

IAF Advisors
Energy Market Outlook
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Price Action: The February contract fell 3.0 cents (1.0%) to \$3.003 on a 40.6 cent range.

Price Outlook: The market again easily established a new low for the 6th consecutive week even as weather forecasts do indicate some colder temperatures. However, the 15 day forecast now reaches to the middle of winter and the historically coldest day of the year. Since 2000, there have been 11 instances of exactly 6 down weeks in a row and 8 of exactly 7. Although the market is technically oversold, a sustained rally is unlikely unless cold remains in place for the balance of the winter. The CFTC data has been updated through December 23 and indicated a substantial drop in the managed money net long speculative position to the lowest level since March 2012. However, there is still plenty of selling possible if speculators actually get short as they did in 2012. Total open interest as of December 23 stood at 3.95 million contracts with a substantial option related position. CME futures aggregated open interest rose to 939,000 as of December 31.

Weekly Storage: US working gas storage for the week ending December 26 indicated a draw of 26 bcf. Thus total working gas inventories fell to 3,220 bcf. Current inventories rise 246 bcf (8.3%) above last year while still trailing the 5 year average by 89 bcf (2.7%).

Storage Outlook: The cold that has developed was over the Holidays, and thus the impact was diminished. Cold temperatures and a bullish supply/demand balance last year resulted in large withdrawals. Thus, the yearly surplus is likely to continue to expand in early 2015 and keep pressure on the market. It is easy to envision a surplus over 900 bcf by the end of March. This is still very dependent on actual temperatures.

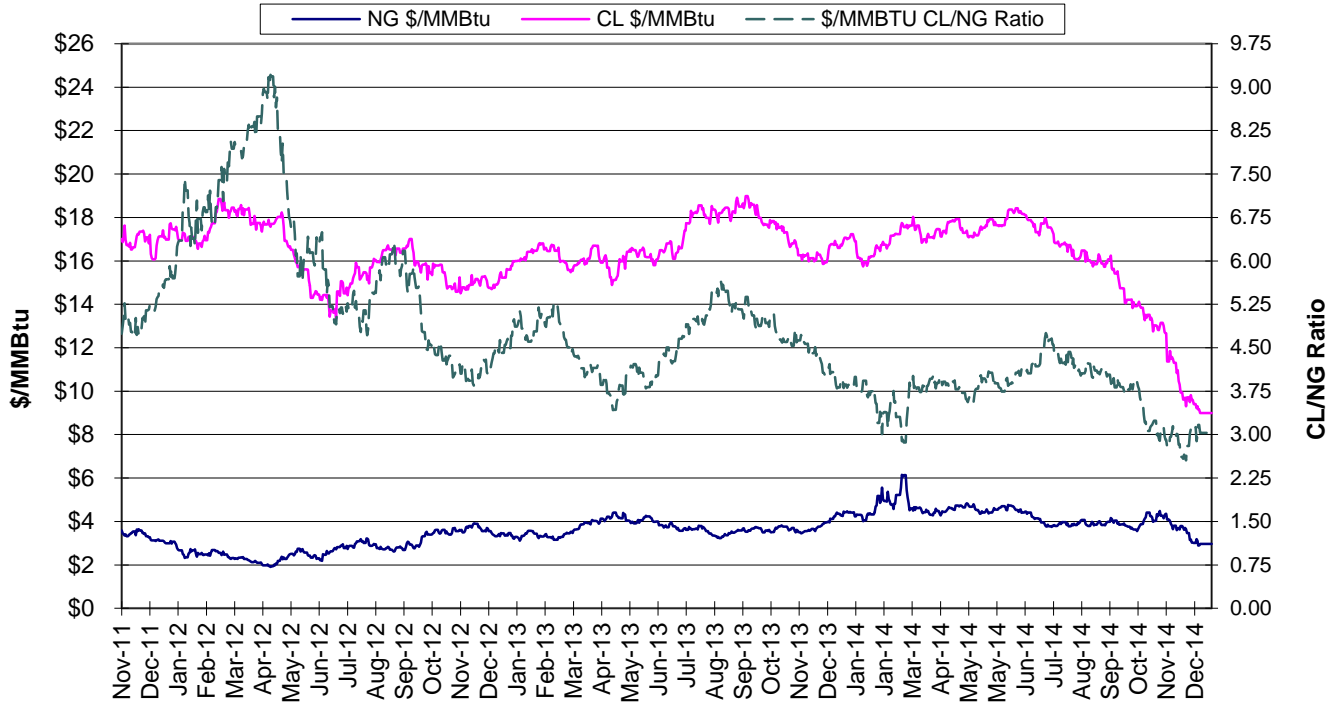
Supply Trends: Total supply rose 0.1 bcf/d to 77.1 bcf/d. US production was higher. Canadian imports and Mexican exports were lower. LNG imports were unchanged. The US Baker Hughes rig count fell 35 as oil activity slipped while natural gas was slightly higher. The total US rig count now stands at 1,840. The Canadian rig count fell 135 to 256. Thus, the total North American rig count fell 170 to 2,096 and now surpasses last year by 76. The higher efficiency US horizontal rig count fell 6 to 1,350 and rises 204 above last year. Numerous US E&P companies continue to announce reductions in 2015 capex expenditures with one small company announcing that it had completely suspended new capex spending. It indicated that only projects already underway would be completed in 2015. Monthly data from the EIA indicated yet another record level of US production in October.

Demand Trends: Total demand fell 0.4 bcf/d to 80.2 bcf/d. Power and industrial demand were lower with R&C demand higher. Electricity demand fell 5,572 gigawatt-hrs to 71,898, which trails last year by 3,220 (4.3%) and the 5 year average by 5,169 (6.7%). Monthly data from the EIA indicated that despite incredibly mild temperatures, demand was the highest on record for the month of October. While the supply advances still easily exceed the demand increases, the market is not as bearish as indicated by supply alone.

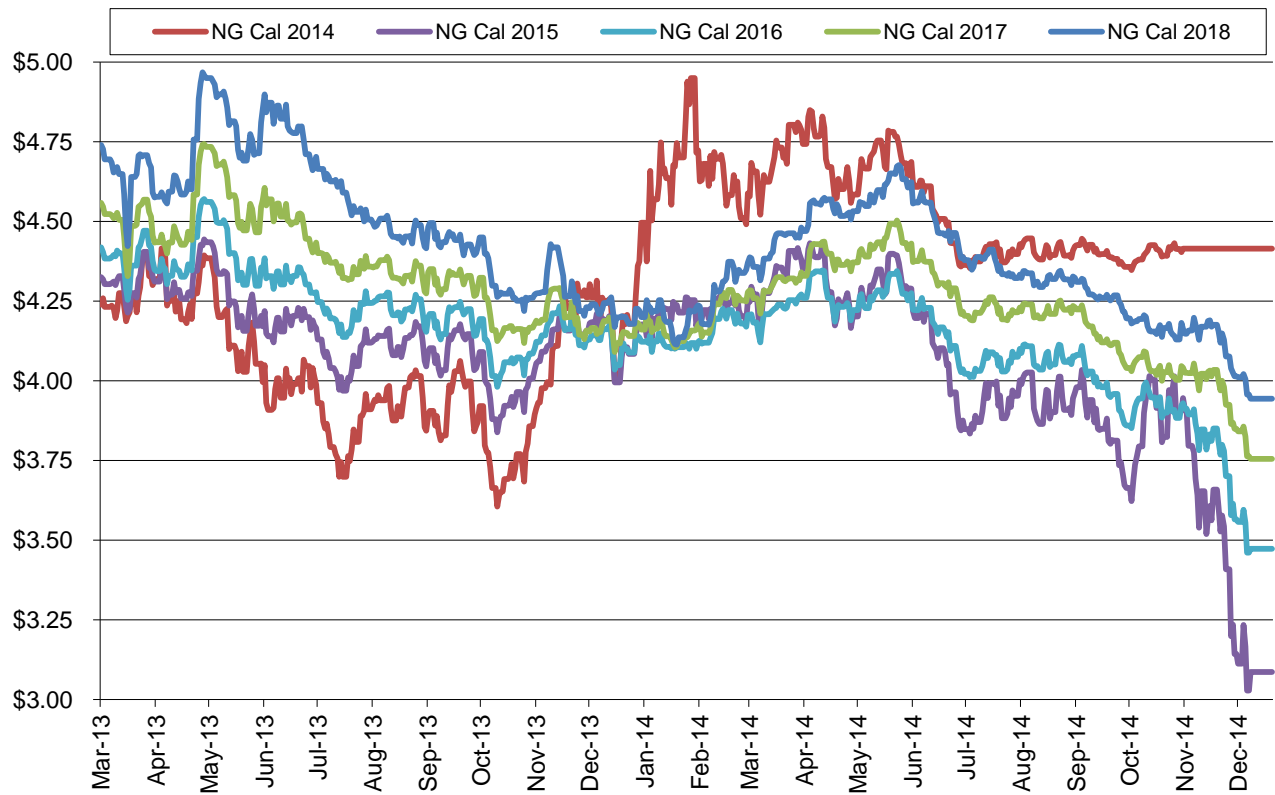
Other Factors: The S&P 500 slipped after last weeks' record.

- Our proprietary heating index remains in 3rd place with a forecast through January 16. The total index stands at 1,410 compared to 1,586 for 2013/14, 1,356 for 2012/13, 1,366 for 2011/12 and 1,564 for 2010/11.

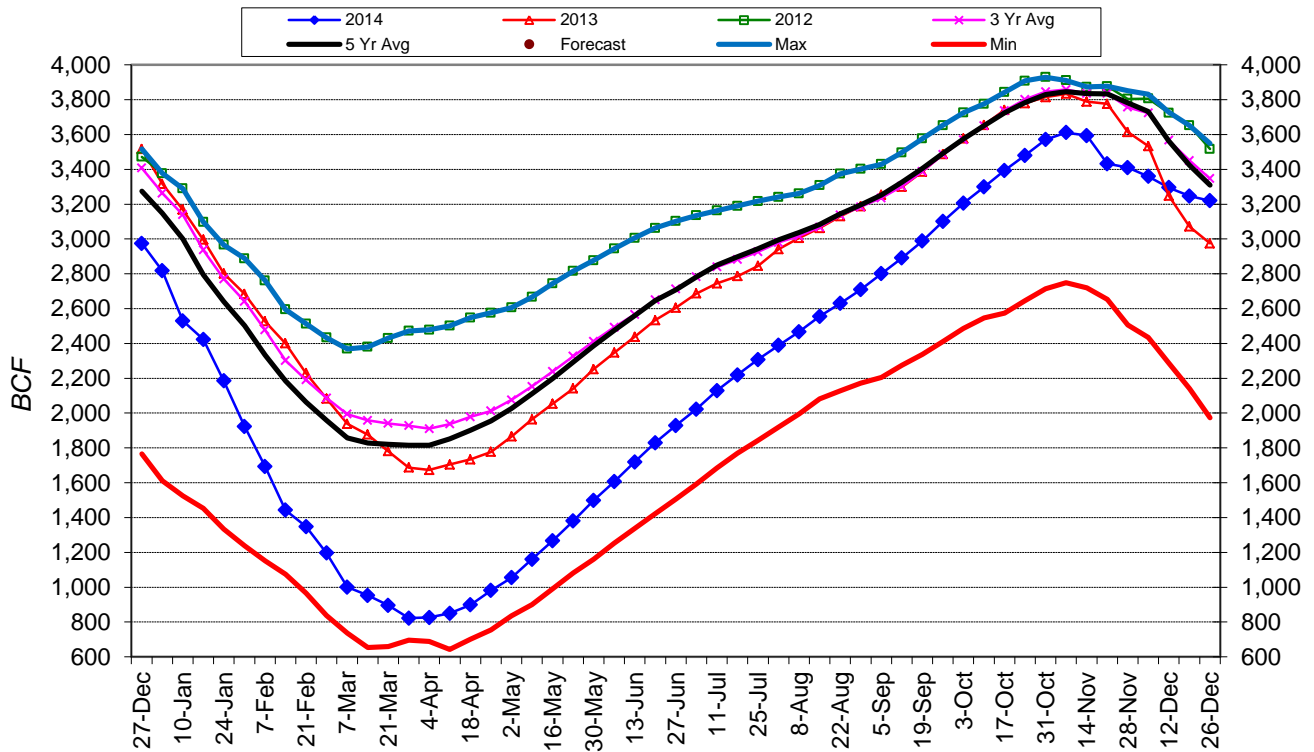
\$/MMBtu Ratio of NYMEX CL and NG



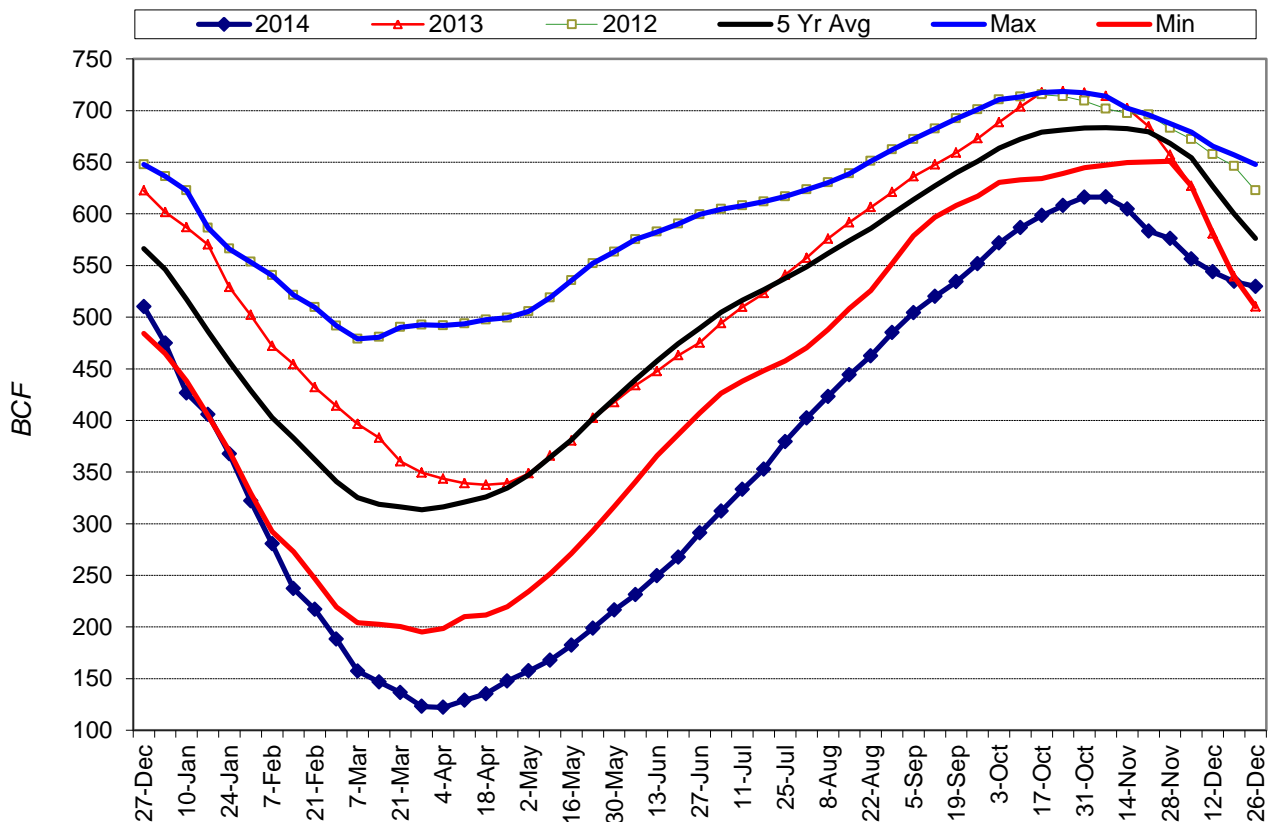
NYMEX Calendar Strips



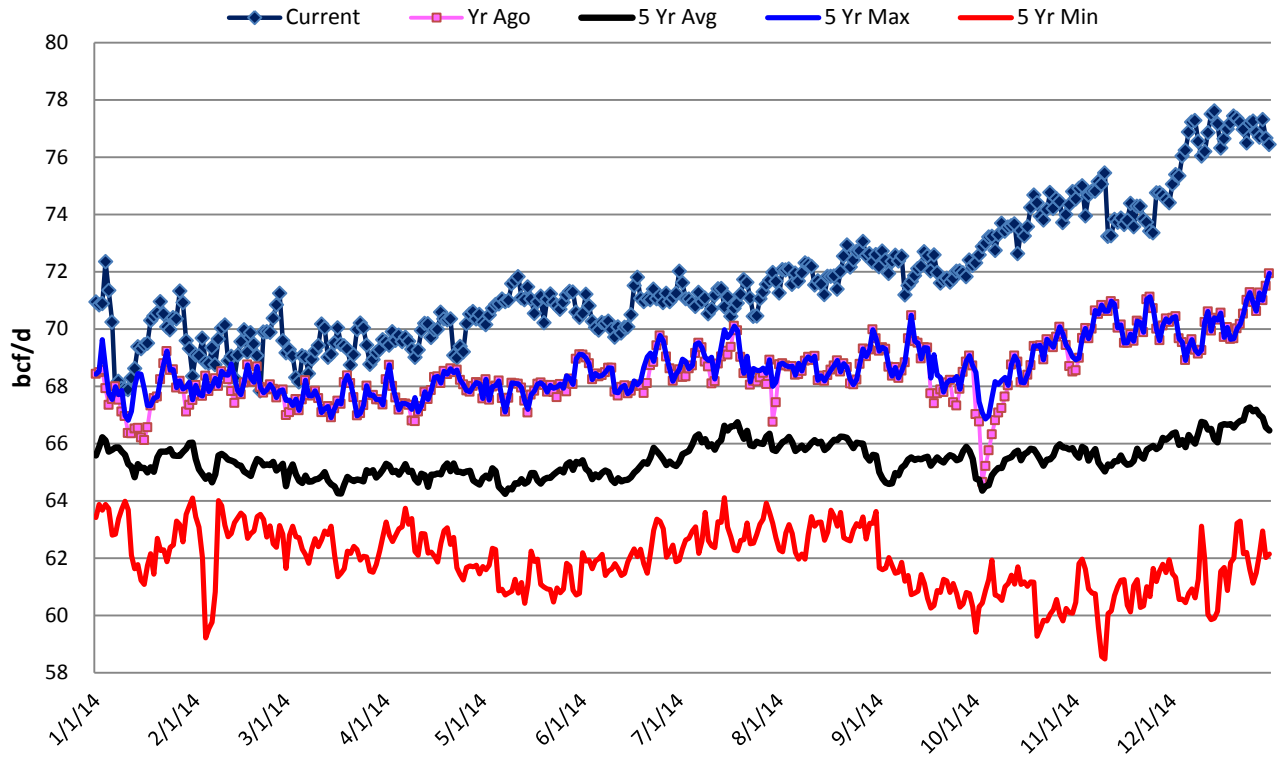
US Working Gas Storage - Source - EIA



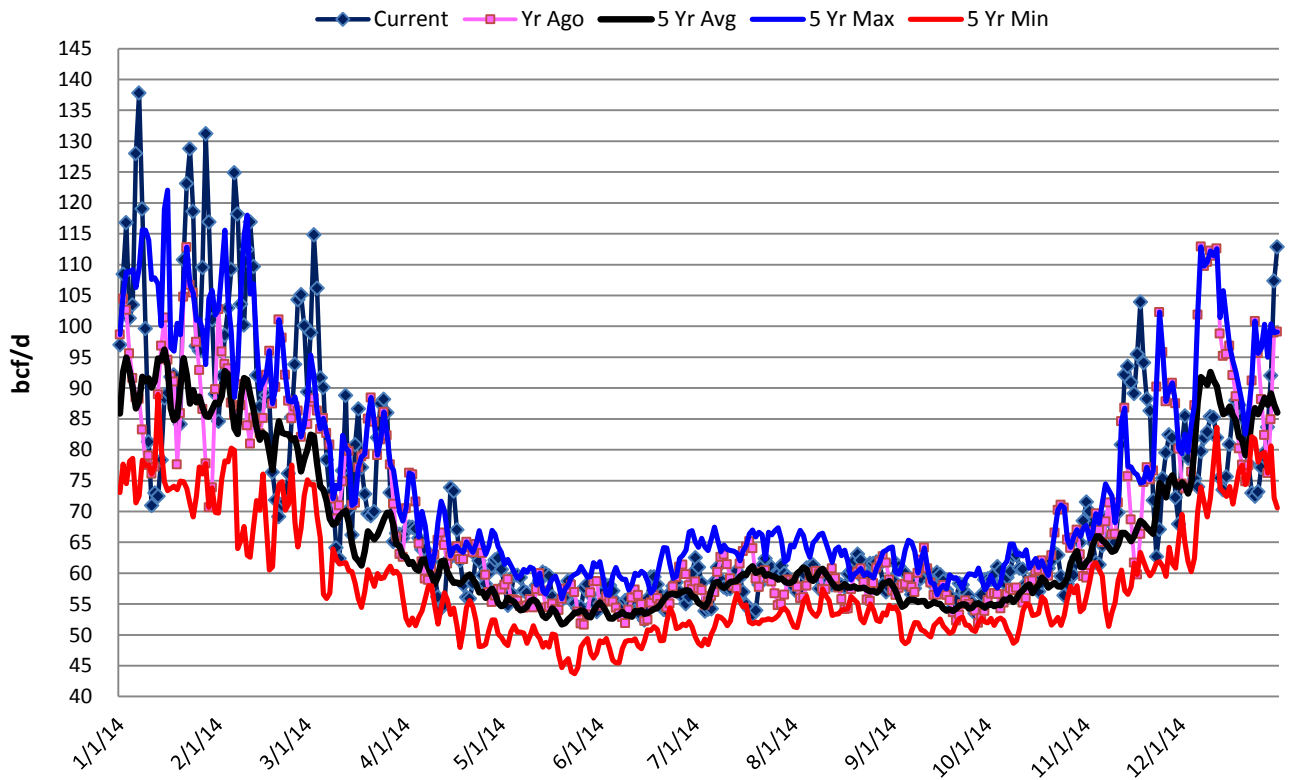
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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