

IAF Advisors
Energy Market Outlook
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November 7, 2014

Price Action: The December contract rose 53.9 cents (13.9%) to \$4.412 on a 50.5 cent range.

Price Outlook: The market easily established a new high as weather forecasts extended the cold further into November. Prices are likely to continue higher with weather forecasts now quite bullish. Although prices have risen over 80 cents since the October 28 low, this is only the 2nd week higher. So while the market is extended from a price perspective, it is not from a duration standpoint. With some forecasts now calling for extended cold, pullbacks may be short-lived and rather shallow. However, just as the weather forecasts flipped cold, they can also flip warm. The path for this week certainly still appears higher. Although liquidation of the managed money net long position was reversed, the position remains relatively small. Total open interest fell slightly to 3.62 million as of November 4 with the option related position rising. CME futures aggregated open interest rose to 954,000 as of November 6.

Weekly Storage: US working gas storage for the week ending October 31 indicated a build of 91 bcf. Thus total working gas inventories rose to 3,571 bcf. Current inventories fall 243 bcf (6.4%) below last year and 258 bcf (6.7%) behind the 5 year average.

Storage Outlook: The weather forecasts have shifted substantially and while inventories are still expected to reach slightly over 3,600 bcf, withdrawals are now expected to begin in mid-November. There remains a huge variance for expected end of March inventories that remain extraordinarily dependent on weather.

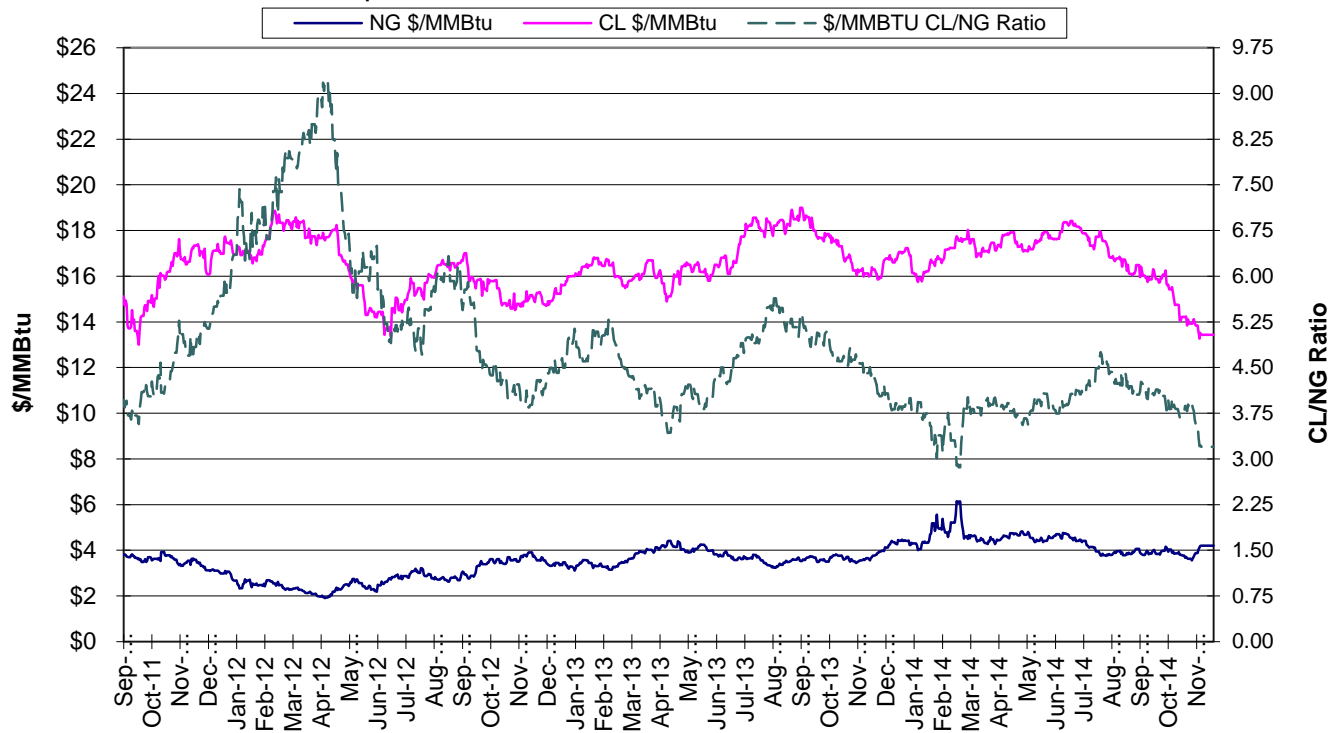
Supply Trends: Total supply rose 0.3 bcf/d to 74.1 bcf/d. US production rose with Canadian imports lower and Mexican exports higher. LNG imports were unchanged. The US Baker Hughes rig count fell 4 as oil activity slipped while natural gas rose. The total US count now stands at 1,925. The Canadian rig count fell 19 to 410. Thus, the total North American rig count fell 23 to 2,335 and now surpasses last year by 203. The higher efficiency US horizontal rig count rose 9 to 1,362 and rises 248 above last year.

Demand Trends: Total demand fell 0.5 bcf/d to 60.0 bcf/d. R&C and industrial demand were lower with power demand flat. Electricity demand rose 398 gigawatt-hrs to 69,144, which exceeds last year by 374 (0.5%) while trailing the 5 year average by 348 (0.5%).

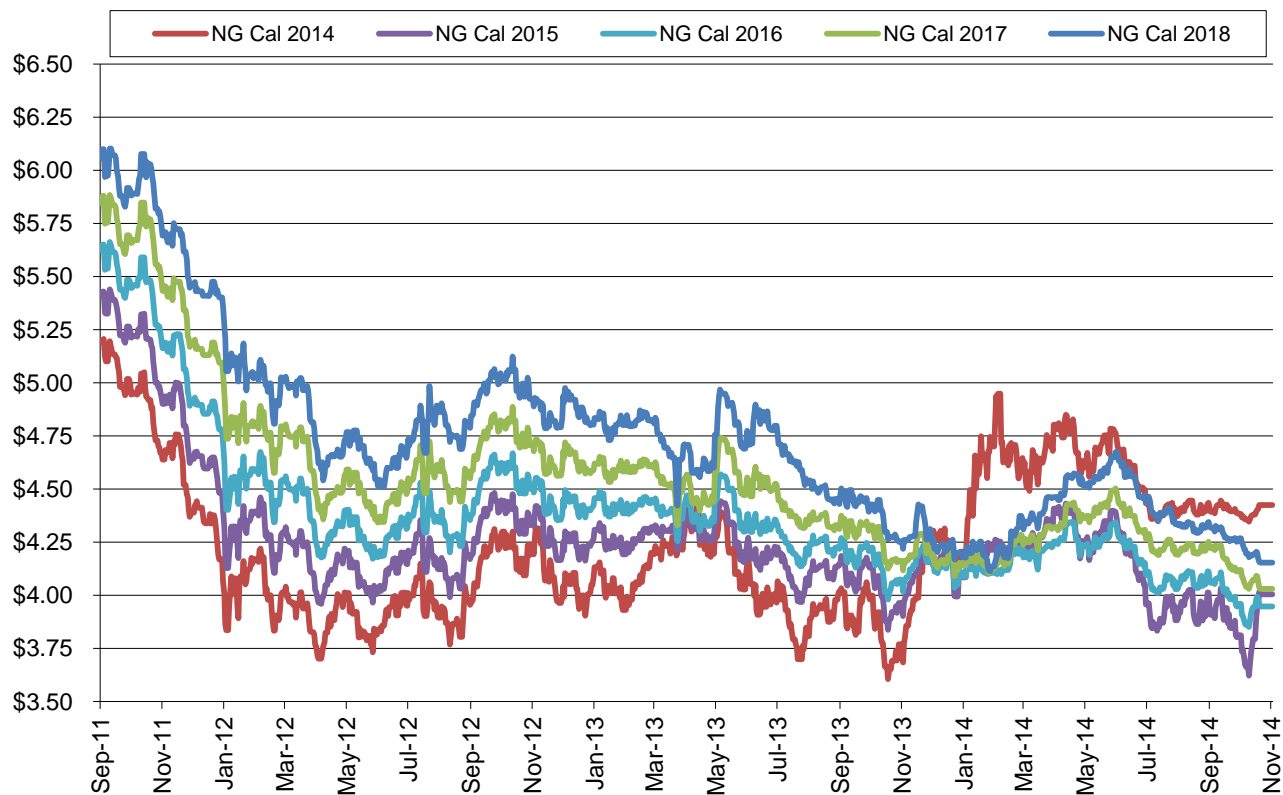
Other Factors: The S&P 500 set a new all-time record as the market responded to multiple events.

- Although it is early in the season, our proprietary heating index is off to a cool start. With a forecast through November 21, the East of Rockies index stands at 290 compared to 239 for 2013/14, 268 for 2012/13, 193 for 2011/12 and 204 for 2010/11. Thus after the 2nd warmest October since 1970, the winter is beginning with a fast start.
- Especially at this early point in the season, the 11-15 day weather forecast will hold additional emphasis as many will extrapolate storage implications until March.

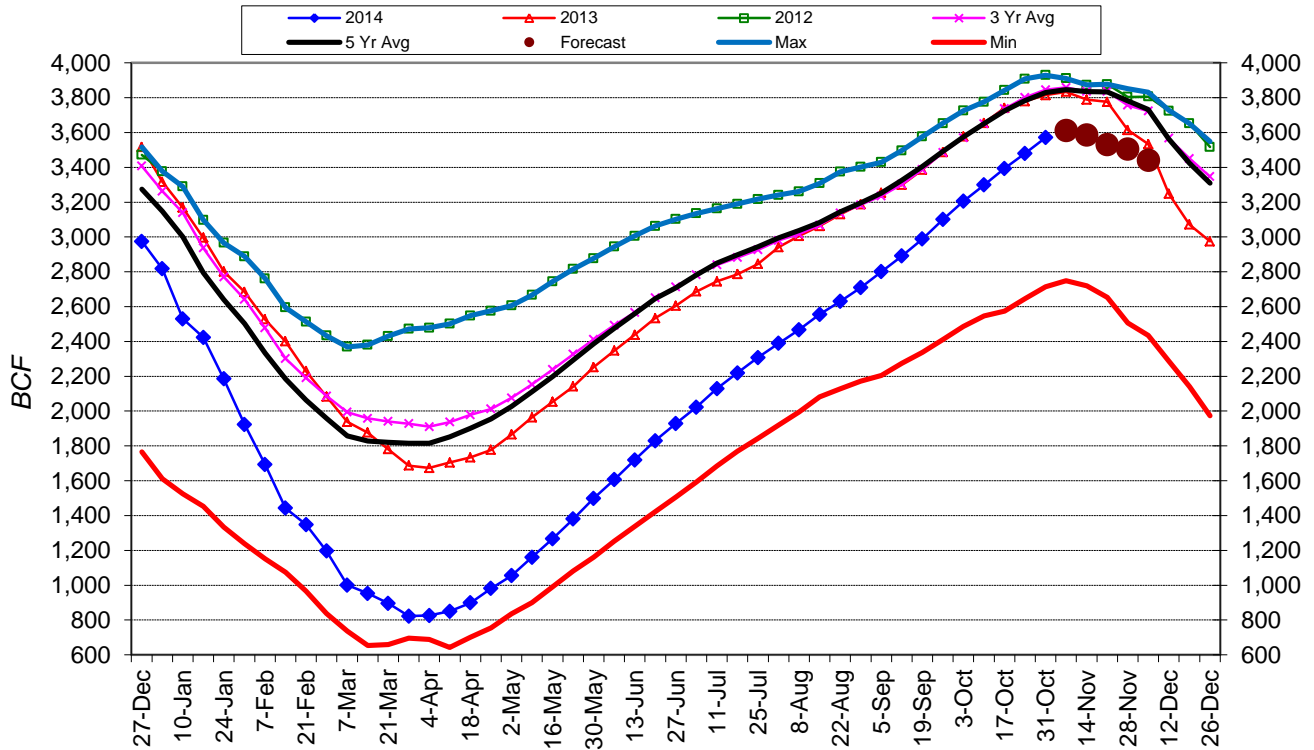
\$/MMBtu Ratio of NYMEX CL and NG



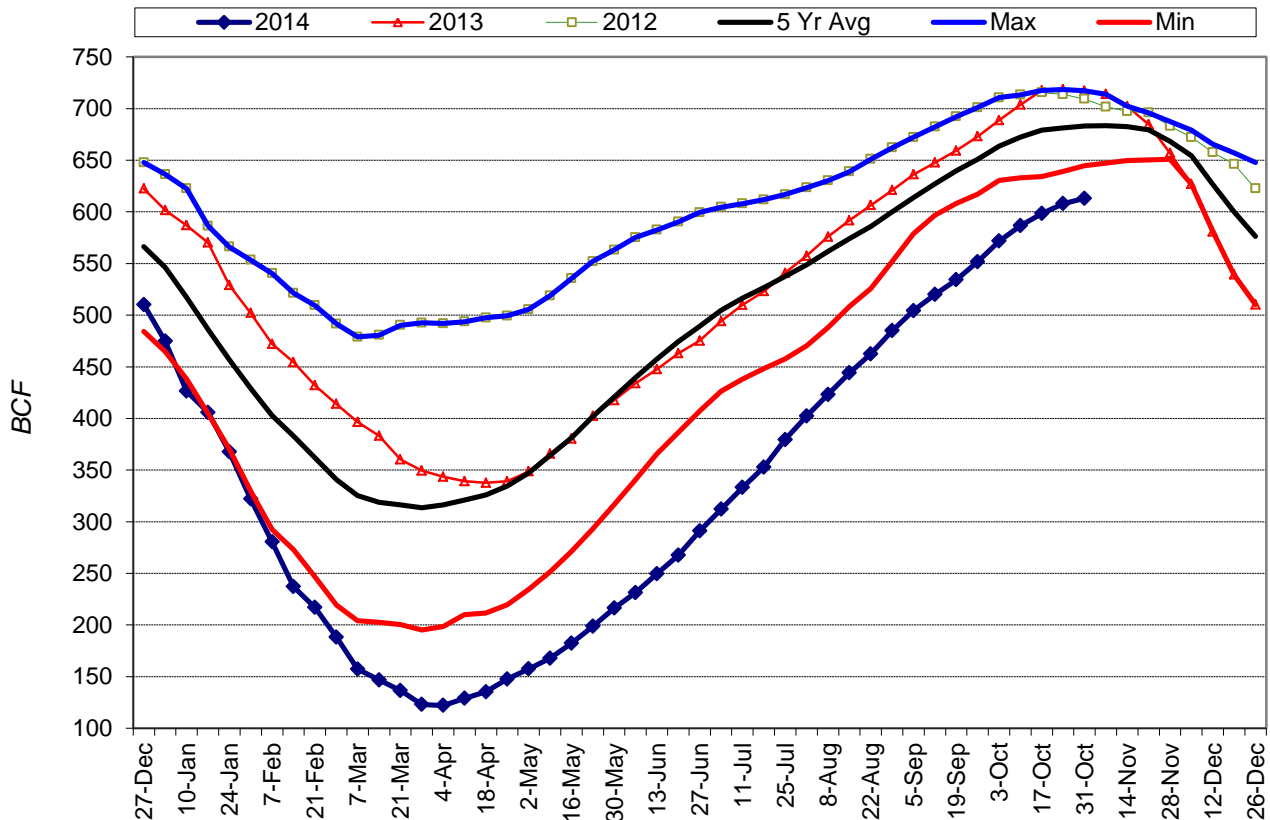
NYMEX Calendar Strips



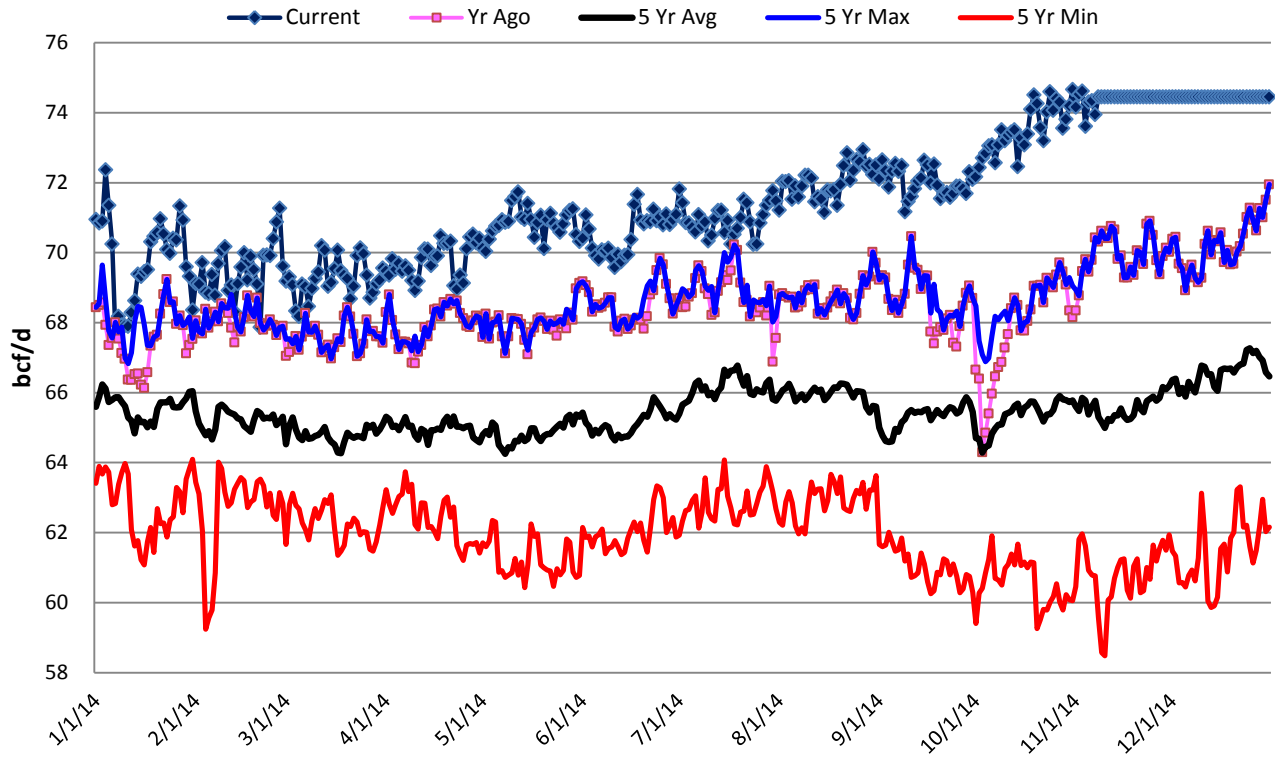
US Working Gas Storage - Source - EIA



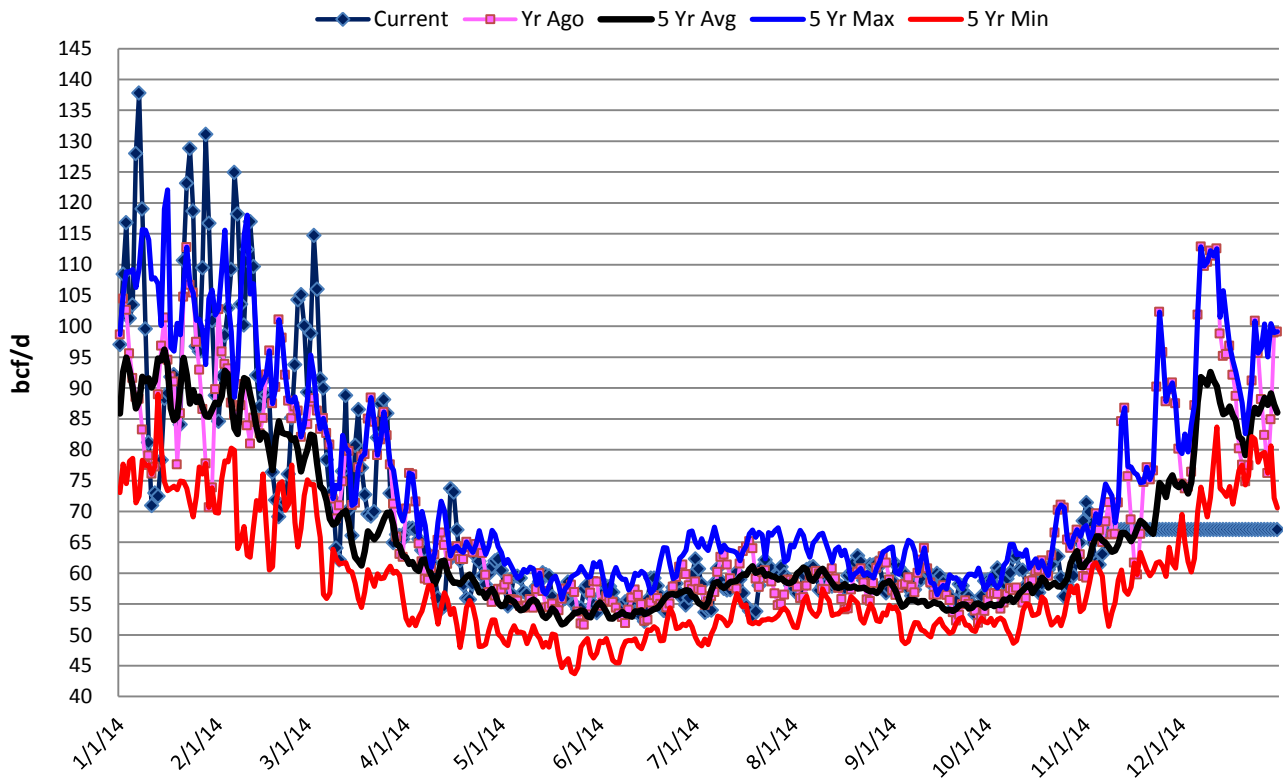
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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