

IAF Advisors
Energy Market Outlook
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com
September 26, 2014

Price Action: The October contract rose 14.7 cents (3.8%) to \$3.984 on a 20.0 cent range.

Price Outlook: Once again, the market was able to avoid an inside range and established a new low instead. This week, prices are within a couple of cents of a new high and that is the bias for next week. There still does not seem to be enough fundamental factors to drive prices far from the recent \$3.80/\$4.10 range basis the now prompt November contract. Due to the constricting ranges, there actually seems to be an increasing chance of posting both a new high and low in a coming week. The liquidation in the managed money net long position continued with the position now barely above the early-January 2013 level. Total open interest rose to 3.77 million as of September 23. CME futures aggregated open interest fell to 929,000 as of September 25. The increase in option related positions suggests a move outside the recent range could accelerate due to changing exposure.

Weekly Storage: US working gas storage for the week ending September 19 indicated a build of 97 bcf. Thus total working gas inventories rose to 2,988 bcf. Current inventories fall 398 bcf (11.8%) below last year and 418 bcf (12.3%) behind the 5 year average. This week established a new 5 year weekly maximum as well as exceeding the other two injection metrics. The 5 year weekly maximum for the upcoming week is a 111 bcf. An injection of 100 bcf is required to equal 117% of the 5 year average and an injection of 96 bcf is needed to exceed the 5 year average by 10 bcf to put inventories on pace to reach 3,500 bcf in early November. Inventories are on pace to reach roughly 3,550 bcf.

Storage Outlook: This week established a new 5 year weekly maximum as well as exceeding the other two injection metrics. The 5 year weekly maximum for the upcoming week is 111 bcf. An injection of 100 bcf is required to equal 117% of the 5 year average and an injection of 96 bcf is needed to exceed the 5 year average by 10 bcf to put inventories on pace to reach 3,500 bcf in early November. Inventories are on pace to reach roughly 3,550 bcf.

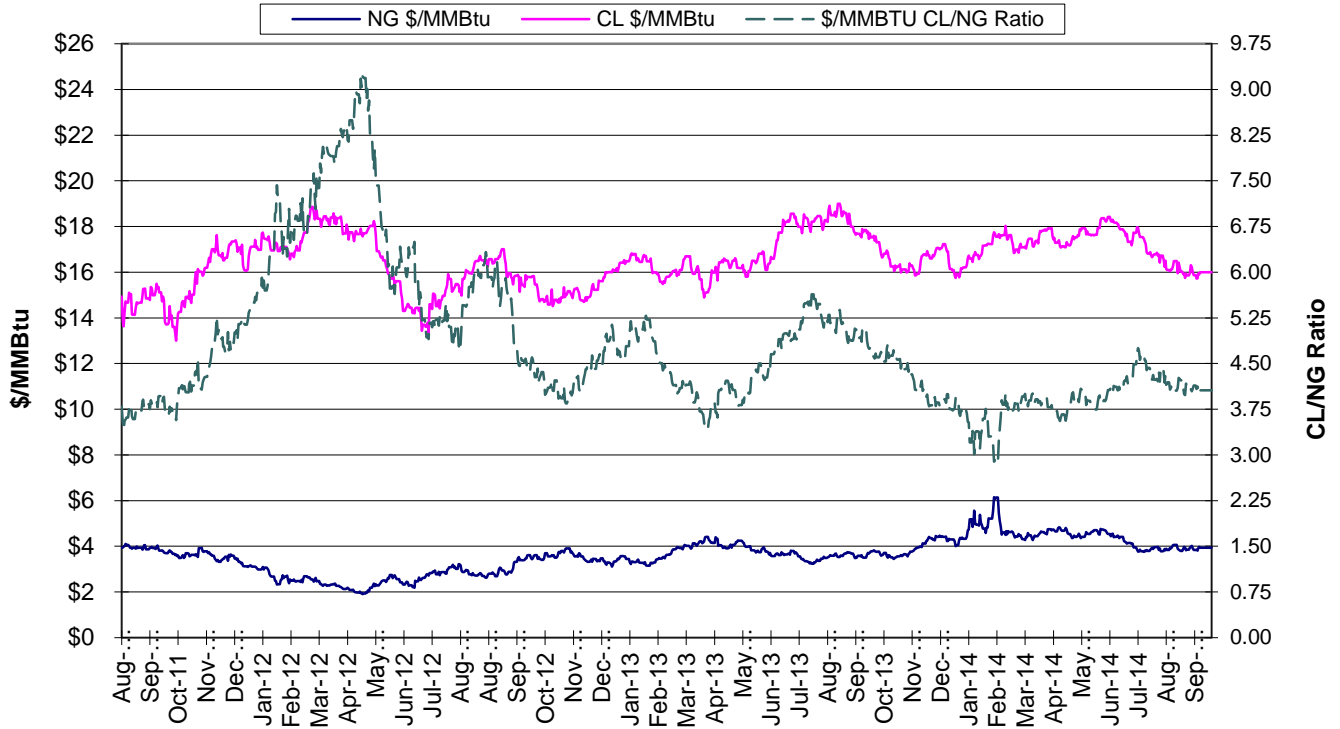
Supply Trends: Total supply rose 0.2 bcf/d to 71.9 bcf/d. US production rose with Canadian imports and Mexican exports lower. LNG was unchanged. The US Baker Hughes rig count was again unchanged with oil slipping while natural gas rose. The total US count now stands at 1,931. The Canadian rig count rose 52 to 429. Thus, the total North American rig count rose 52 to 2,360 and now surpasses last year by 226. The higher efficiency US horizontal rig count rose 6 to a new record of 1,347 and rises 262 above last year.

Demand Trends: Total demand rose 0.3 bcf/d to 58.8 bcf/d. Power demand fell with R&C and industrial higher. Electricity demand fell 5,078 gigawatt-hrs to 74,684, which trails last year by 540 (0.7%) and the 5 year average by 1,854 (2.4%).

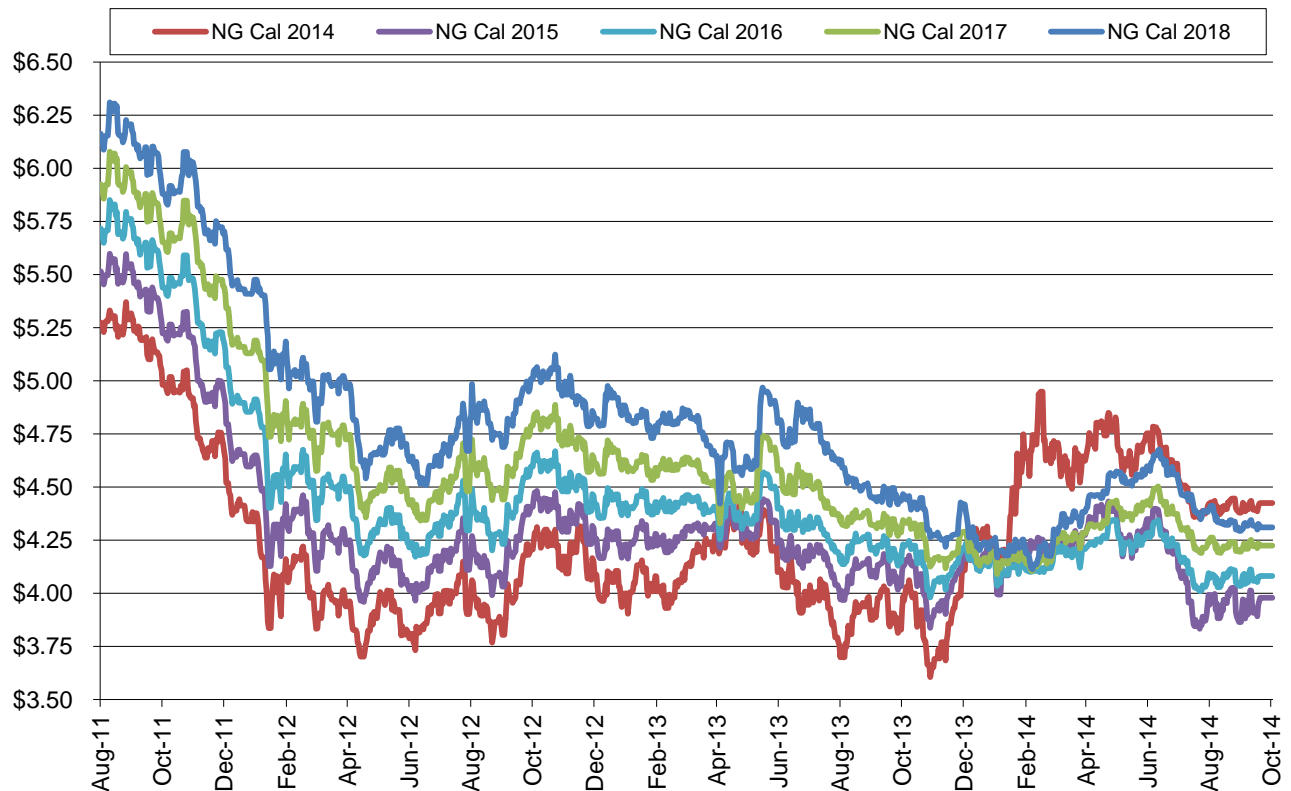
Other Factors: The S&P 500 slid from the recent record, but ended the week on a positive note.

- An E&P company recently reported a massive new Utica well with an initial production rate of over 40 mmcf/d. Truly impressive, it also highlights what will likely remain huge basis differentials around the country between daily cash prices, forward prices and regions beyond these supply growth areas as molecules remain constrained due to infrastructure limitations.

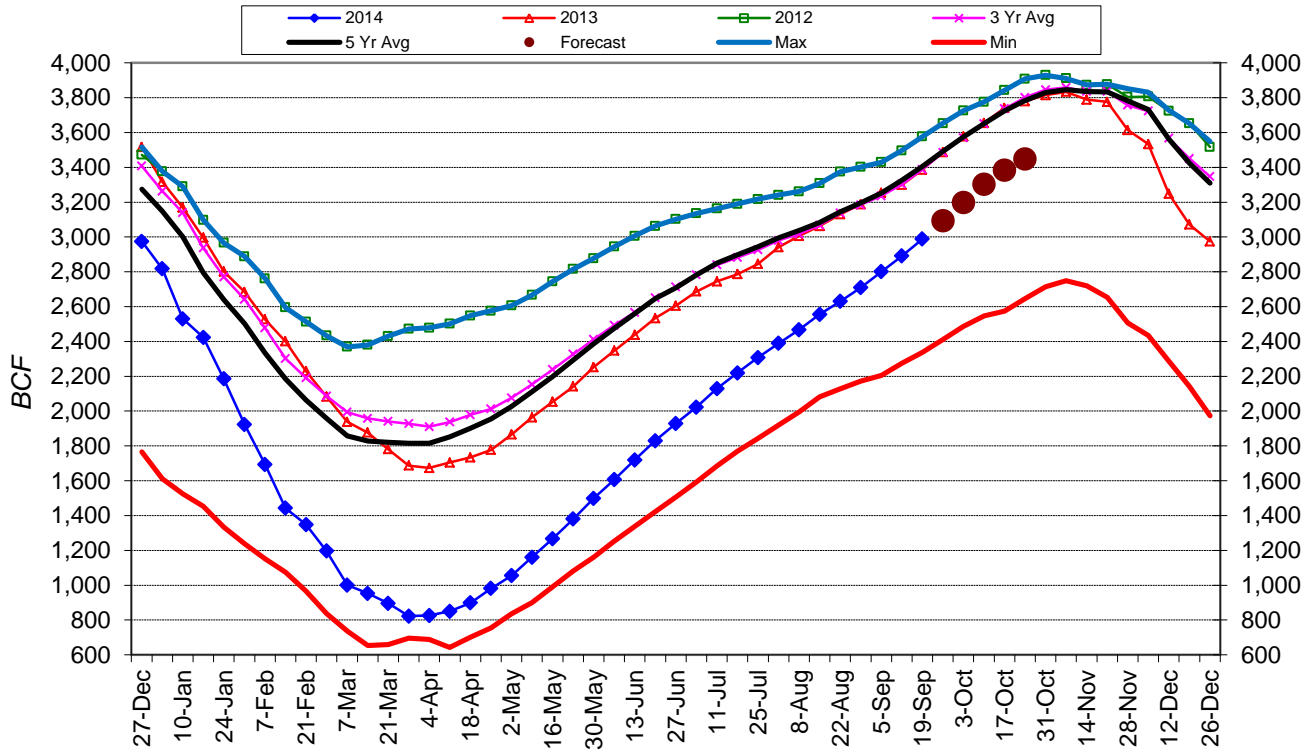
\$/MMBtu Ratio of NYMEX CL and NG



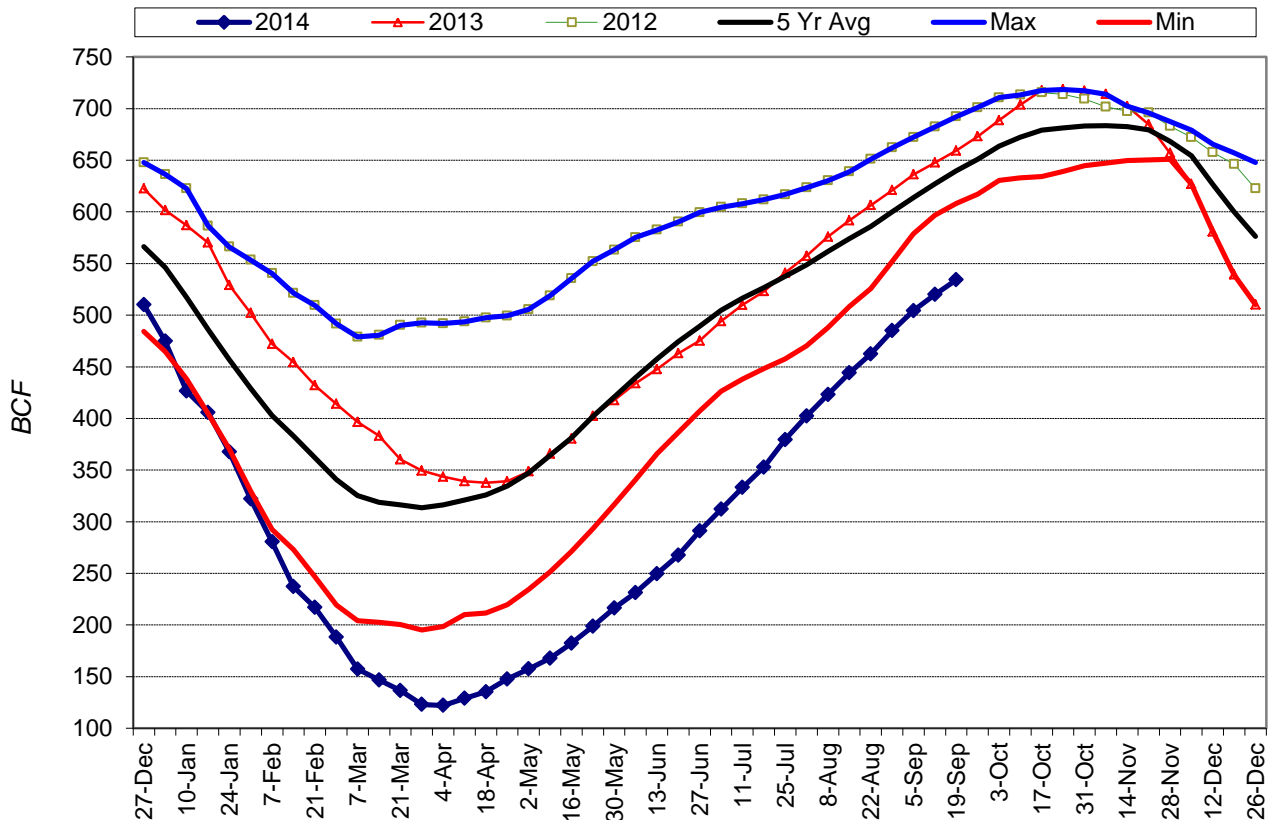
NYMEX Calendar Strips



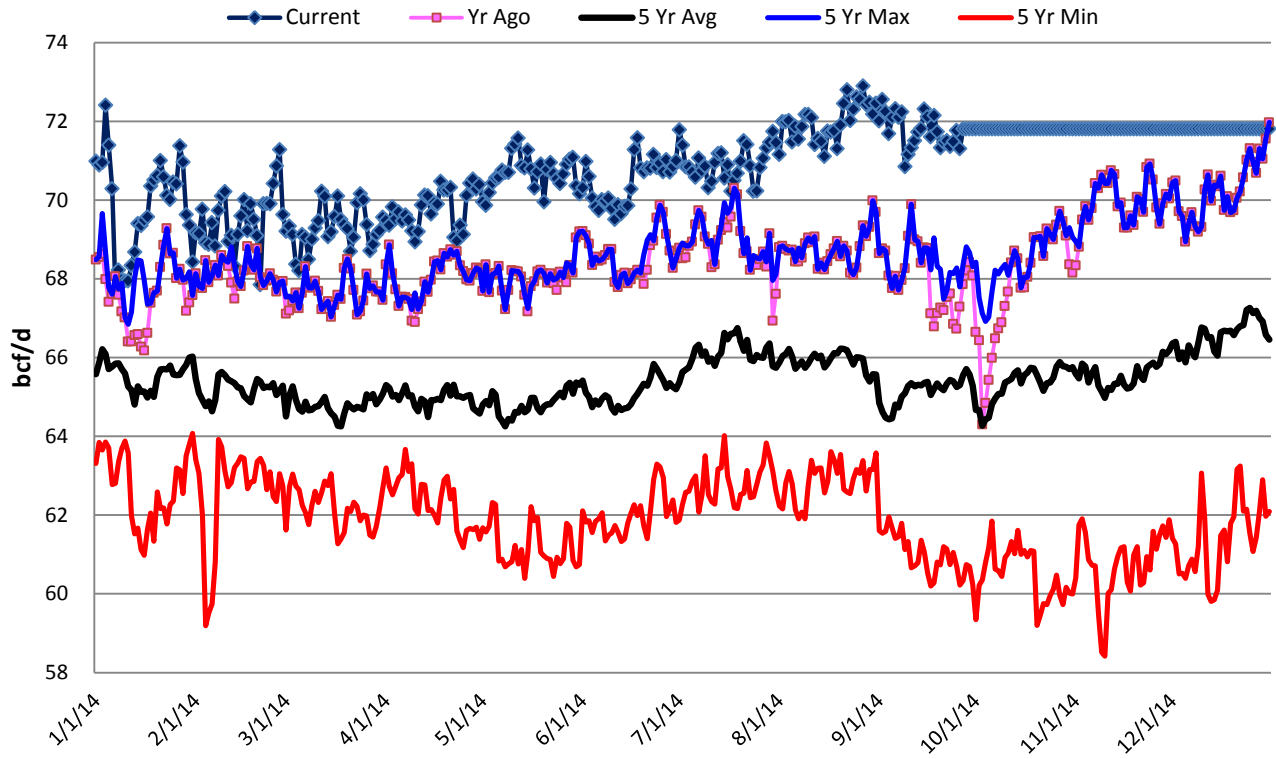
US Working Gas Storage - Source - EIA



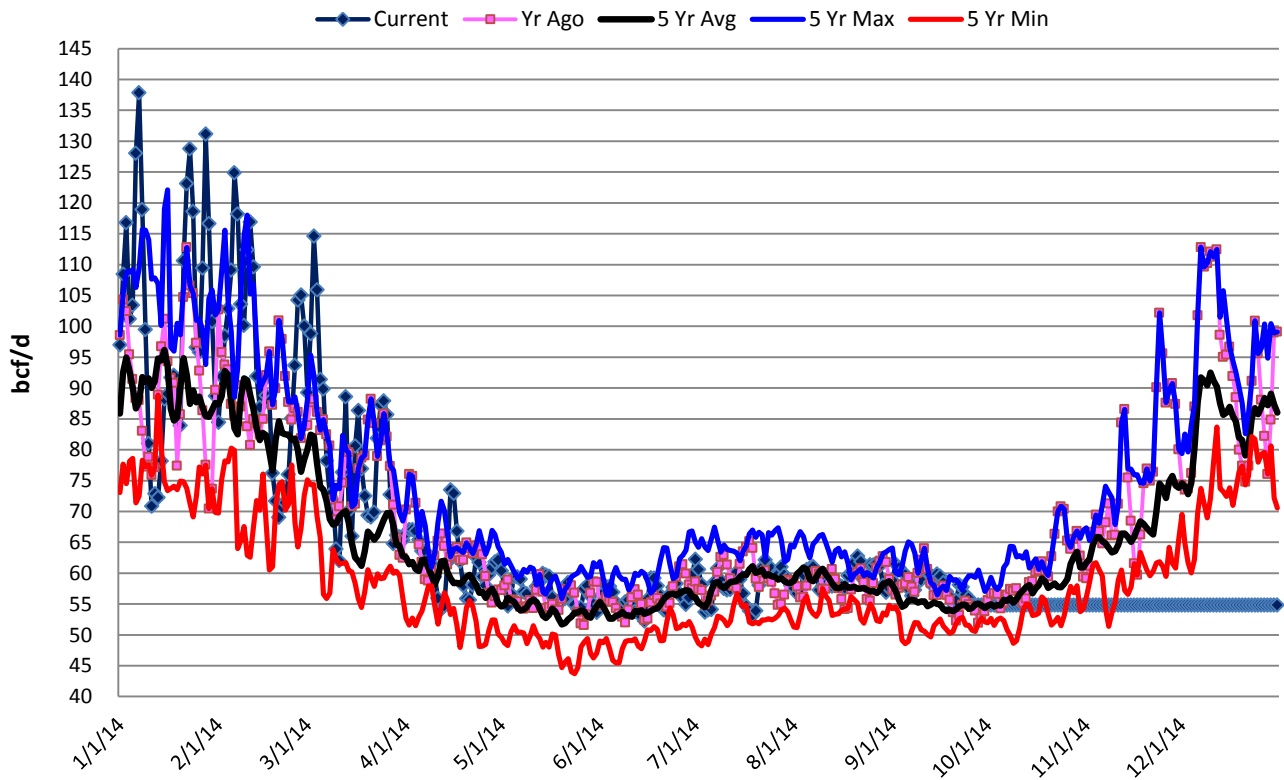
Canadian Working Gas Storage - Enerdata



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.