

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
September 19, 2014

Price Action: The October contract fell 2.0 cents (0.5%) to \$3.837 on a 20.6 cent range.

Price Outlook: True to form, the market was able to forge a new high before ending on a weak note. Prices are within a few ticks of a new low and that is clearly the bias for next week. However, there do not seem to be enough fundamental factors to drive prices far from the recent \$3.75/\$4.00 range in the next few weeks and there seems to be an increasing likelihood of a rare inside week despite a contracting weekly range. An inside week is not expected this week with a new low so close. The liquidation in the managed money net long position continued with the position breaking the November 2013 level and now just barely above the mid-January 2013 level. Total open interest rose to 3.75 million as of September 16. CME futures aggregated open interest rose to 971,000 as of September 18.

Weekly Storage: US working gas storage for the week ending September 12 indicated a build of 90 bcf. Thus total working gas inventories rose to 2,891 bcf. Current inventories fall 408 bcf (12.4%) below last year and 435 bcf (13.1%) behind the 5 year average.

Storage Outlook: This week did not establish a new 5 year weekly maximum, although it did exceed the other two injection metrics. The 5 year weekly maximum for the upcoming week is 89 bcf. An injection of 93 bcf is required to equal 117% of the 5 year average and an injection of 90 bcf is needed to exceed the 5 year average by 11 bcf to put inventories on pace to reach 3,500 bcf in early November. Inventories are on pace to reach roughly 3,550 bcf.

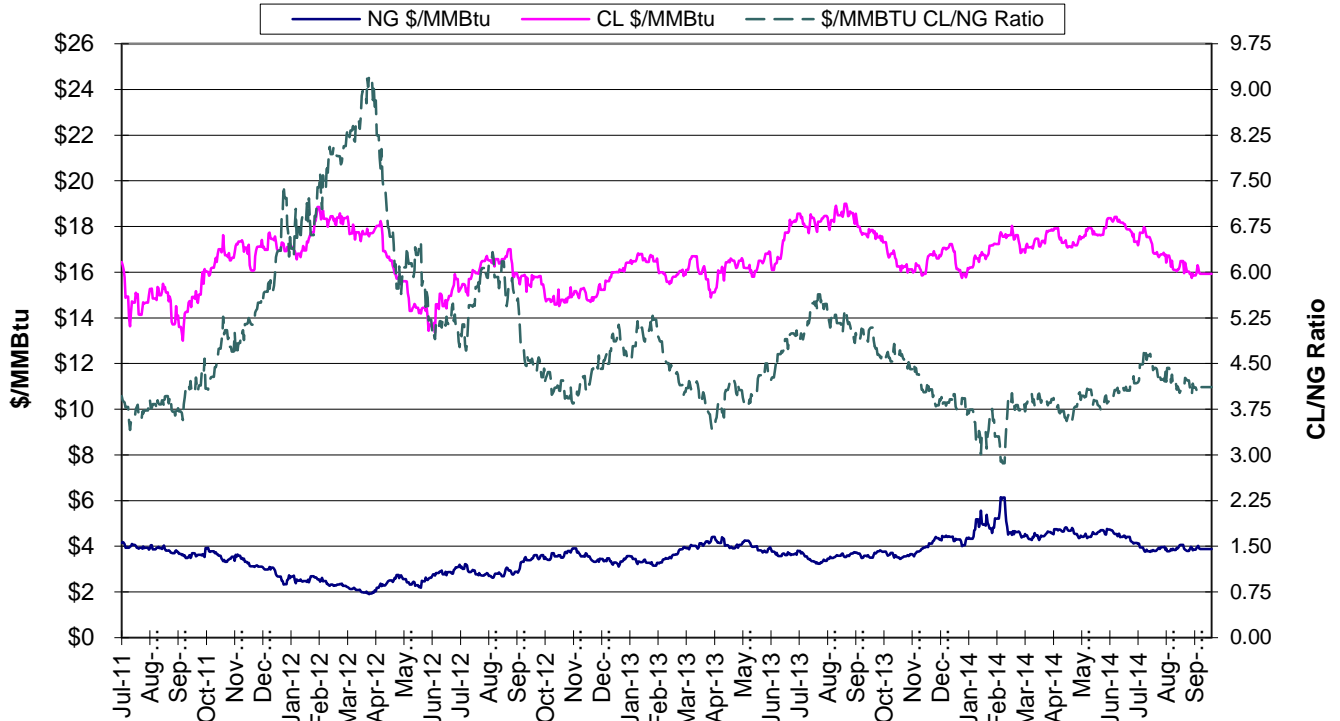
Supply Trends: Total supply fell 0.5 bcf/d to 71.7 bcf/d. US production, Mexican exports and LNG were unchanged while Canadian imports slipped. The US Baker Hughes rig count was unchanged with oil rising while natural gas slipped. The total US count now stands at 1,931. The Canadian rig count fell 28 to 377. Thus, the total North American rig count fell 28 to 2,308 and now surpasses last year by 159. The higher efficiency US horizontal rig count fell 1 to 1,341 and rises 250 above last year. Technology will have to continue improving to sustain future production growth with national decline rates increasing. EIA data indicates monthly shale decline rates have risen from 2.8% last fall to 3.4% recently. Volumetrically, monthly legacy well production fell 934 mmcf/d last fall with recent volume declining 1,405 mmcf/d.

Demand Trends: Total demand fell 0.7 bcf/d to 58.4 bcf/d. Power demand fell with R&C and industrial higher. Electricity demand fell 6,131 gigawatt-hrs to 79,762, which trails last year by 1,701 (2.1%) while exceeding the 5 year average by 2,275 (2.9%).

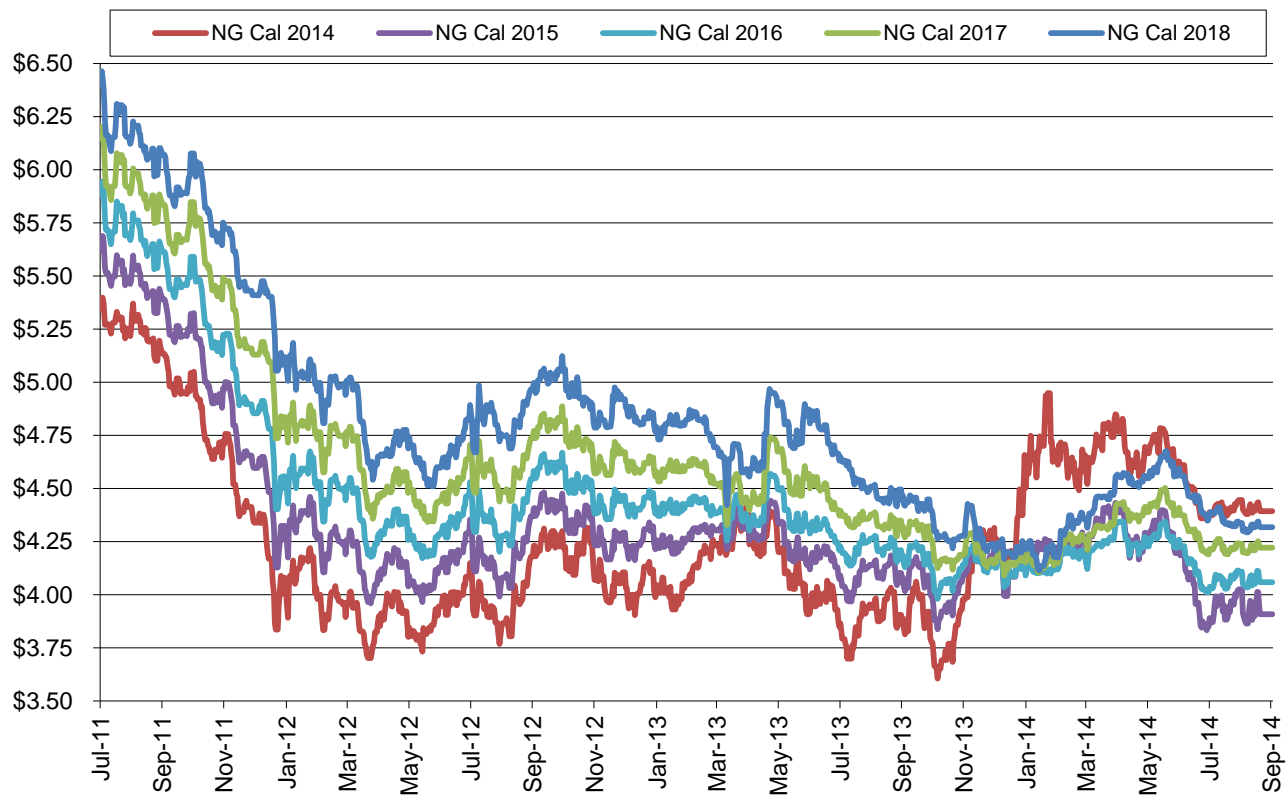
Other Factors: The S&P 500 reached a new high as Fed comments were well received.

- Basis differentials around the country remain extreme with weekend Marcellus spot prices commonly below \$2 with January New York prices almost \$14 and NE prices over \$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.

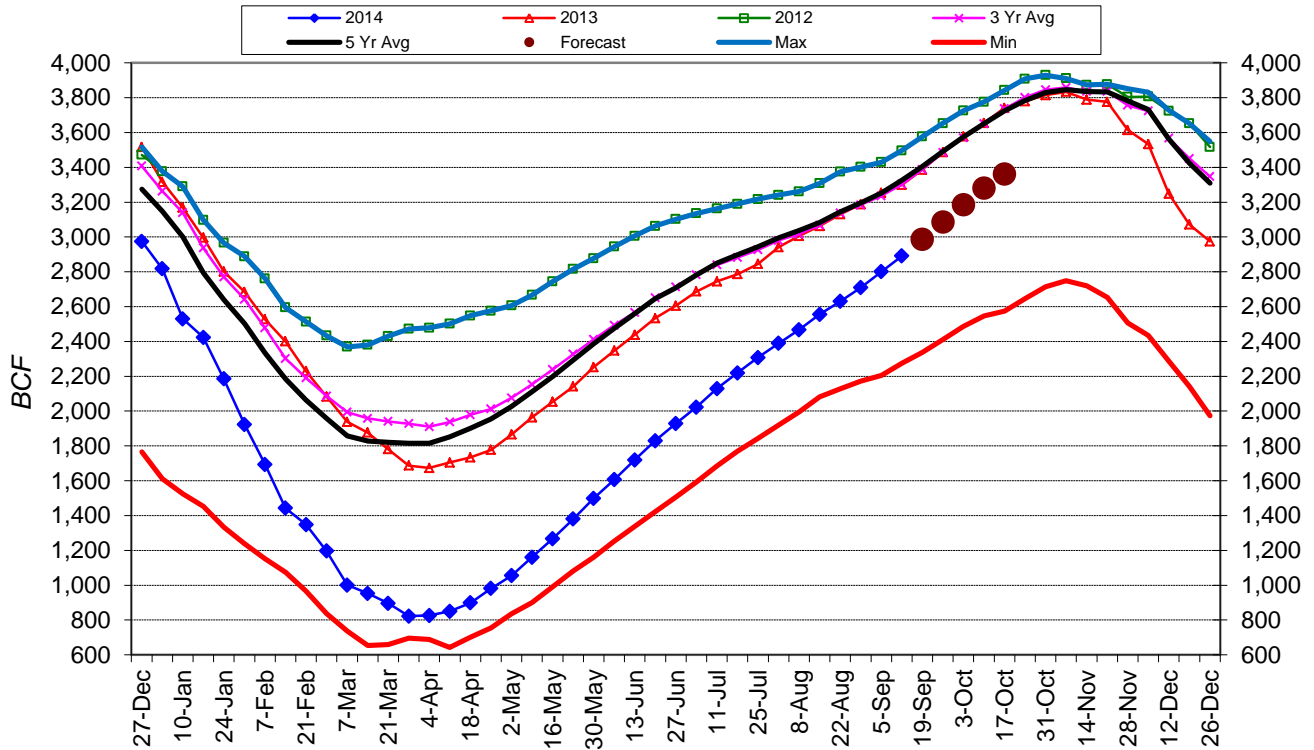
\$/MMBtu Ratio of NYMEX CL and NG



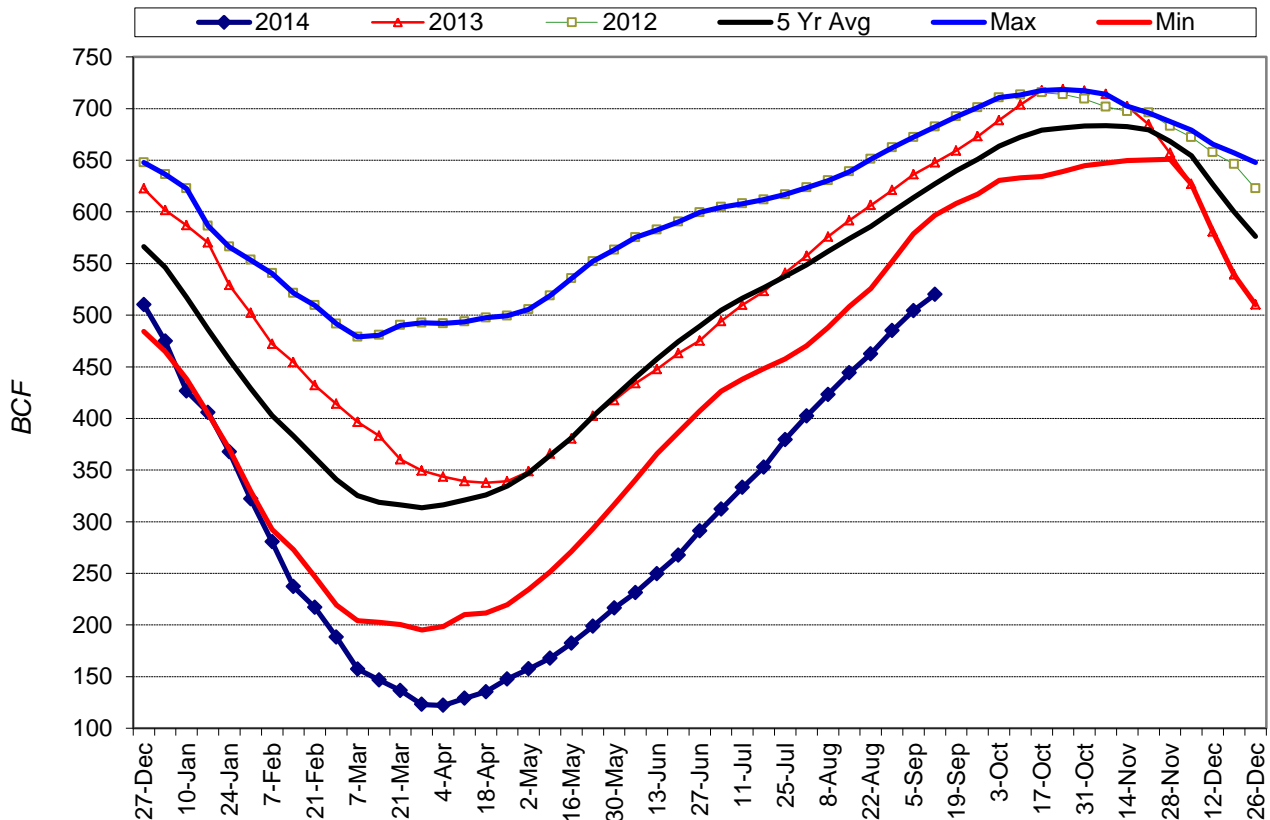
NYMEX Calendar Strips



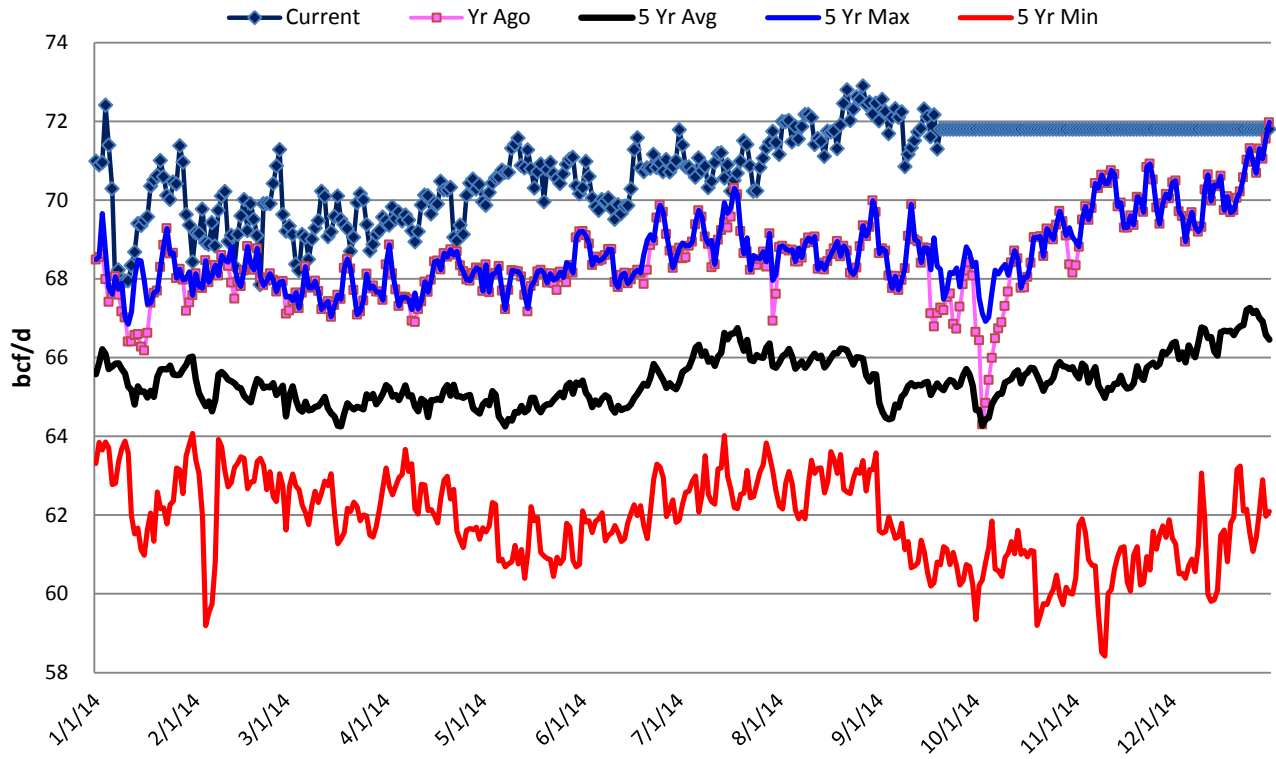
US Working Gas Storage - Source - EIA



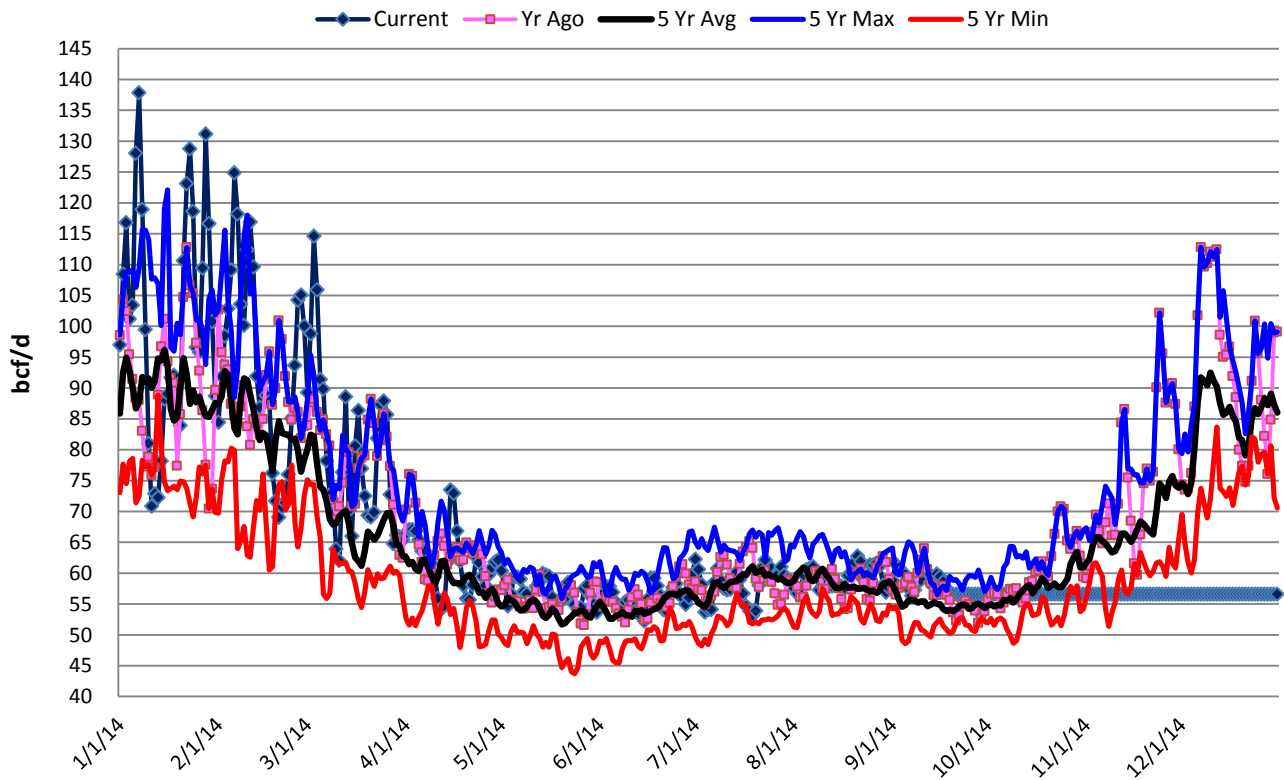
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any commodity, futures contract, or option contract. Although any statements of fact in this report have been obtained from and are based upon sources that IAF Advisors believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. IAF Advisors, its officers and/or employees, may at any time have a long and/or short position in any commodity, futures contract, or option contract mentioned in this report. All opinions and estimates included in this report constitute IAF Advisors judgment as of the date of this report and are subject to change without notice.

© 2014 IAF Advisors.