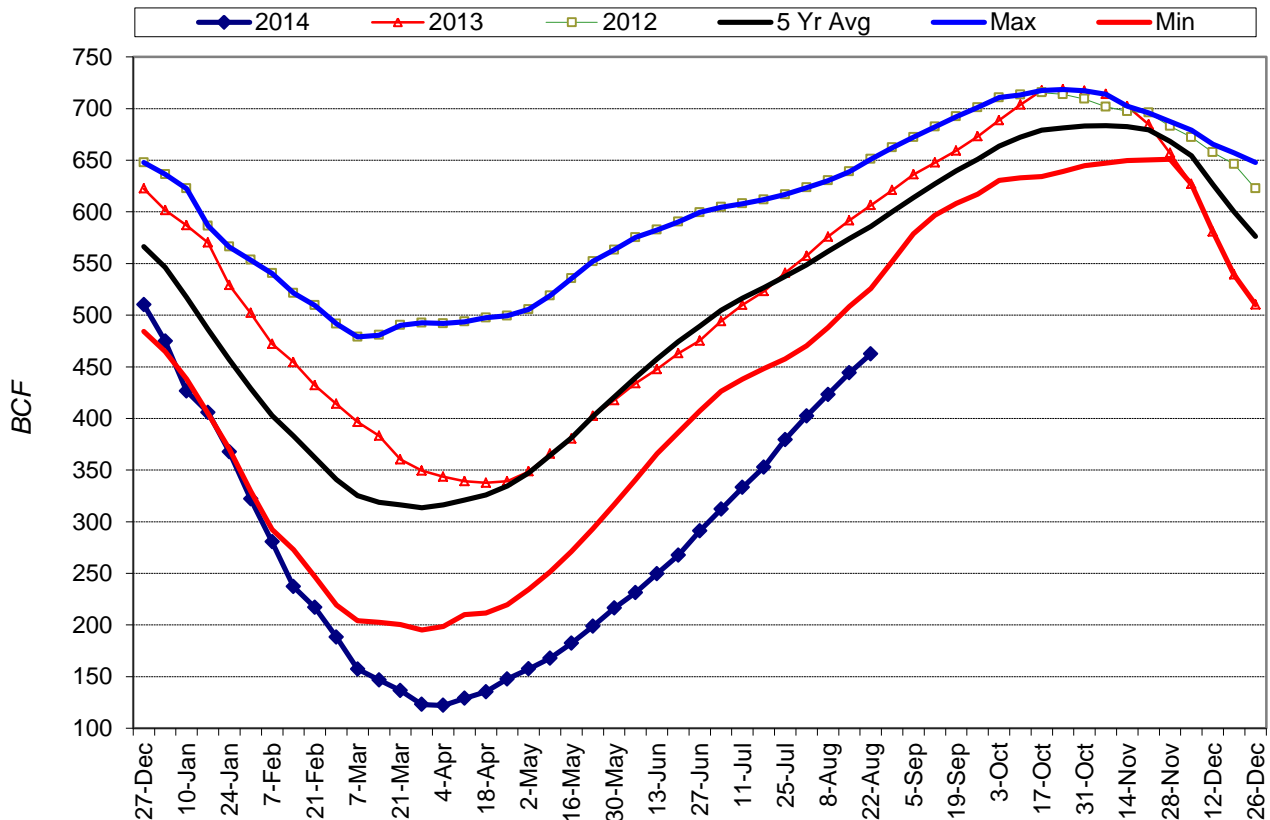
NYMEX Calendar Strips



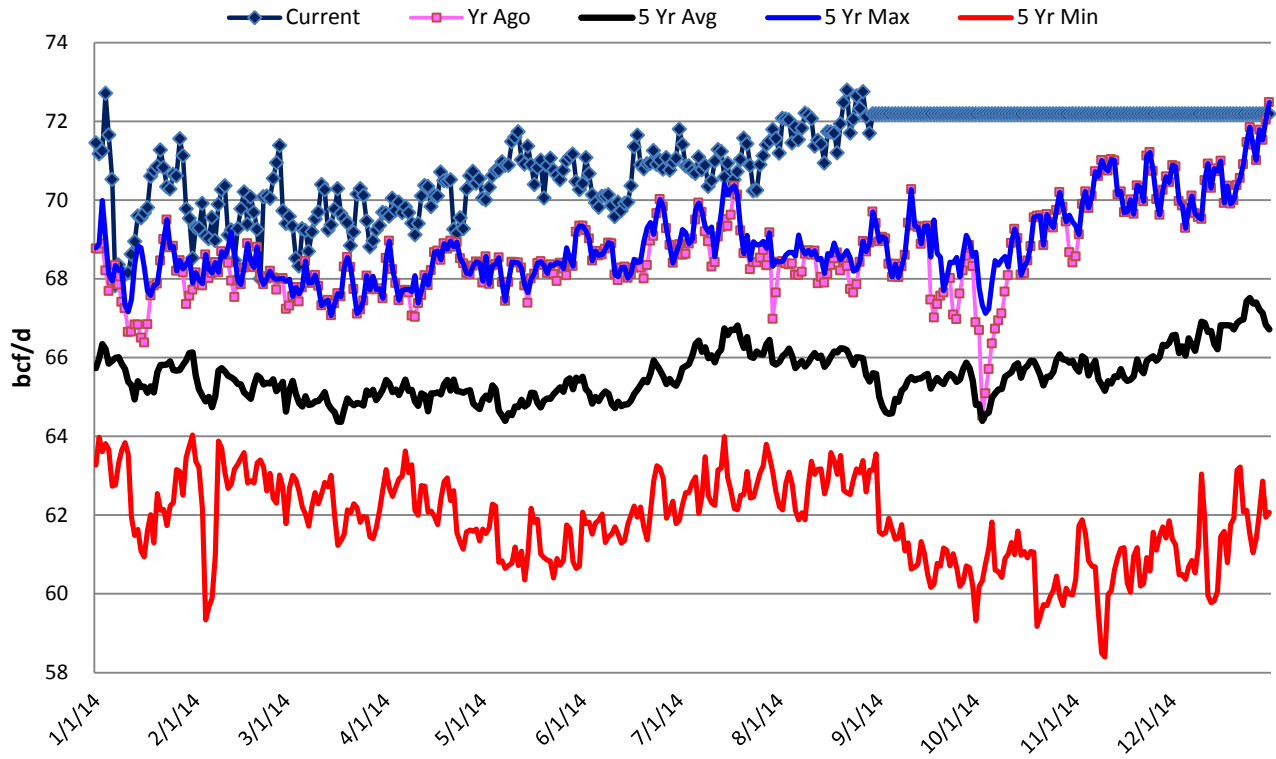
US Working Gas Storage - Source - EIA



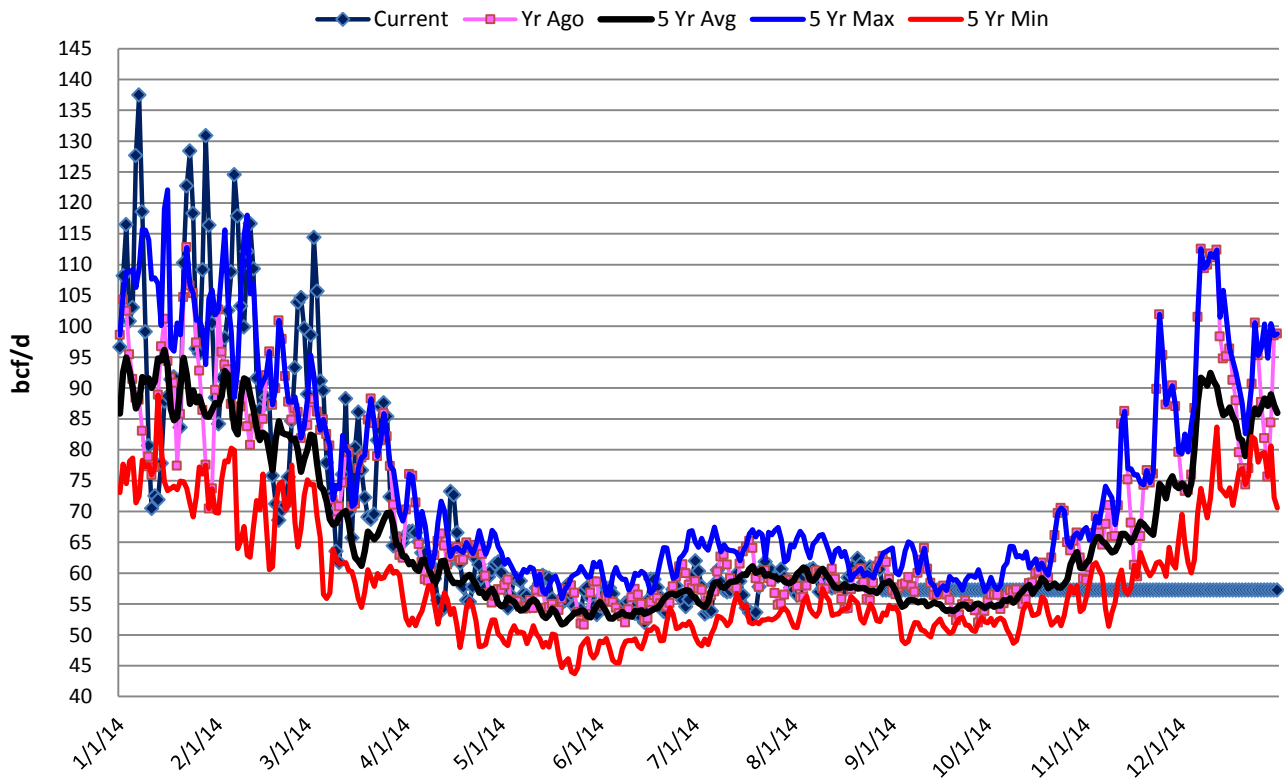
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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