

IAF Advisors
Energy Market Outlook
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Price Action: The February contract rose 18.1 cents (6.1%) to \$3.127 on a 56.9 cent range.

Price Outlook: After last weeks' rare inside week, both a new high and low were recorded this week. While the market did end closer to last week's high, as the winter enters the 2nd half, any moderation in weather forecasts is likely to be treated harshly as the yearly inventory surplus is expected to rise in coming weeks. The CFTC data indicated the first managed money net short speculative position since March 2012. Total open interest as of January 13 stood at 3.91 million contracts with a still sizable option related position. CME futures aggregated open interest rose to 1.006 million as of January 15. This is the first time total open interest has been above one million since July 23, 2014.

Weekly Storage: US working gas storage for the week ending January 9 indicated a draw of 236 bcf. Thus total working gas inventories fell to 2,853 bcf. Current inventories rise 323 bcf (12.8%) above last year while still trailing the 5 year average by 124 bcf (4.2

Storage Outlook: Although the winter is entering its' 2nd half, there remains a huge variance of potential storage withdrawals. Both February and March have experienced recent storage change deviations near 400 bcf due to wildly different temperatures. Cooler temperature forecasts now suggest the yearly storage surplus will not exceed 900 bcf, a level witnessed in 2012.

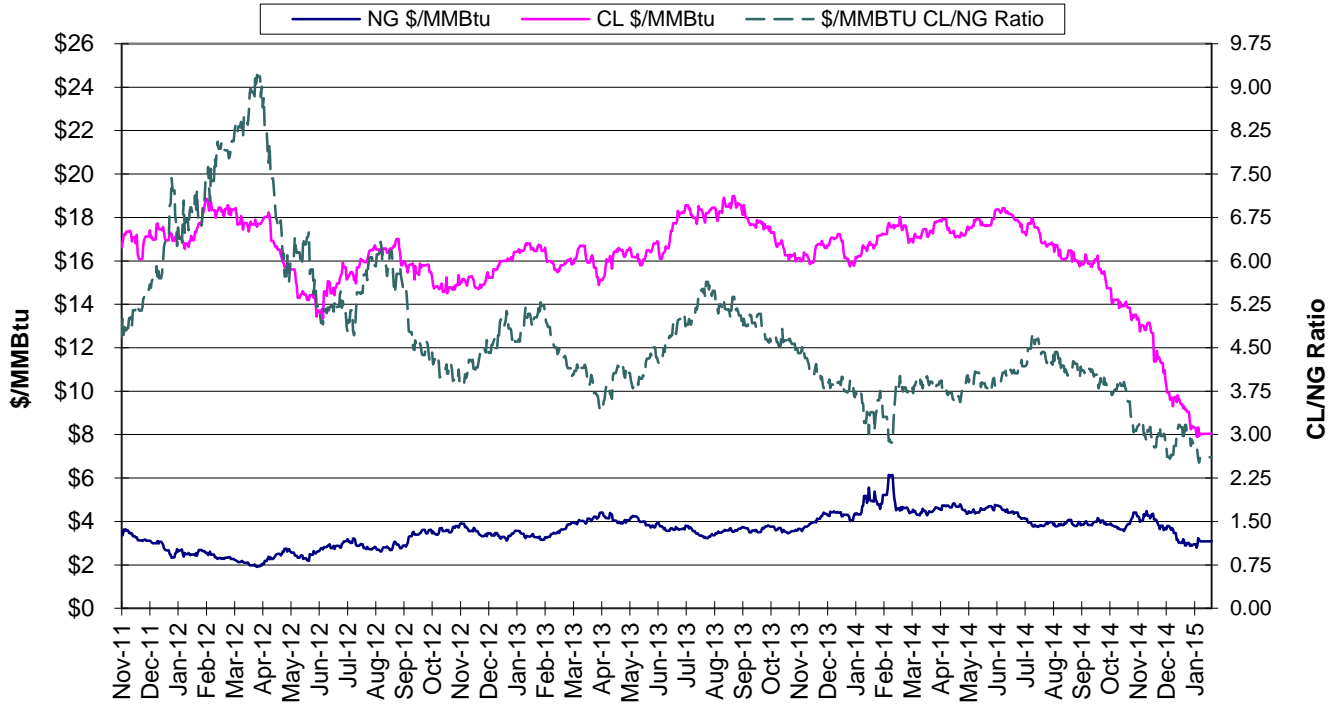
Supply Trends: Total supply fell 0.5 bcf/d to 76.2 bcf/d. Canadian and LNG imports and Mexican exports were higher. US production was lower. The US Baker Hughes rig count fell 74 as both oil and natural gas activity dropped. The total US rig count now stands at 1,676. The Canadian rig count rose 74 to 440. Thus, the total North American rig count was unchanged at 2,116 and now trails last year by 226. The higher efficiency US horizontal rig count fell 48 to 1,301 and rises 80 above last year. Numerous energy companies have announced reductions in both Capex budgets and head count. As the rig count continues to fall, estimates of required activity to maintain current natural gas production levels are important benchmarks. Currently, we estimate 157 Eagle Ford total rigs are required to maintain natural gas output. This will be updated monthly and obviously remains dependent on decline rates and rig efficiencies. This is not a static number. We will rotate between the Marcellus, Eagle Ford, Permian, Haynesville and Utica.

Demand Trends: Total demand rose 13.5 bcf/d to 107.5 bcf/d. All sectors were higher with R&C leading the way and power also very strong. Electricity demand rose 10,043 gigawatt-hrs to 87,389, which surpasses last year by 2,214 (2.6%) and the 5 year average by 5,600 (6.8%).

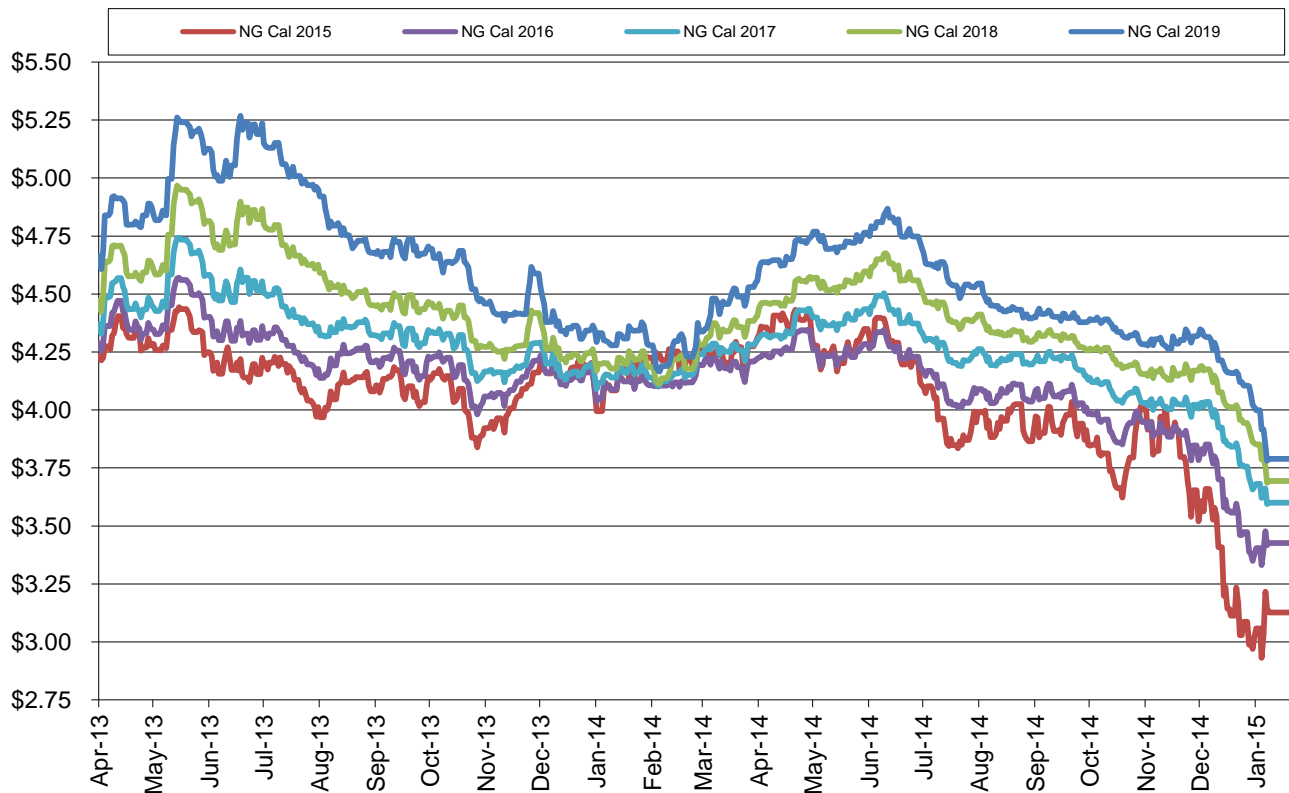
Other Factors: The S&P 500 was again lower on the week with a major policy change by the Swiss National Bank roiling international financial markets.

- Our proprietary heating index continues to remain in 3rd place with a forecast through January 30. The total index stands at 1,752 compared to 1,860 for 2013/14, 1,651 for 2012/13, 1,663 for 2011/12 and 1,900 for 2010/11.

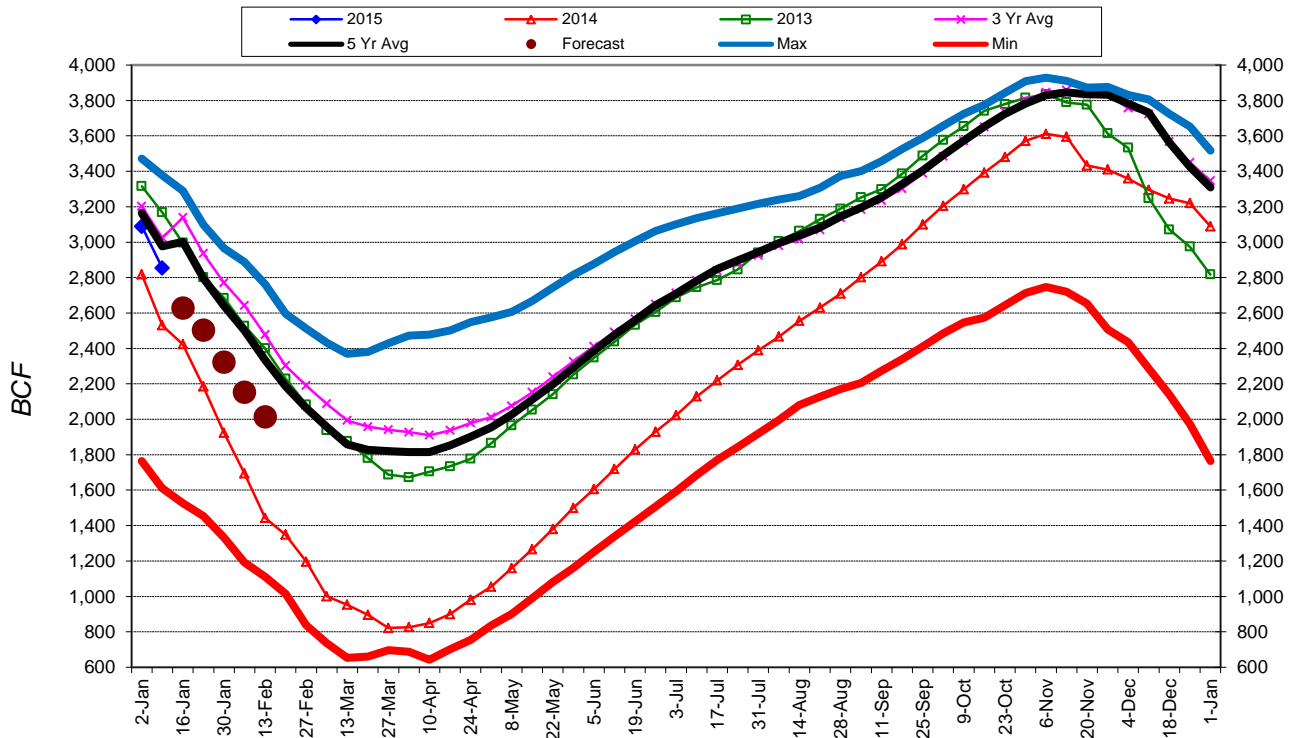
\$/MMBtu Ratio of NYMEX CL and NG



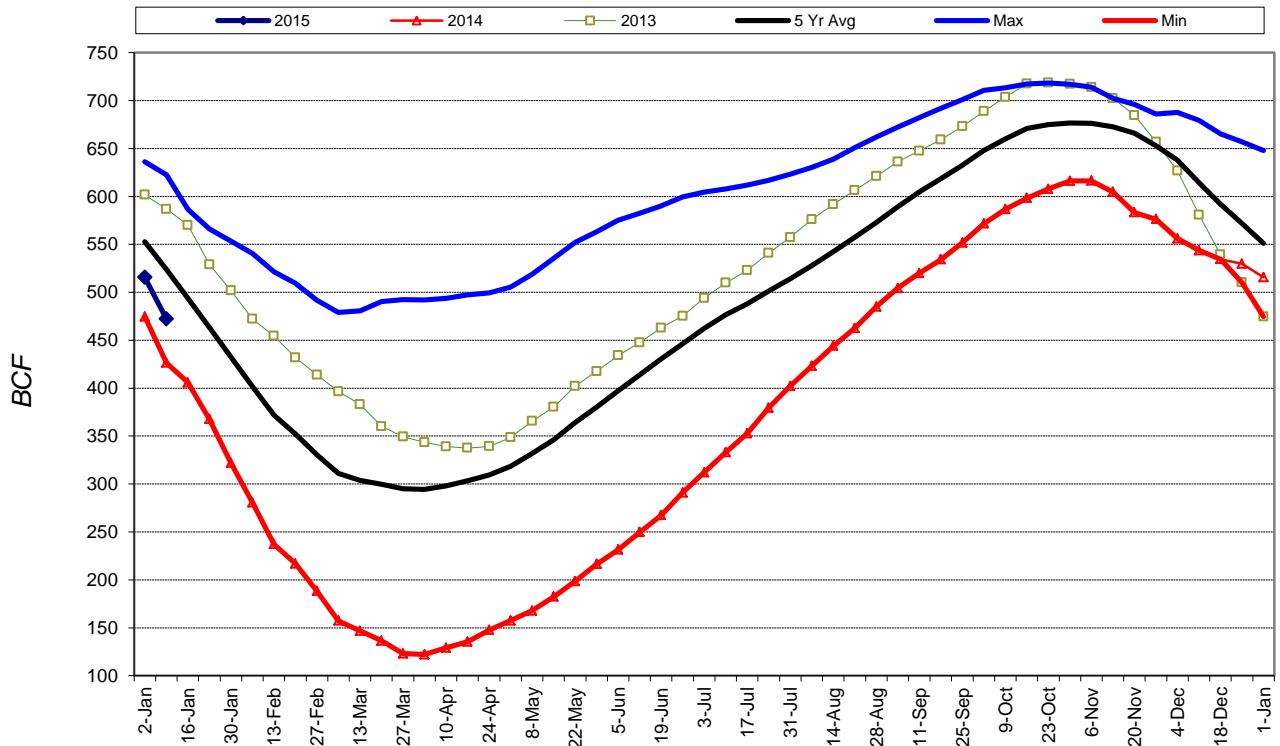
NYMEX Calendar Strips



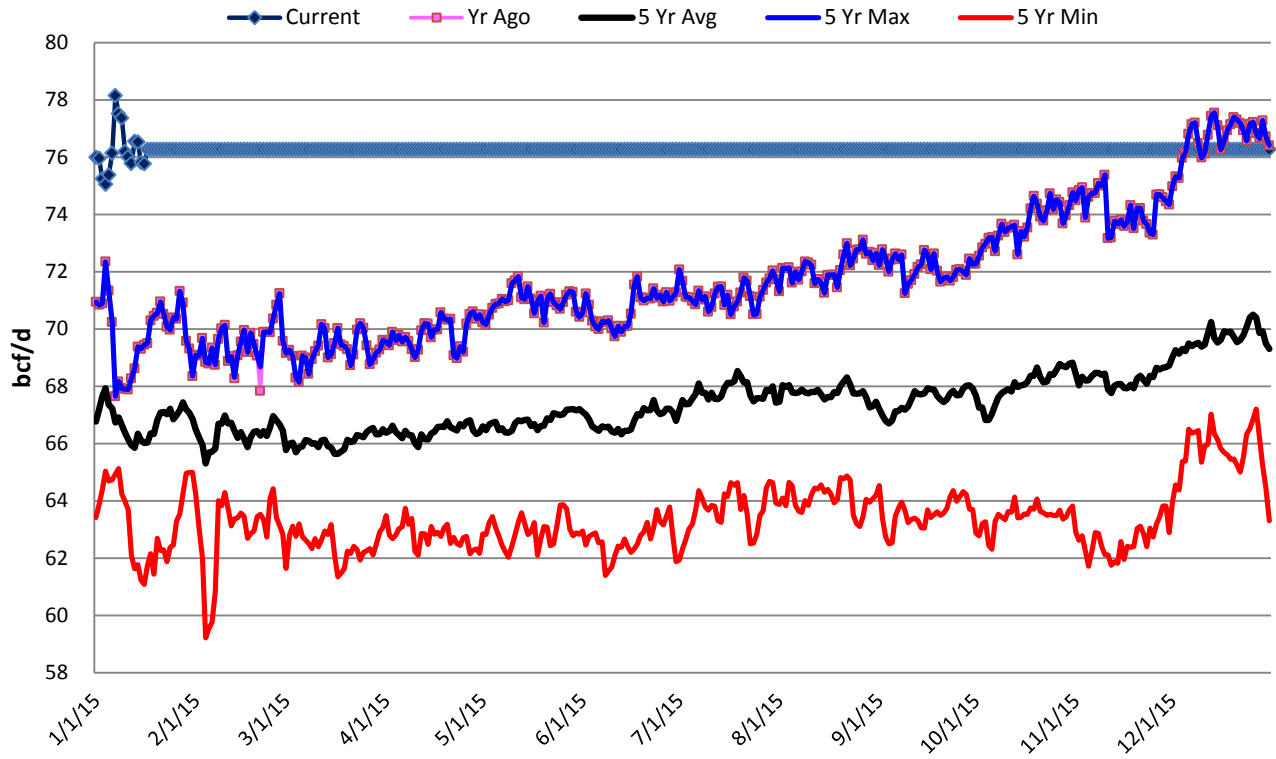
US Working Gas Storage - Source - EIA



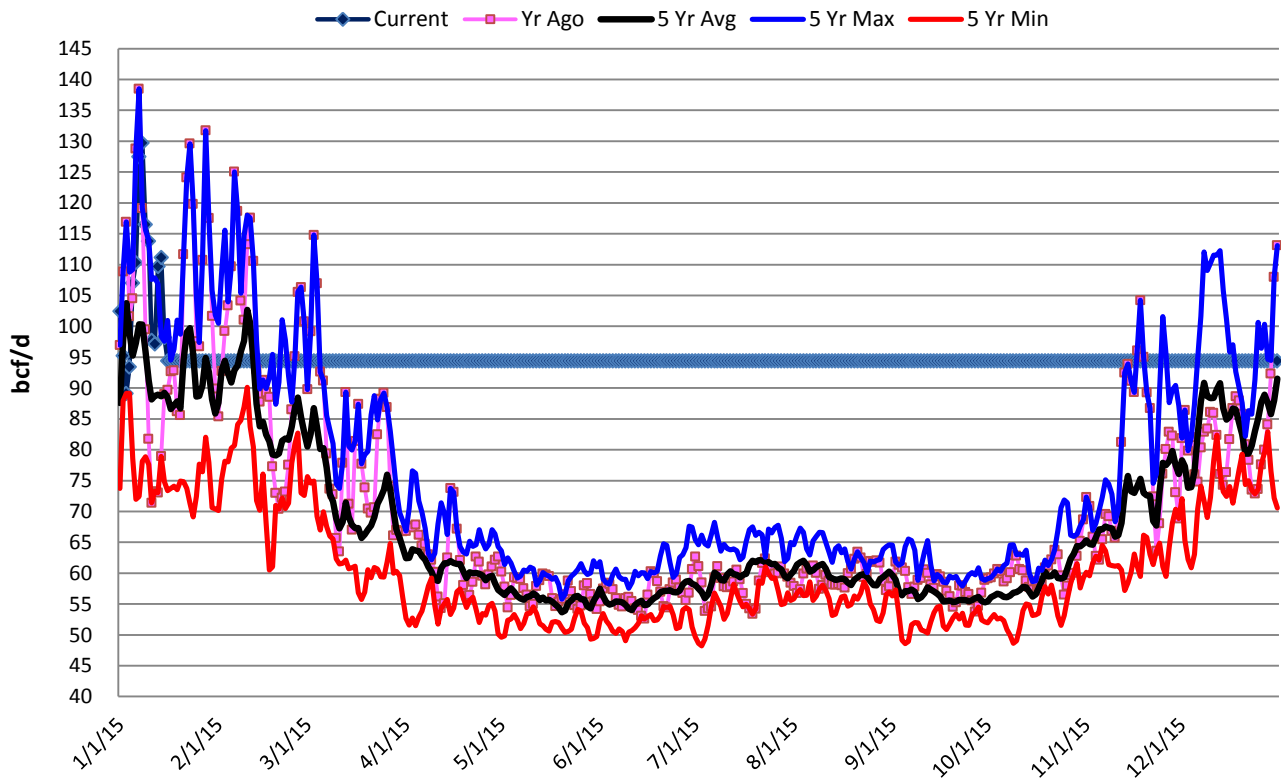
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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