

IAF Advisors
Energy Market Outlook
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Price Action: The January contract fell 33.1 cents (8.7%) to \$3.464 on a 49.2 cent range.

Price Outlook: The market established a new low for the 4th consecutive week despite weather forecasts that do indicate a cold shot in early January. Those forecasts helped the market also establish a new high as well. As the shortest day of the year has now passed, cold weather forecasts will likely have less and less impact. A new low is the expected path. The CFTC data reflected a further liquidation of the managed money net long position. The position is now at the lowest level since March 2012. Total open interest was barely lower at 3.75 million contracts with option related open interest actually rising. CME futures aggregated open interest fell to just 921,000 as of December 18. There could be additional selling pressure if managed money moves to establish an outright net short position.

Weekly Storage: US working gas storage for the week ending December 12 indicated a draw of 64 bcf. Thus total working gas inventories fell to 3,295 bcf. Current inventories rise 47 bcf (1.4%) below last year while still trailing the 5 year average by 269 bcf (7.5%).

Storage Outlook: As moderate temperatures still pervade the country, the yearly surplus is likely to widen in the near term. Whether the predicted cold snap is repeated still has a huge impact on end of season inventory projections.

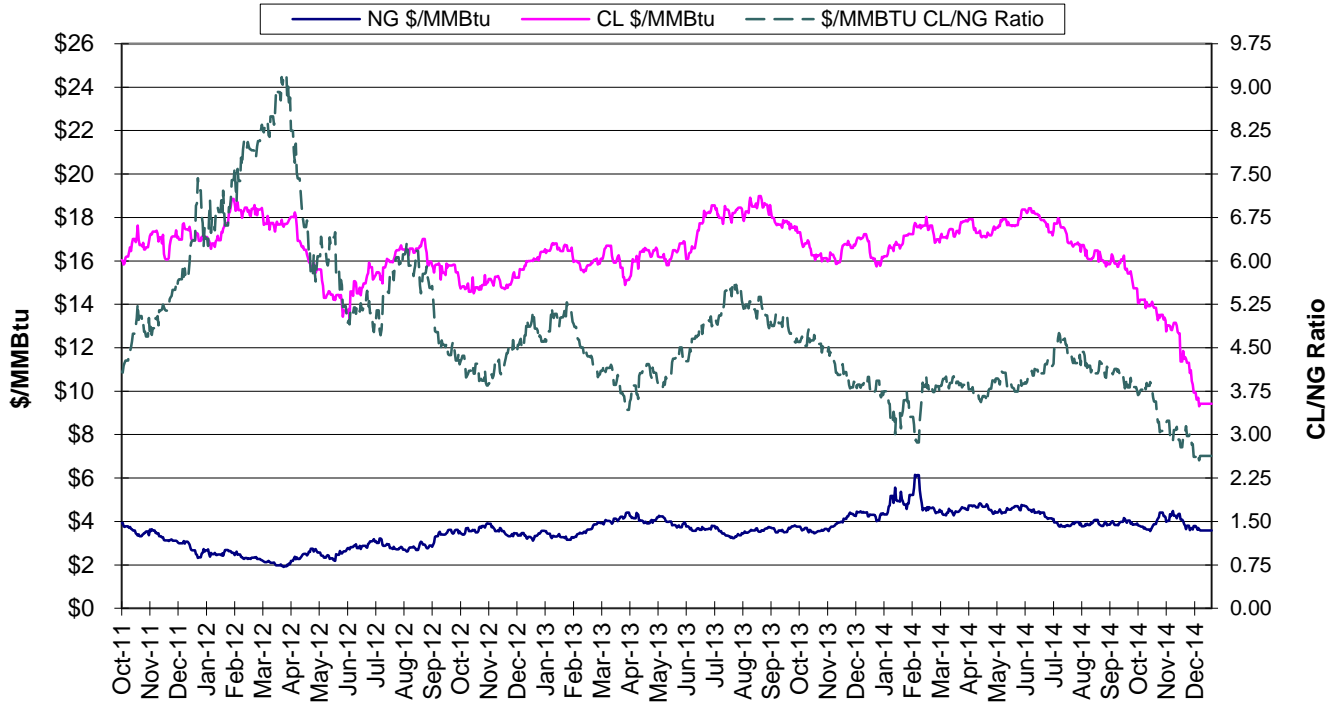
Supply Trends: Total supply rose 1.6 bcf/d to 76.6 bcf/d. US production and Canadian imports were higher. Mexican exports and LNG imports were unchanged. The US Baker Hughes rig count fell 18 as both oil and natural gas were lower. The total US count now stands at 1,875. The Canadian rig count rose 40 to 401. Thus, the total North American rig count fell 58 to 2,266 and now surpasses last year by 100. The higher efficiency US horizontal rig count fell 11 to 1,356 and rises 216 above last year. More US E&P companies are announcing reductions to capex budgets. However, many of these same companies have promised volumetric growth and are likely reluctant to lower that guidance. In any case, we do not expect any change in US oil and natural gas production trends in the near term.

Demand Trends: Total demand rose 2.3 bcf/d to 80.6 bcf/d. Only industrial demand was slightly lower. Electricity demand rose 1,876 gigawatt-hrs to 76,893, which trails last year by 8,740 (10.2%) and the 5 year average by 4,438 (5.5%).

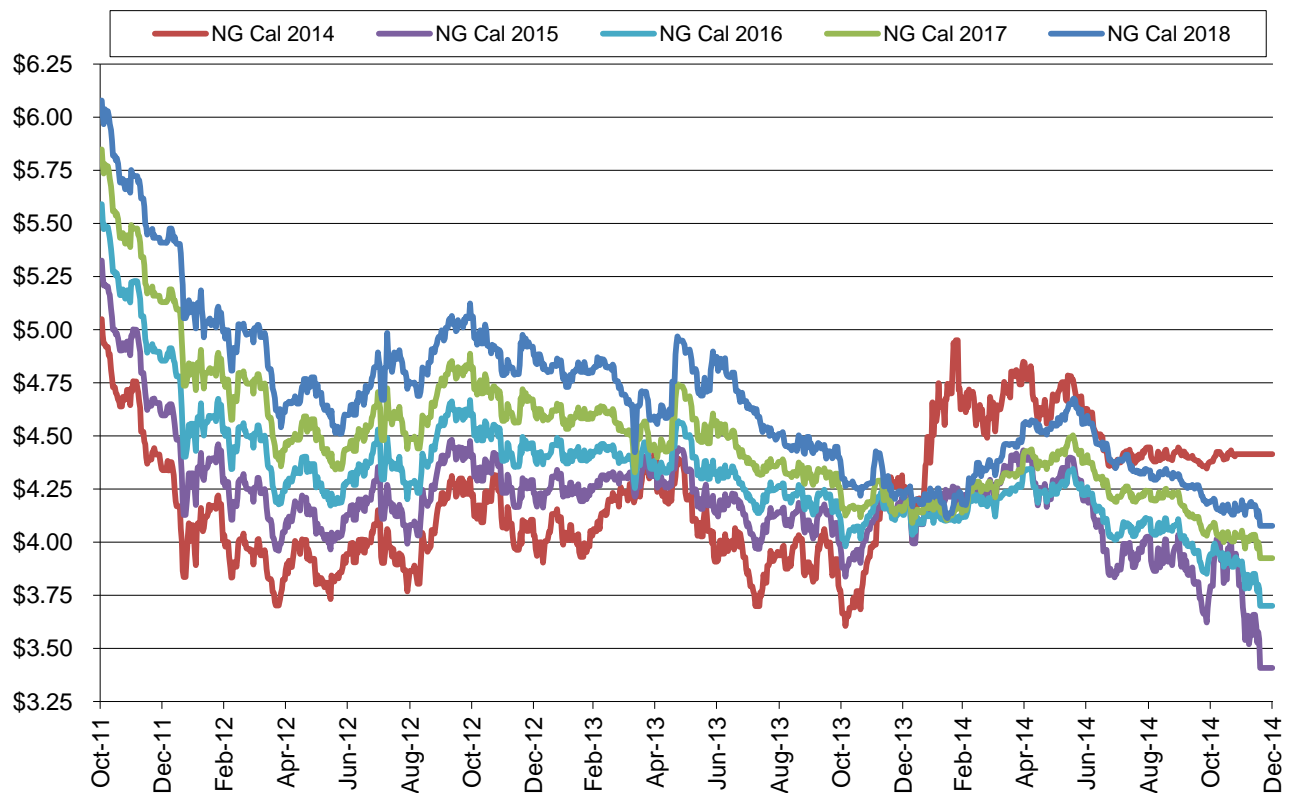
Other Factors: The S&P 500 rebounded and almost entirely recouped the recent losses.

- Our proprietary heating index remained in 3rd place with a forecast through January 2. The total index stands at 1,140 compared to 1,252 for 2013/14, 1,063 for 2012/13, 1,037 for 2011/12 and 1,202 for 2010/11.

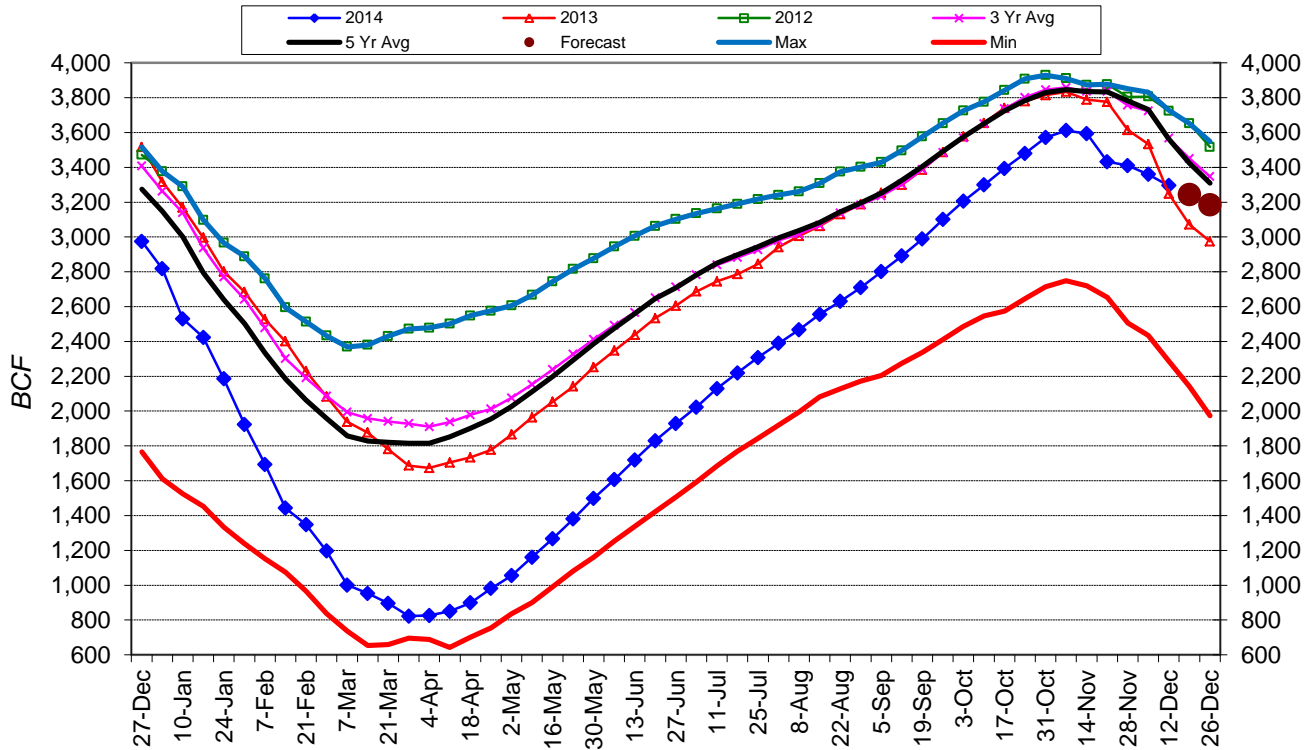
\$/MMBtu Ratio of NYMEX CL and NG



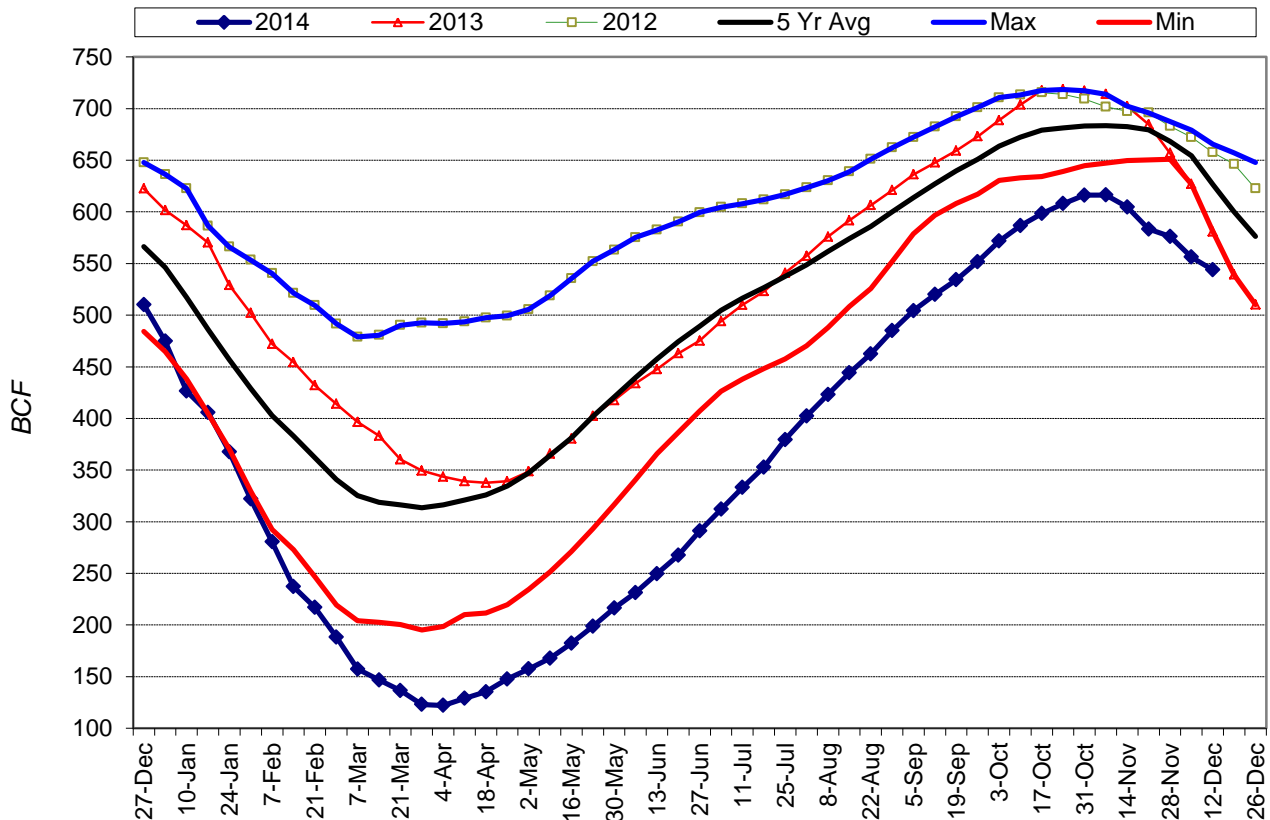
NYMEX Calendar Strips



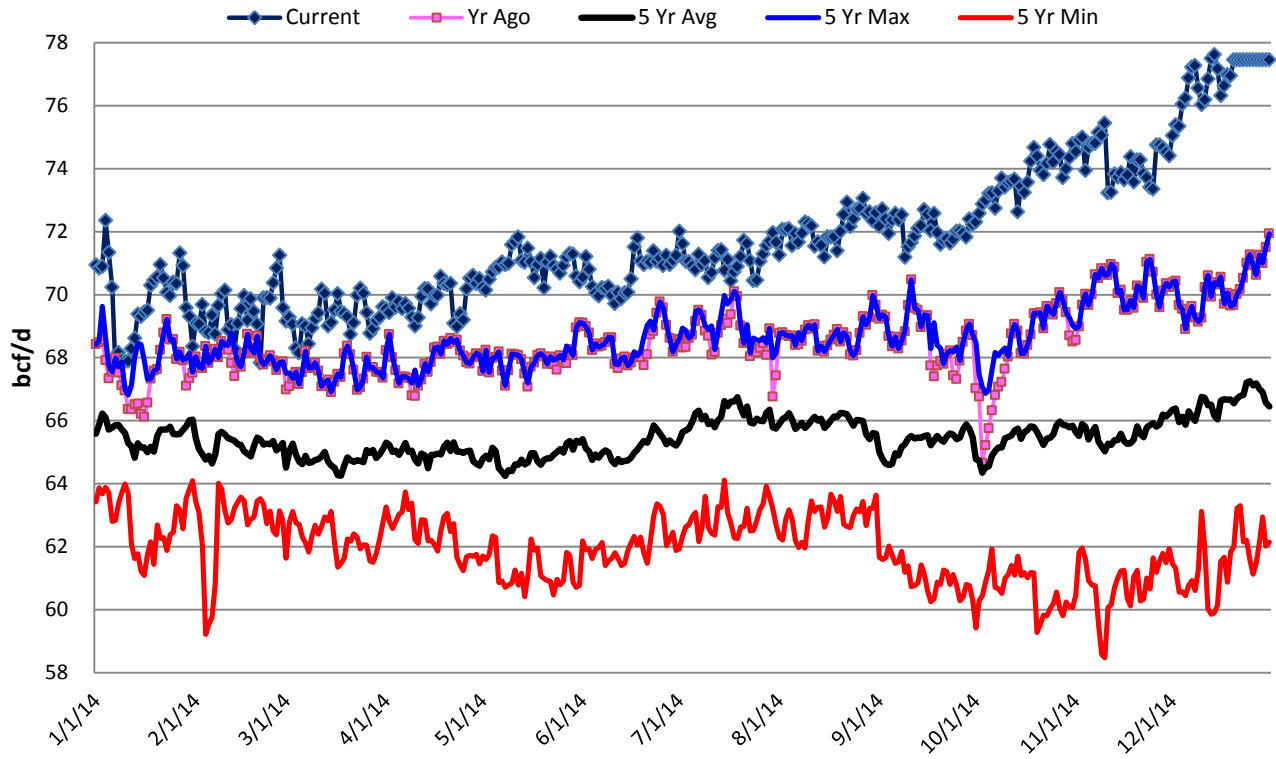
US Working Gas Storage - Source - EIA



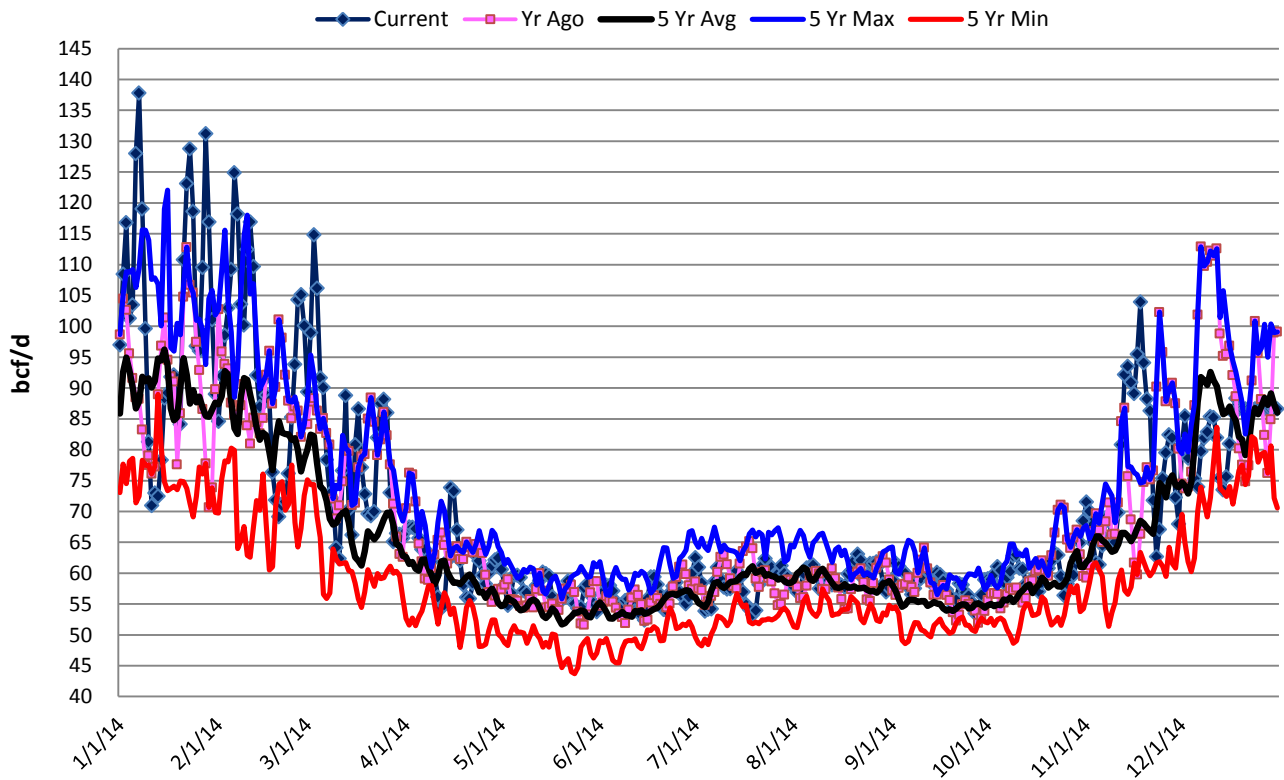
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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