

IAF Advisors
Energy Market Outlook
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Price Action: The November contract fell 14.3 cents (3.8%) to \$3.623 on an 18.7 cent range.

Price Outlook: The market again easily established a new low as weather forecasts extended above normal temperatures into November. There have now been 3 consecutive weeks lower. Lower streaks have ended at 3 weeks 56 times with the streak ending at 4 weeks 35 times. With US production at record levels and a delayed onset of cooler temperatures, another new low is expected. Liquidation of the managed money net long position accelerated and stands at levels not seen April 2012. Total open interest rose slightly to 3.71 million as of October 21 with the option related position increasing once again. CME futures aggregated open interest fell to 896,000 as of October 23. Some headlines may state speculators are now net short as the CME futures only position did indicate that is true. However, this does NOT reflect the daily price implications of a combined trading book across all financial instruments.

Weekly Storage: US working gas storage for the week ending October 17 indicated a build of 94 bcf. Thus total working gas inventories rose to 3,393 bcf. Current inventories fall 348 bcf (9.3%) below last year and 332 bcf (8.9%) behind the 5 year average.

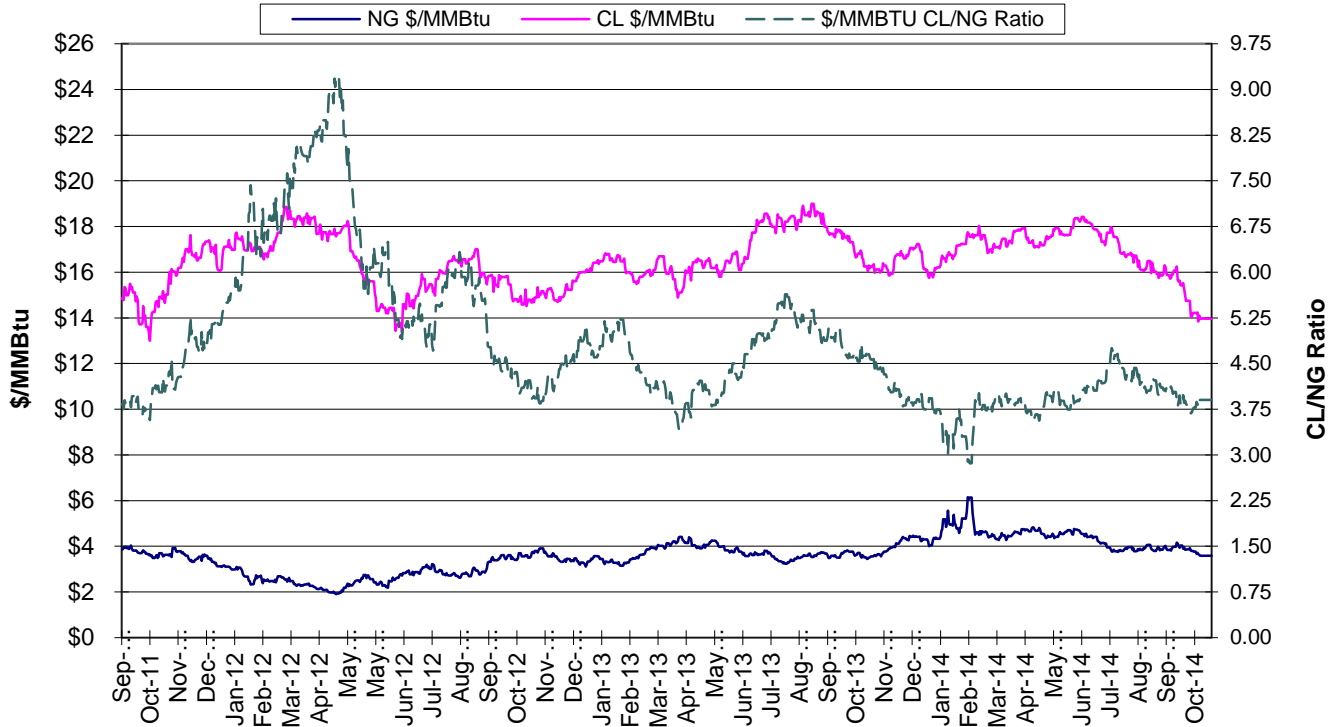
Storage Outlook: This week did not establish another new 5 year weekly maximum. The injection did not match 131% of the 5 year average while it did exceed the 14 bcf needed to put inventories on pace to reach 3,550 bcf in early November. Inventories now need to equal 133% of the 5 year average which is 77 bcf for next week or exceed it by 12 bcf which will be 70 bcf to reach 3,550 bcf. Inventories are projected to reach 3,600 bcf due to the weather forecasts.

Supply Trends: Total supply rose 0.2 bcf/d to 73.2 bcf/d. US production was lower while both Canadian imports and Mexican exports were higher. LNG imports were unchanged. The US Baker Hughes rig count rose 9 with both oil and natural gas activity higher. The total US count now stands at 1,927. The Canadian rig count rose 9 to 426. Thus, the total North American rig count rose 18 to 2,353 and now surpasses last year by 211. The higher efficiency US horizontal rig count rose 2 to 1,355 and rises 257 above last year. There has been no indication in 3rd quarter earnings calls that the lower oil price is affecting Capex plans. However, if oil prices in particular continue lower, then 2015 plans may be adjusted in the coming months.

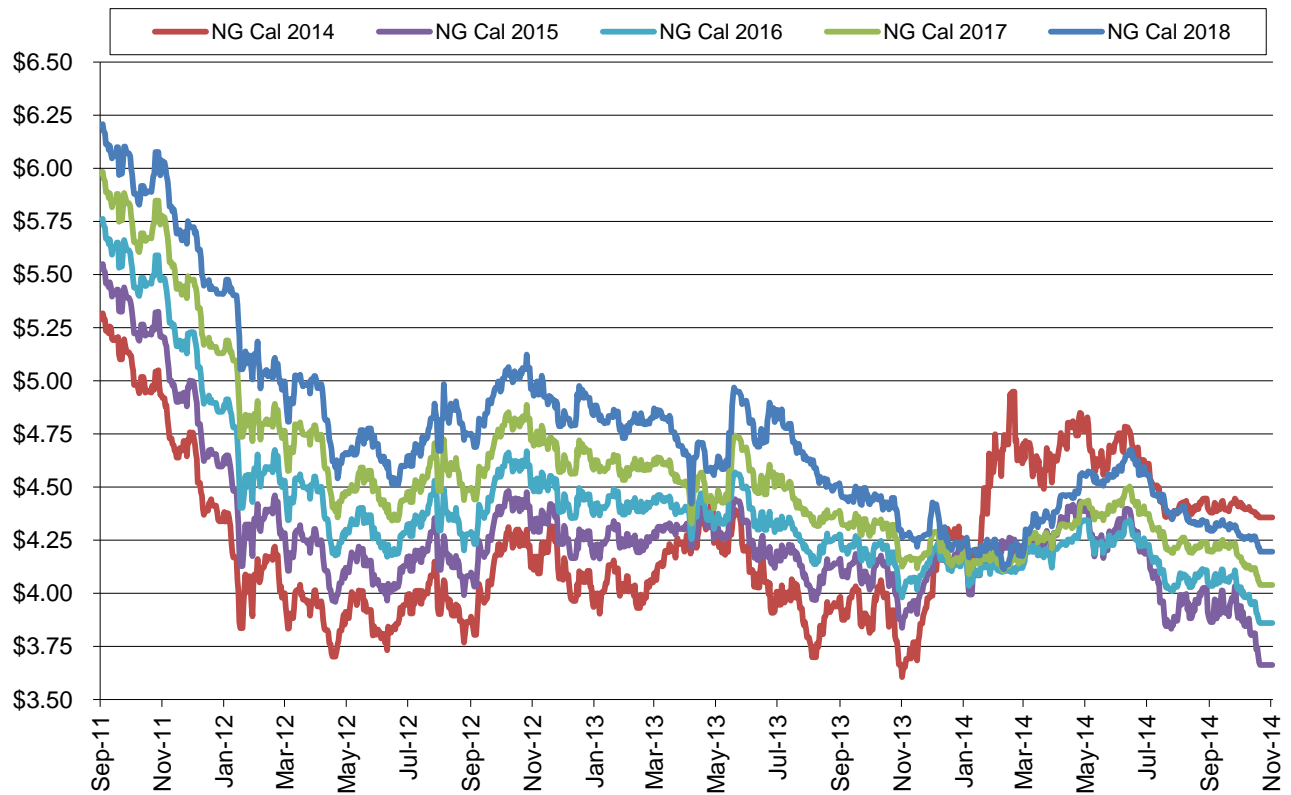
Demand Trends: Total demand fell 0.5 bcf/d to 59.6 bcf/d. Higher industrial demand was offset by lower power demand. Electricity demand fell 2.316 gigawatt-hrs to 69,899, which exceeds last year by 956 (1.4%) while trailing the 5 year average by 800 (1.1%). While market focus remains on supply, temperature adjusted demand remains quite stout with the temperature adjusted supply/demand balance less bearish than earlier in the injection season.

Other Factors: The S&P 500 rose smartly from last week's lows.

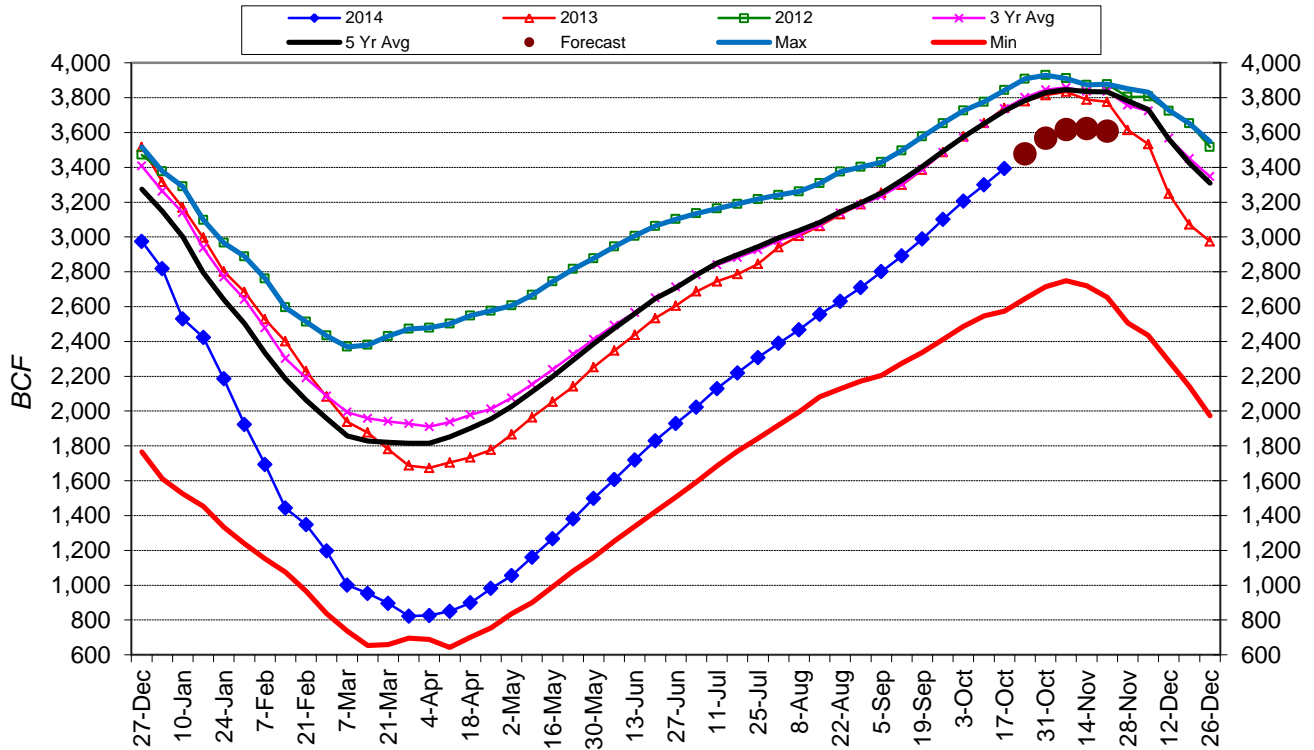
\$/MMBtu Ratio of NYMEX CL and NG



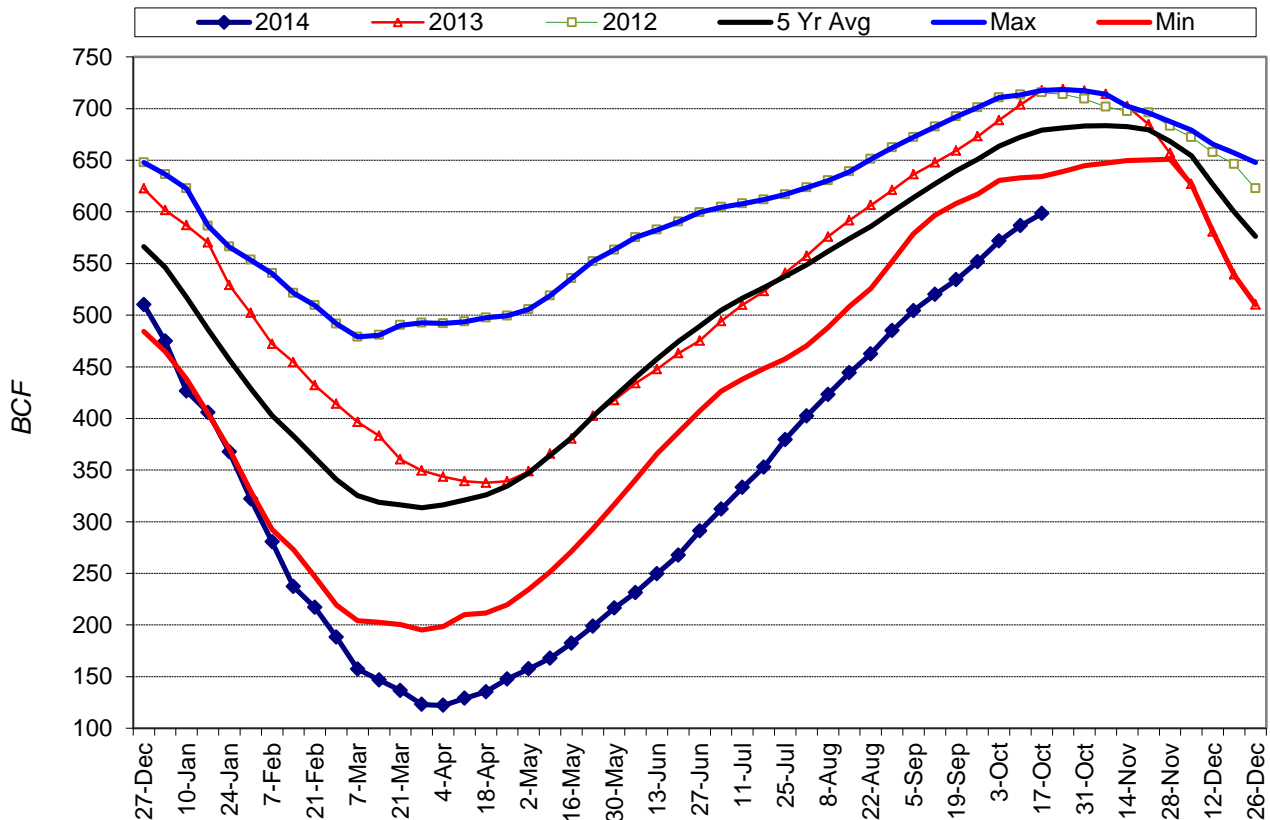
NYMEX Calendar Strips



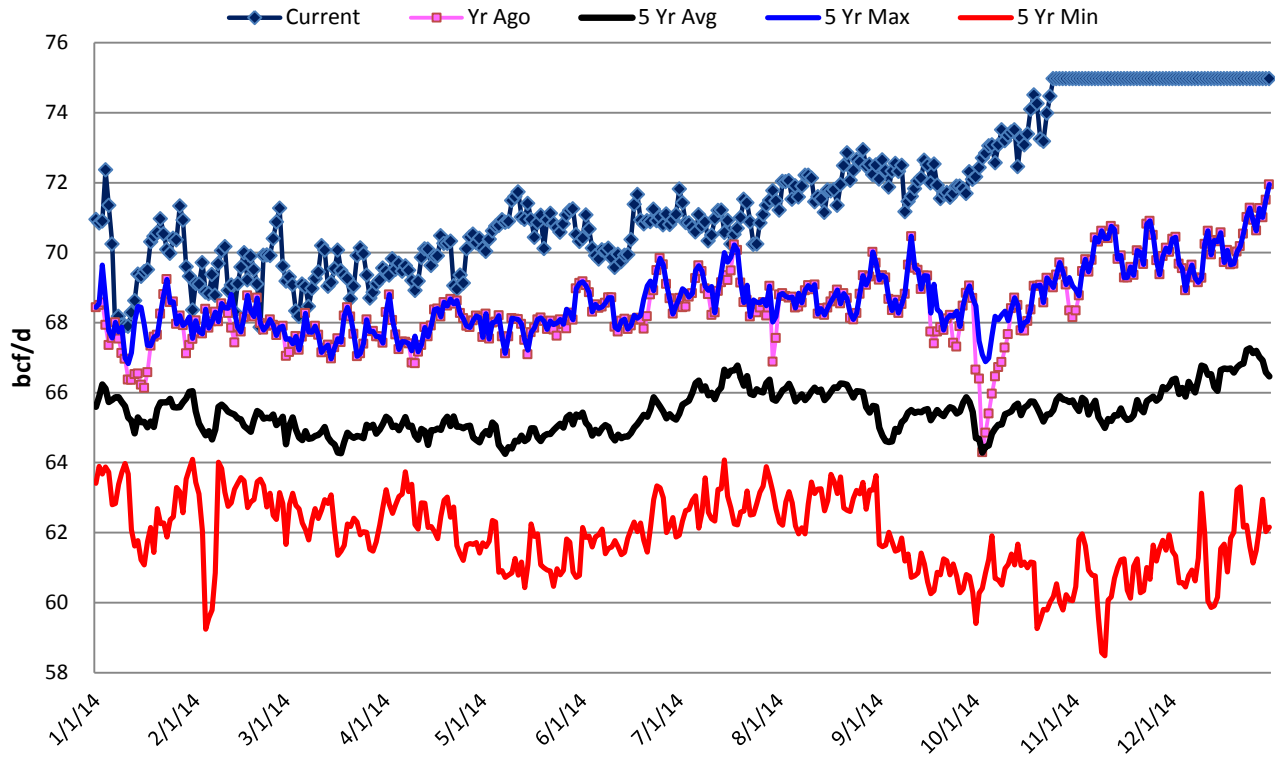
US Working Gas Storage - Source - EIA



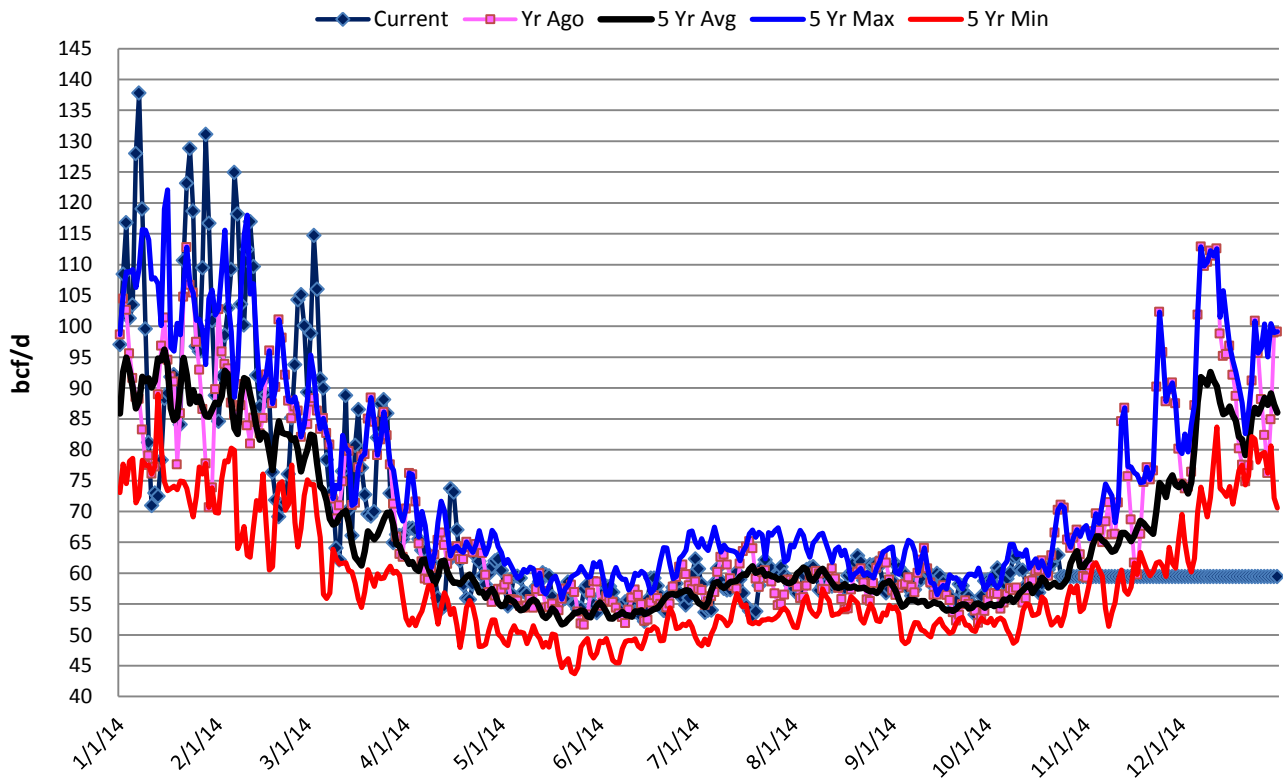
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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