

IAF Advisors
Energy Market Outlook
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Price Action: The February contract fell 14.1 cents (4.5%) to \$2.986 on a 28.2 cent range.

Price Outlook: As weather forecasts to begin the week were very bearish, prices plummeted and established a new low. Prices rebounded to end the week as cold weather is now forecast. With prices near last week's high, a new high is deemed likely. However, any moderation in the forecast is likely to be treated rather harshly. Considering last week's tight range, a week with both a new high and low would not be surprising. The CFTC data revealed a very small reduction in the managed money net short speculative position. The change was minimal. Total open interest as of January 20 stood at 4.04 million contracts with a still sizable option related position. This is the first time since July 22, 2014 that total open interest has surpassed 4 million. CME futures aggregated open interest rose to 1.018 million as of January 22. As both futures and delta adjusted option open interest has increased, price moves could be exaggerated as option positions result in a changing delta.

Weekly Storage: US working gas storage for the week ending January 16 indicated a draw of 216 bcf. Thus total working gas inventories fell to 2,637 bcf. Current inventories rise 214 bcf (8.8%) above last year while trailing the 5 year average by 169 bcf (6.0%).

Storage Outlook: Last year witnessed huge withdrawals in late January and early February and the yearly storage surplus is expected to rise rapidly. The market has typically been rather defensive in times of an expanding storage surplus. February and March can still experience large temperature deviations and while narrowing, the variance of early April inventory levels remains large.

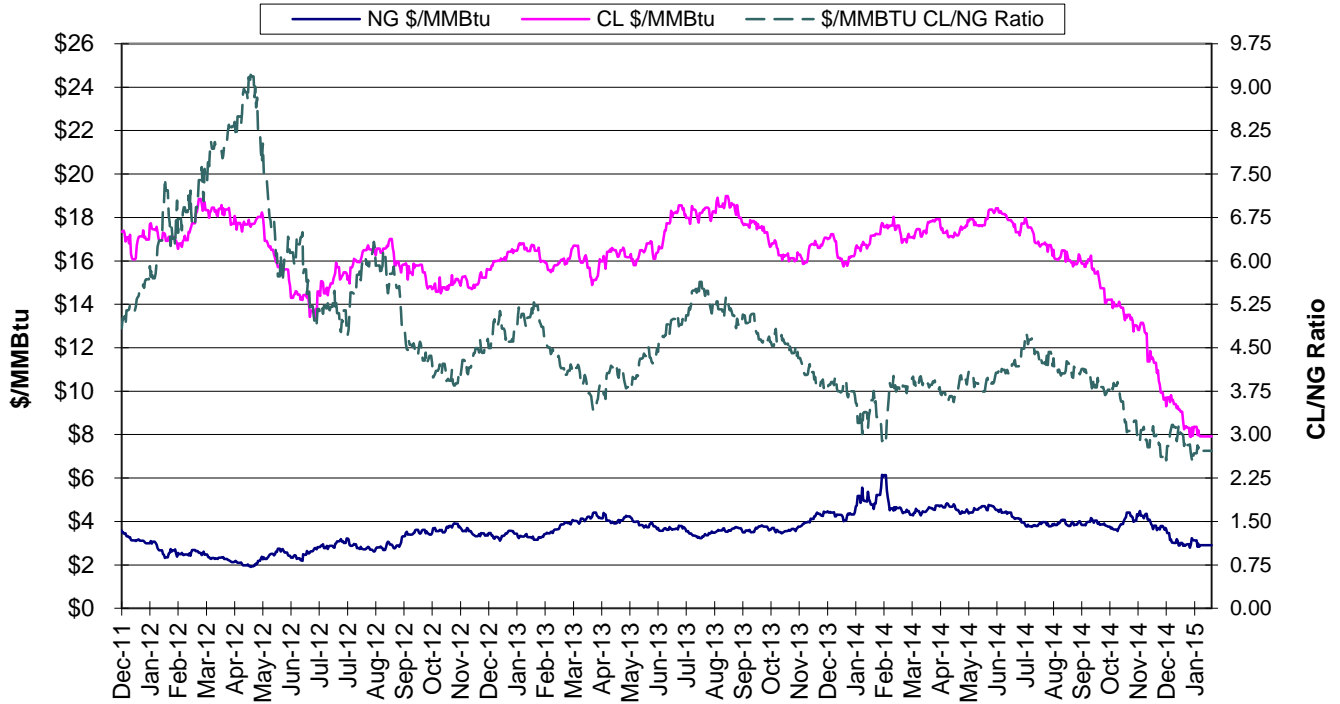
Supply Trends: Total supply rose 0.1 bcf/d to 76.3 bcf/d. US production rose. Canadian and LNG imports were lower while Mexican exports were higher. The US Baker Hughes rig count fell 43 as oil activity continued to decline while natural gas activity rose. The total US rig count now stands at 1,633. The Canadian rig count dropped 8 to 432. Thus, the total North American rig count was fell 51 to 2,065 and now trails last year by 302. The higher efficiency US horizontal rig count fell 24 to 1,229 and rises 59 above last year. Currently, we estimate 370 Permian 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 fell 1.2 bcf/d to 106.3 bcf/d. Industrial demand was actually slightly higher. Other sectors were lower. Electricity demand fell 4,511 gigawatt-hrs to 82,878, which surpasses last year by 4,824 (6.2%) and the 5 year average by 1,222 (1.5%).

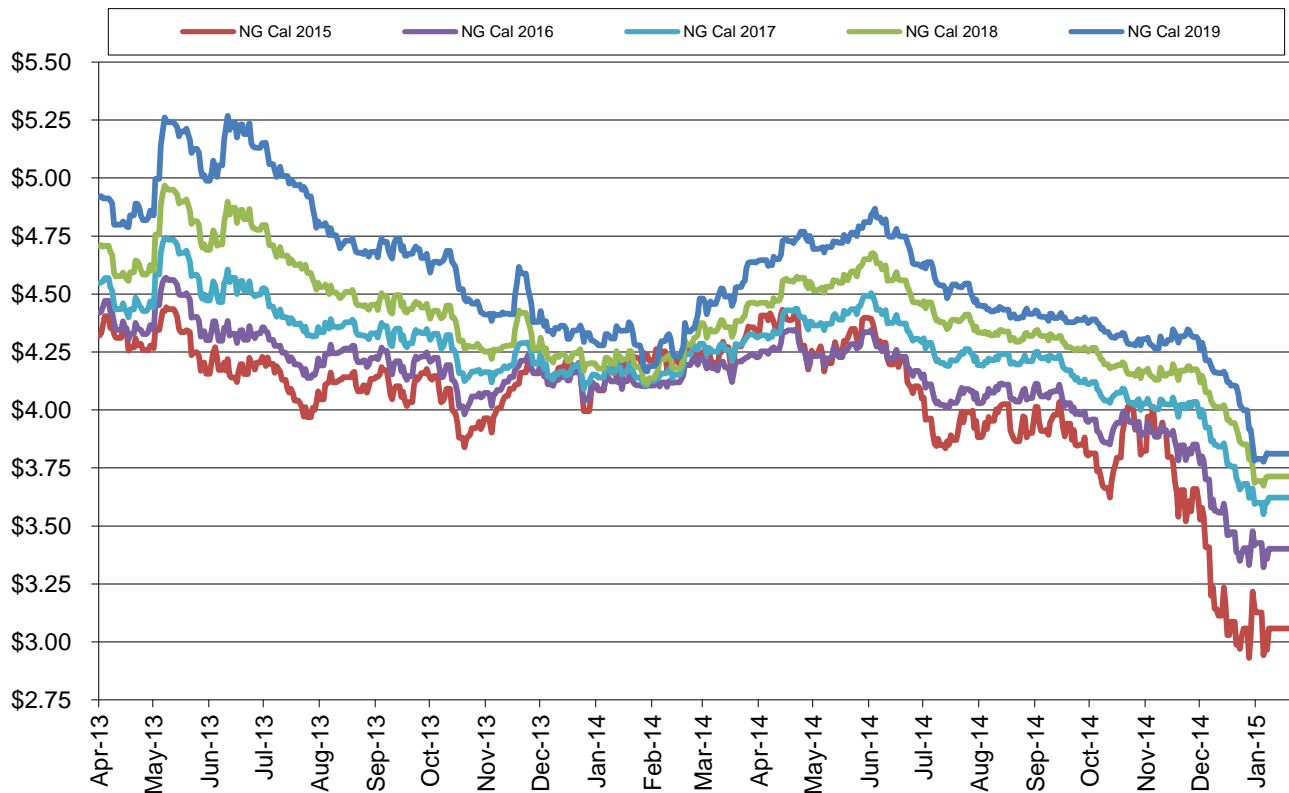
Other Factors: The S&P 500 was much stronger as the ECB announced a major quantitative easing program.

- Our proprietary heating index continues to remain in 3rd place with a forecast through February 6. The total index stands at 1,897 compared to 2,025 for 2013/14, 1,809 for 2012/13, 1,779 for 2011/12 and 2,070 for 2010/11.

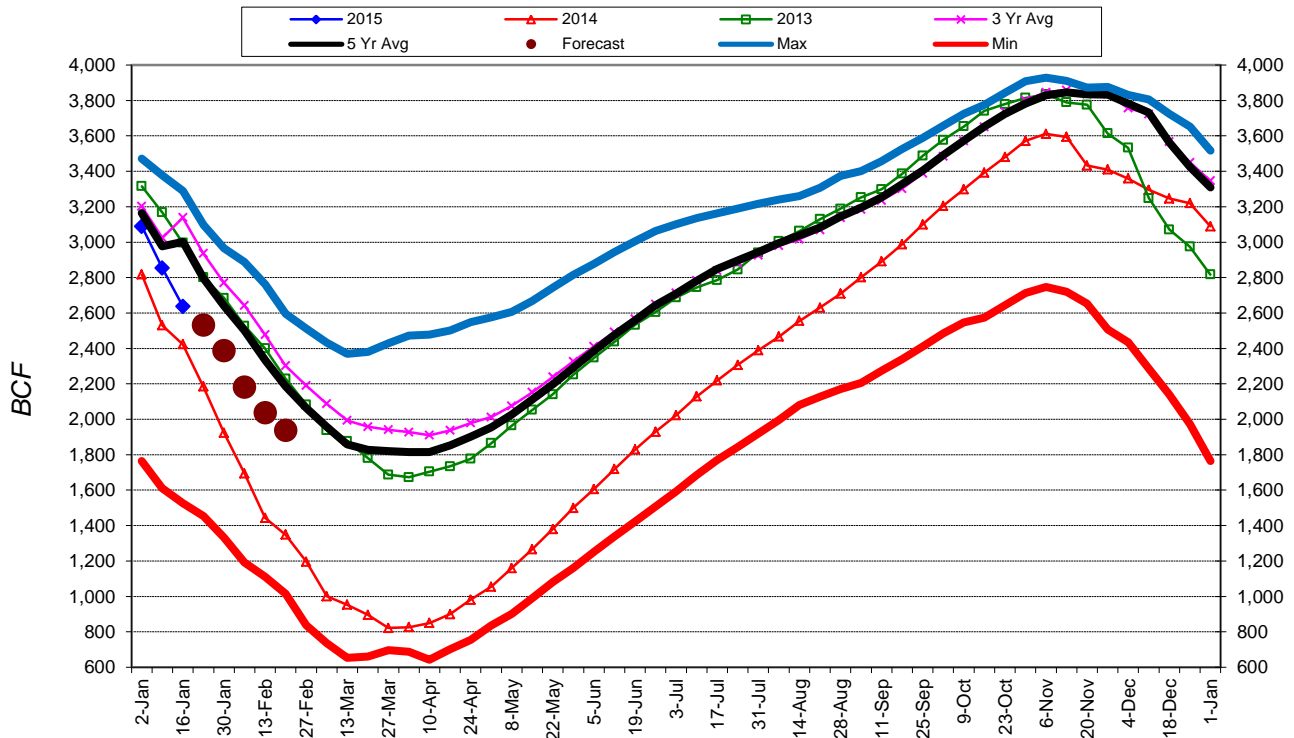
\$/MMBtu Ratio of NYMEX CL and NG



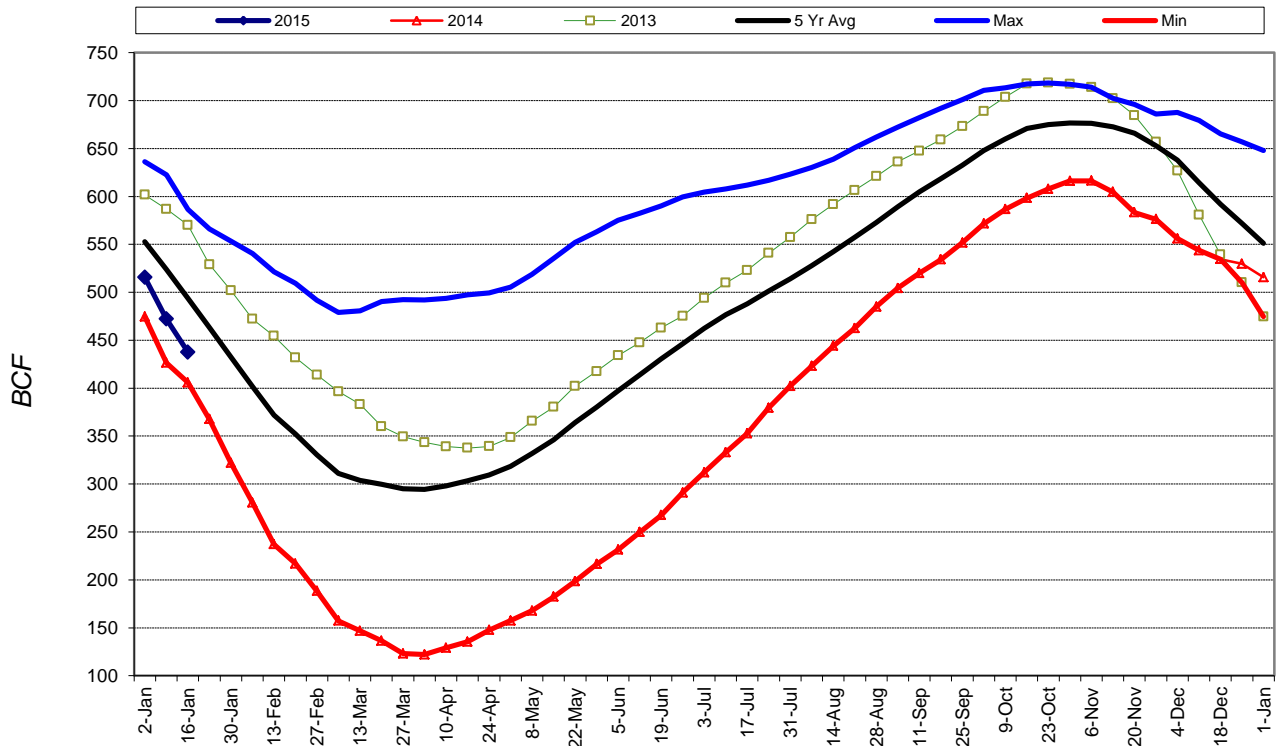
NYMEX Calendar Strips



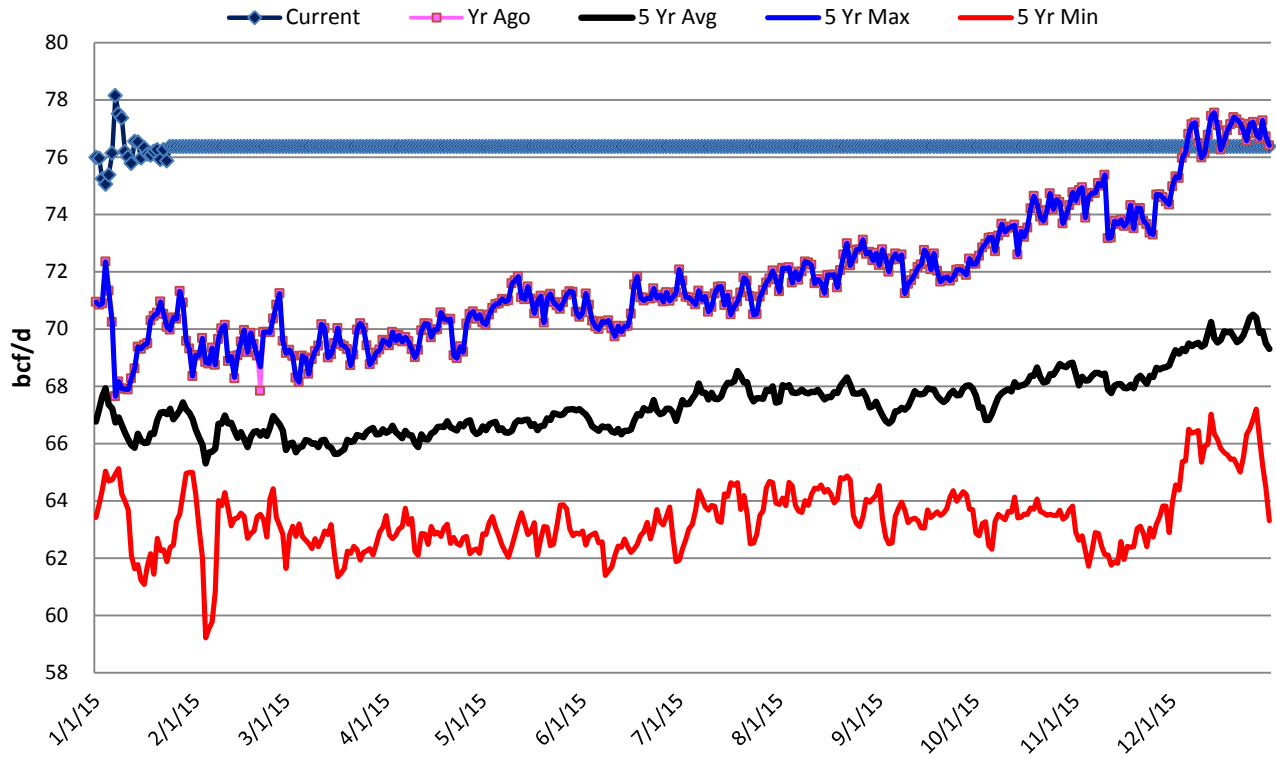
US Working Gas Storage - Source - EIA



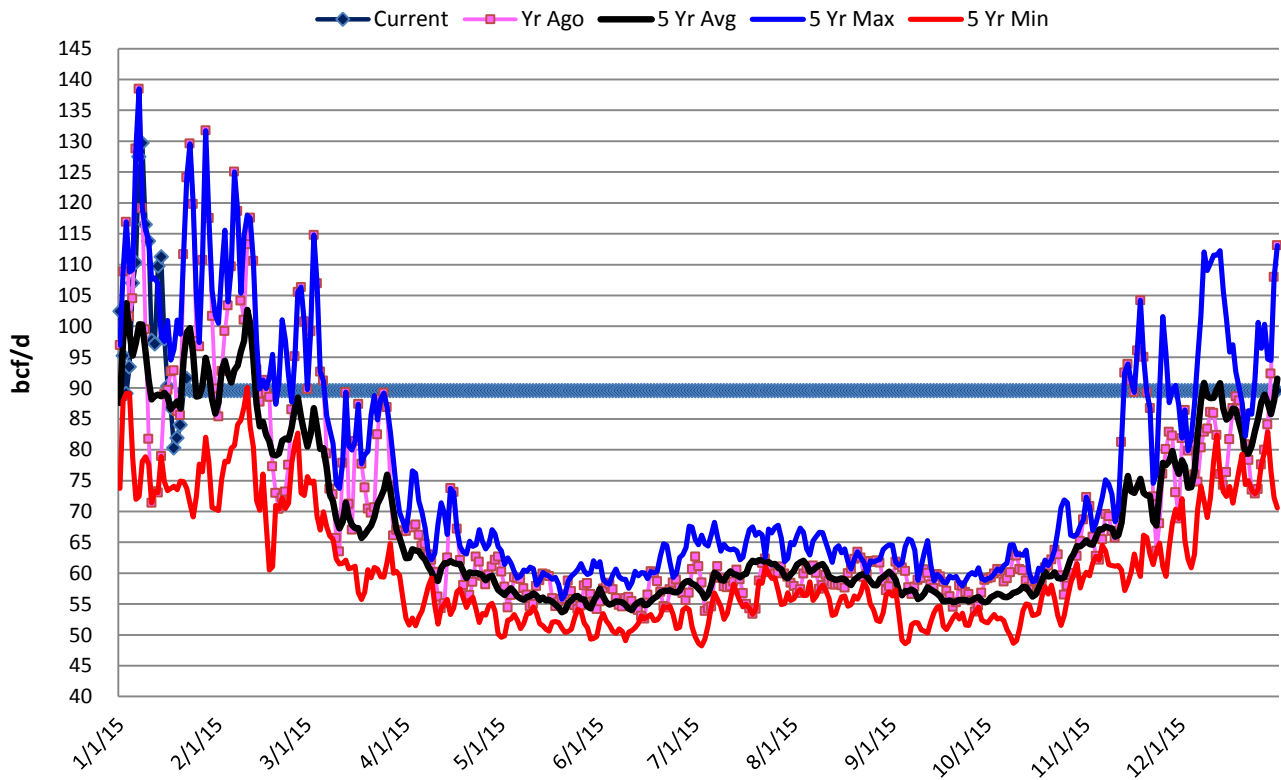
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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