

IAF Advisors
Energy Market Outlook
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Price Action: The October contract rose 6.4 cents (1.7%) to \$3.857 on a 25.5 cent range.

Price Outlook: The market established a new low on Monday and the weekly high on Tuesday as volatility within the \$3.75/\$4.00 range continued. The market ended very near the center of the weekly range. With moderating temperatures and higher injections looming, there is a slight bias to a new low next week. Still, there do not seem to be enough fundamental factors to drive prices far from the recent range in the next few weeks and there seems to be an increasing likelihood of a rare inside week. The liquidation in the managed money net long position continued with the position now just barely above the mid-November 2013 level. Total open interest rose to 3.71 million as of September 9. CME futures aggregated open interest rose to 993,000 as of September 11.

Weekly Storage: US working gas storage for the week ending September 5 indicated a build of 92 bcf. Thus total working gas inventories rose to 2,801 bcf. Current inventories fall 452 bcf (13.9%) below last year and 452 bcf (13.9%) behind the 5 year average.

Storage Outlook: This week established yet another new 5 year weekly maximum while also exceeding the other two injection metrics. The 5 year weekly maximum for the upcoming week is 103 bcf. An injection of 87 bcf is required to equal 118% of the 5 year average and an injection of 86 bcf is needed to exceed the 5 year average by 12 bcf to put inventories on pace to reach 3,500 bcf in early November. Inventories are on pace to reach roughly 3,550 bcf.

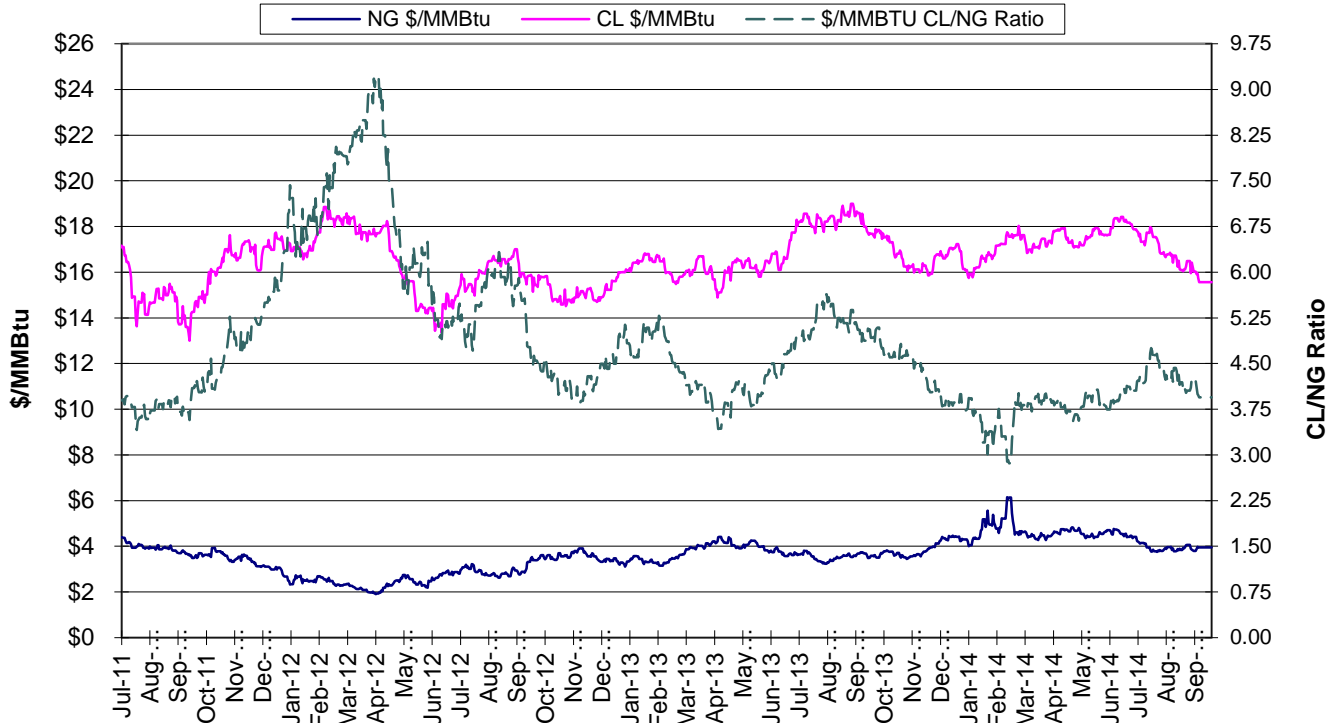
Supply Trends: Total supply fell 0.4 bcf/d to 72.2 bcf/d. US production and Mexican exports were higher while Canadian imports slipped. LNG was unchanged. The US Baker Hughes rig count rose 6 with oil rising while natural gas slipped. The total US count now stands at 1,931. The Canadian rig count fell 9 to 405. Thus, the total North American rig count fell 3 to 2,336 and now surpasses last year by 188. The higher efficiency US horizontal rig count rose 9 to a record 1,342 and rises 266 above last year.

Demand Trends: Total demand fell 1.6 bcf/d to 58.8 bcf/d. Power demand fell with R&C and industrial unchanged. Electricity demand fell 1,134 gigawatt-hrs to 85,893, which exceeds last year by 3,133 (3.8%) and the 5 year average by 1,668 (2.0%).

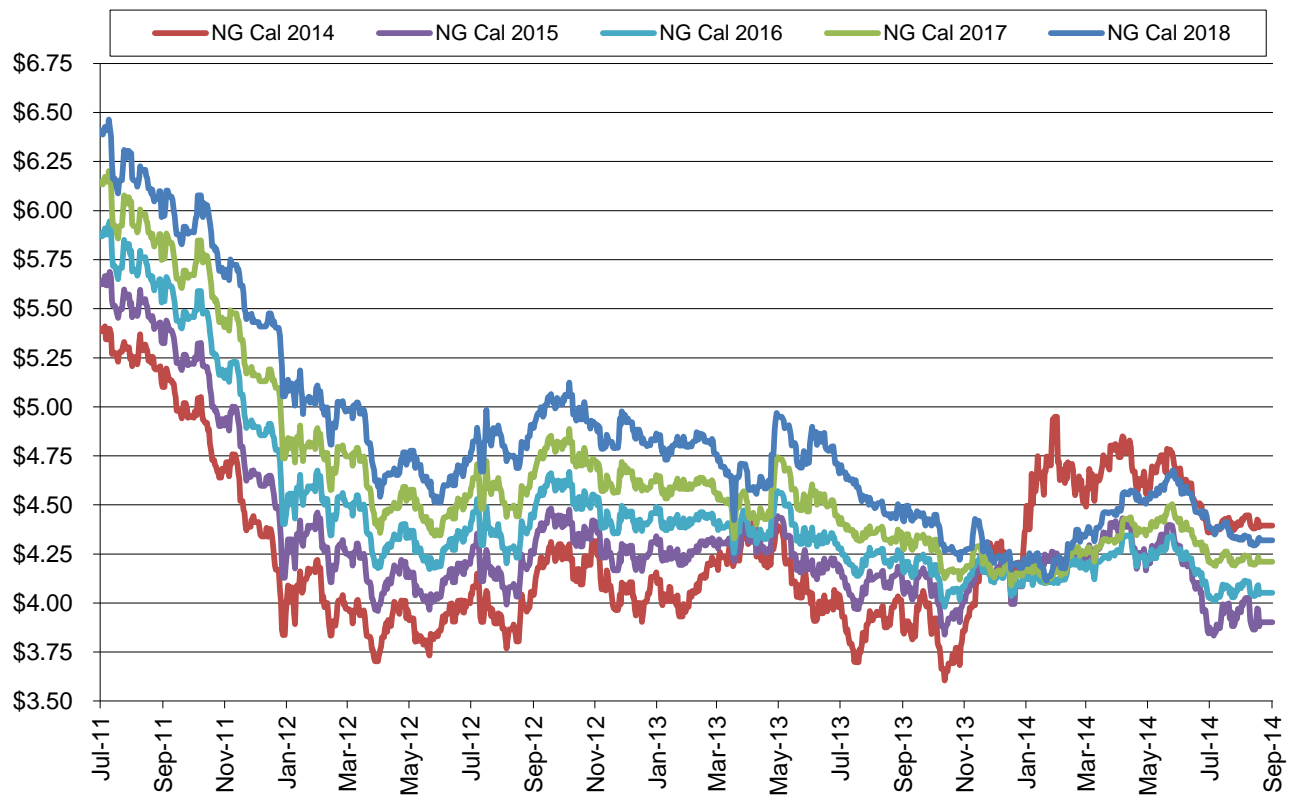
Other Factors: The S&P 500 slipped back below 2,000 despite a general easing of geopolitical tensions.

- Basis differentials around the country remain extreme with Marcellus January New York prices almost \$14 and NE prices nearly \$21. Quite simply, even as production grows there are still significant infrastructure constraints and these will not be alleviated this winter. A repeat of last winter's temperatures could easily witness spot cash prices above \$100 once again in constrained locations.

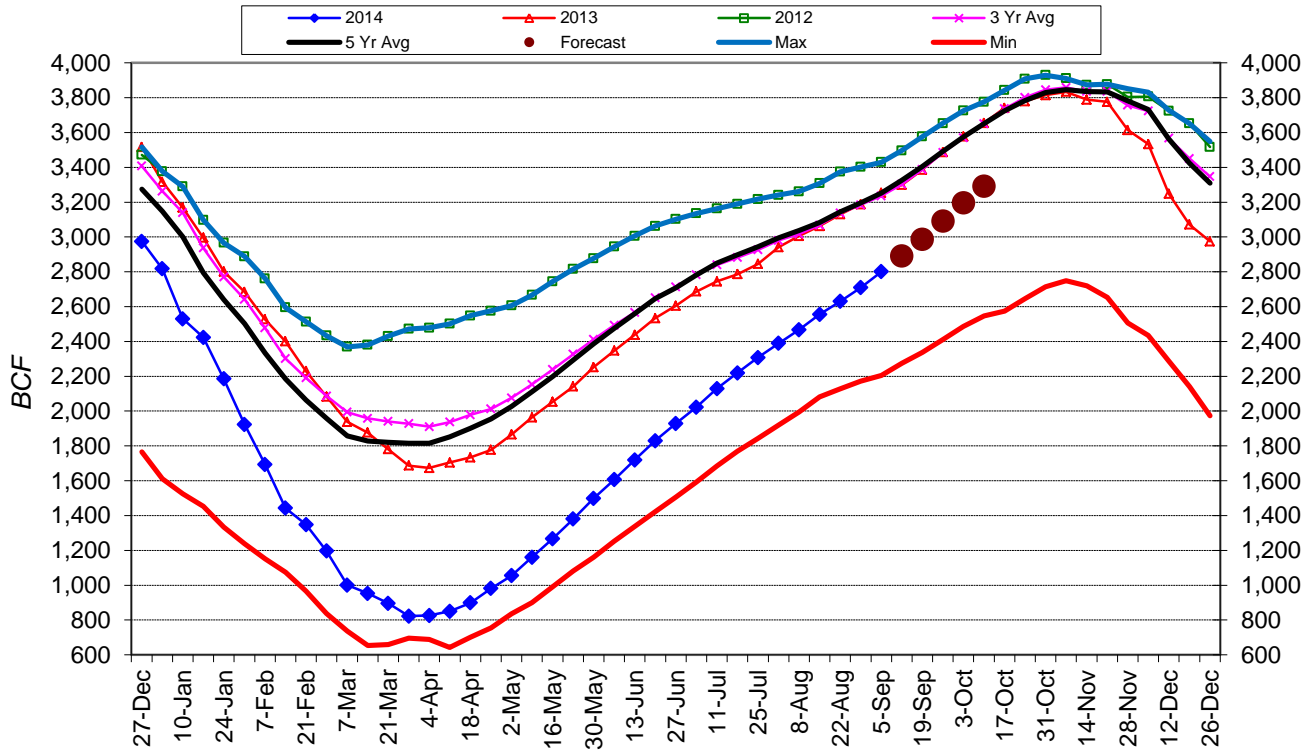
\$/MMBtu Ratio of NYMEX CL and NG



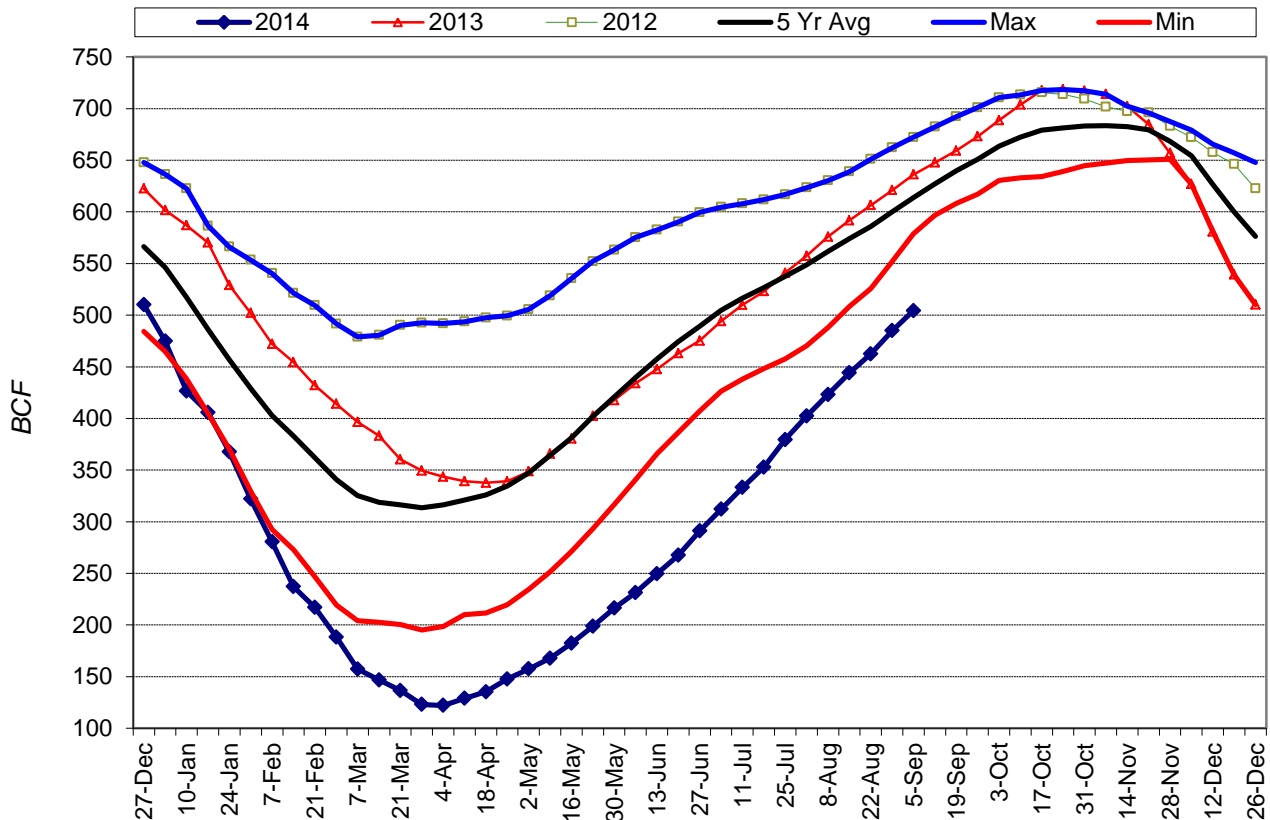
NYMEX Calendar Strips



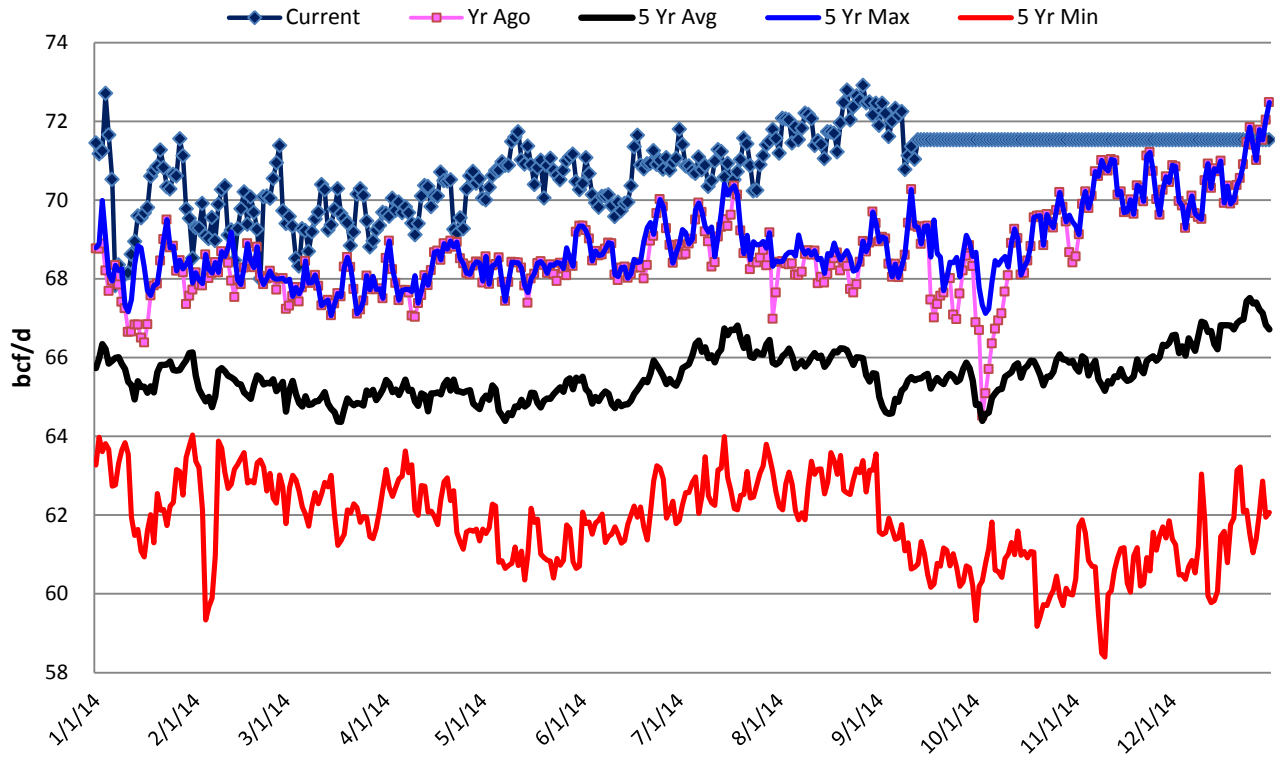
US Working Gas Storage - Source - EIA



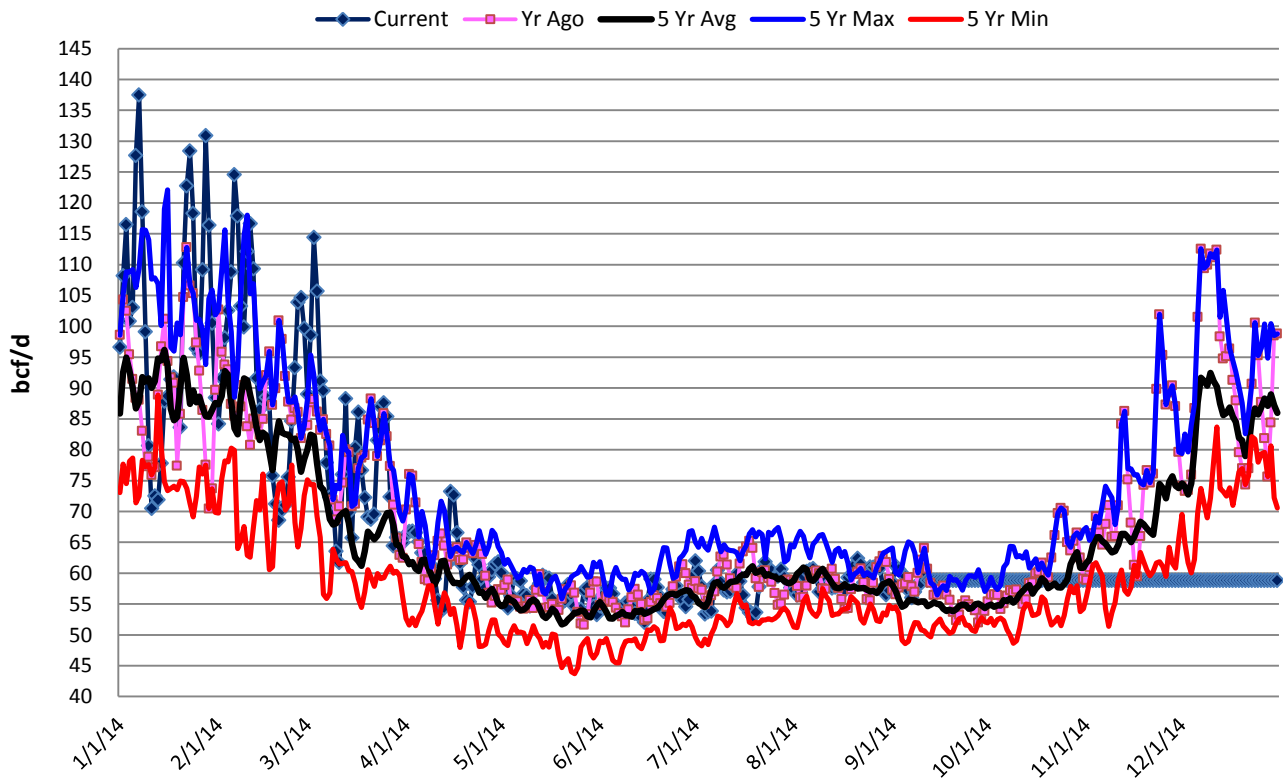
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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