

IAF Advisors
Energy Market Outlook
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Price Action: The March contract fell 26.7 cents (9.0%) to \$2.691 on a 32.9 cent range.

Price Outlook: The week began with bearish weather forecasts and prices could not establish a new high. However, true to form, prices did not remain range bound and a new low was established. This is now the 3rd consecutive week of a new weekly low. There have been 58 instances since 2000 with exactly 3 weeks in a row of new lows. There have been 38 such instances with 4 consecutive weeks of new lows. If weather forecasts do not indicate extended cold, prices are likely to continue lower. The CFTC data revealed a rather sizable increase in the managed money net short speculative position. This is now the largest speculative net short position since February 2012. Total open interest as of January 27 fell to 3.90 million contracts. The option related position was also reduced both on an absolute and percentage basis. CME futures aggregated open interest fell to 1.010 million as of January 29.

Weekly Storage: US working gas storage for the week ending January 23 indicated a draw of 94 bcf. Thus total working gas inventories fell to 2,543 bcf. Current inventories rise 358 bcf (16.4%) above last year while trailing the 5 year average by 87 bcf (3.3%).

Storage Outlook: While cold temperatures could still lower end of season storage estimations, much below temperatures are required to keep the yearly storage from approaching 900 bcf in late March or early April. This was similar to the level achieved in 2012.

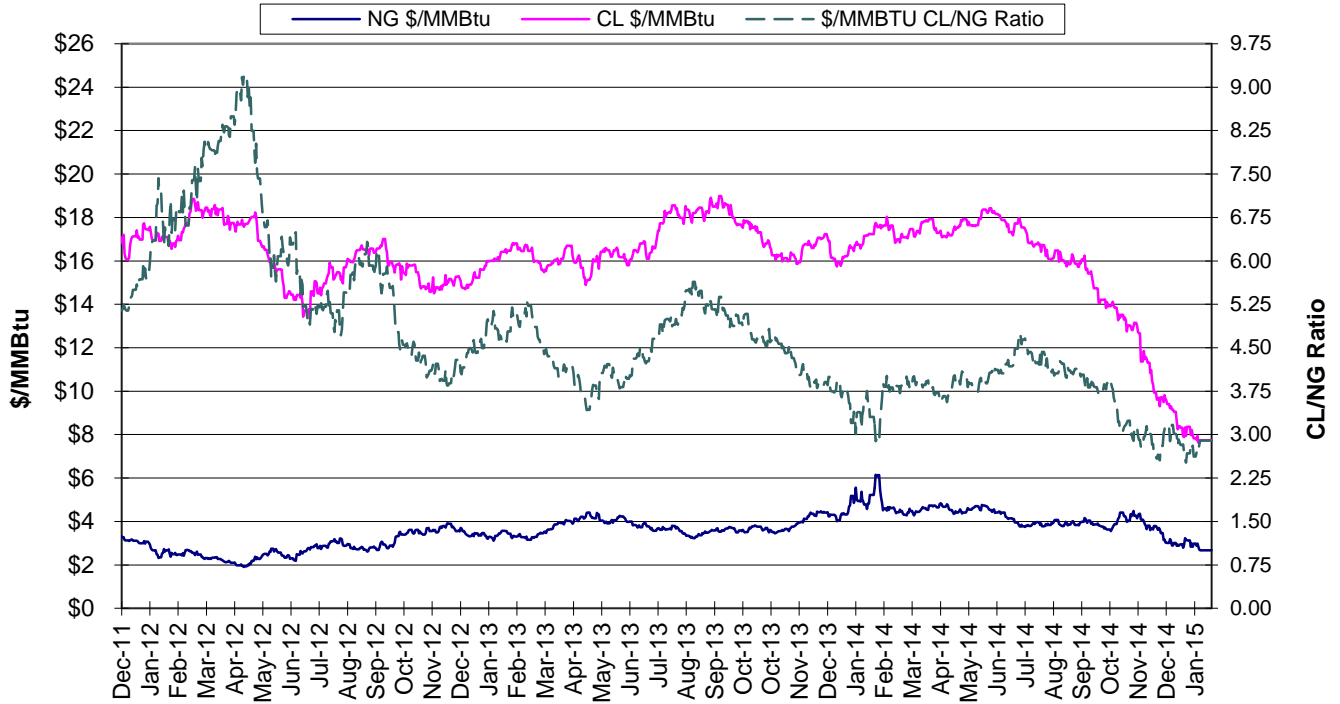
Supply Trends: Total supply fell 0.2 bcf/d to 76.2 bcf/d. US production rose and Mexican exports were lower. Canadian and LNG imports were both lower. The US Baker Hughes rig count fell 90 as oil activity continued to decline while natural gas activity rose. The total US rig count now stands at 1,543. The Canadian rig count dropped 38 to 394. Thus, the total North American rig count fell 128 to 1,937 and now trails last year by 456. The higher efficiency US horizontal rig count fell 61 to 1,168 and falls 5 below last year. This is first yearly deficit in the horizontal rig count since November 2013. EIA monthly data indicated yet another all-time record level of production. Currently, we estimate 32 Haynesville total rigs are required to maintain natural gas output. There are currently 43 total rigs operating in the Haynesville. This is not a static number and estimates will be updated monthly.

Demand Trends: Total demand fell 20.0 bcf/d to 86.3 bcf/d. All sectors were lower with R&C demand plummeting. Electricity demand fell 6,197 gigawatt-hrs to 76,681, which trails last year by 9,017 (10.5%) and the 5 year average by 3,619 (4.5%). EIA monthly data indicated November demand established a monthly record.

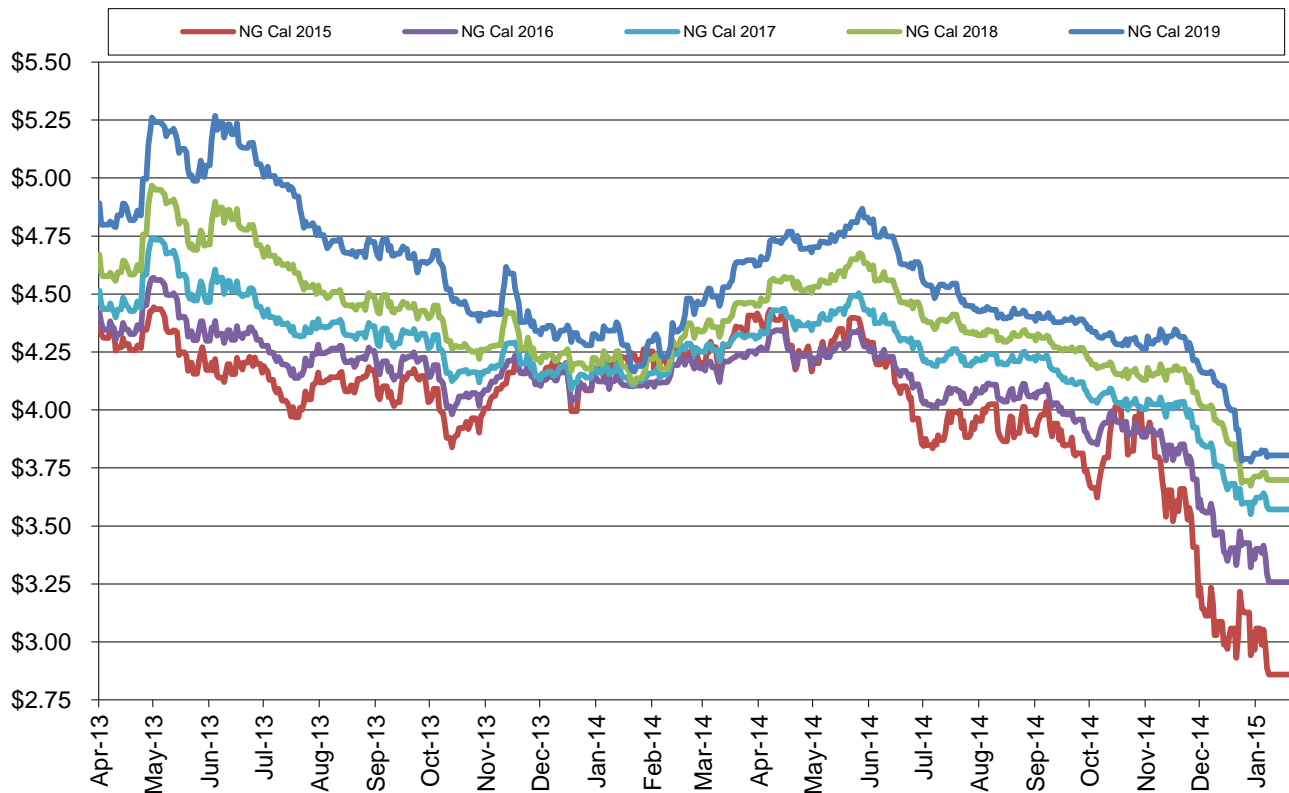
Other Factors: The S&P 500 fell back below 2,000.

- Our proprietary heating index continues to remain in 3rd place with a forecast through February 13. The total index stands at 2,019 compared to 2,288 for 2013/14, 1,946 for 2012/13, 1,928 for 2011/12 and 2,260 for 2010/11.

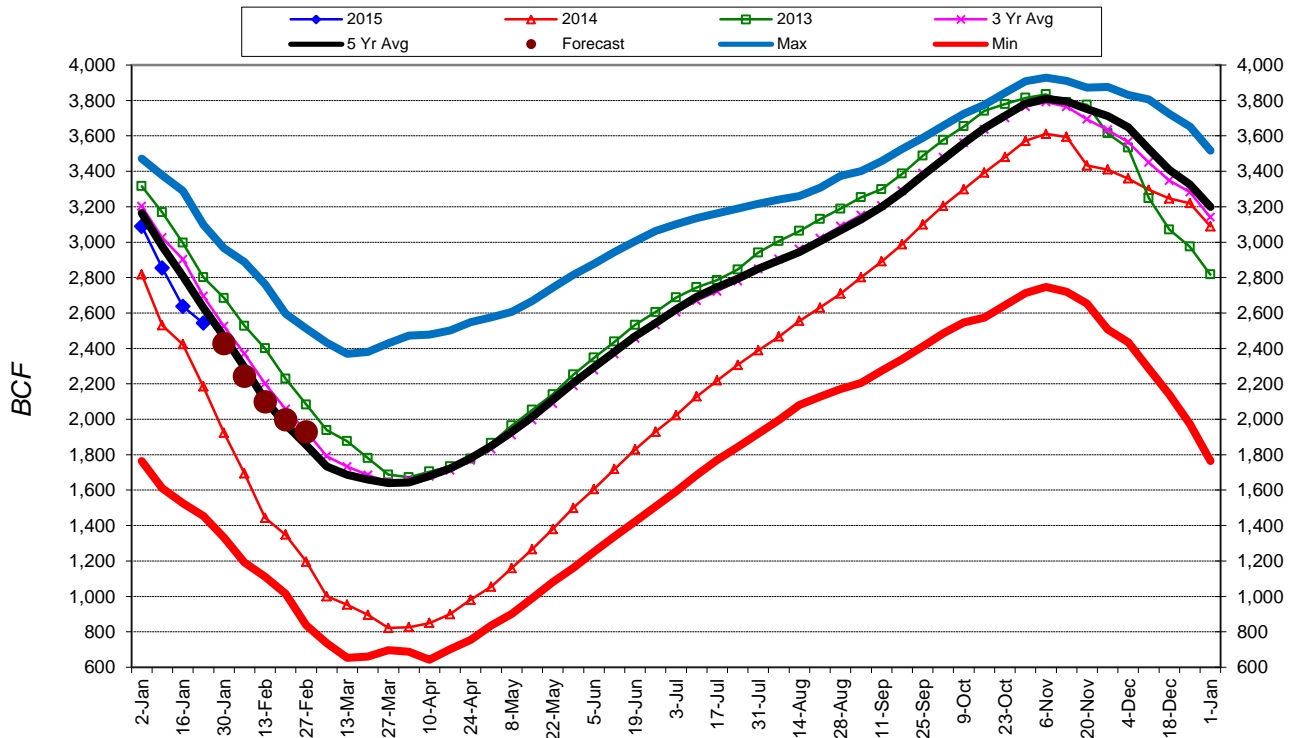
\$/MMBtu Ratio of NYMEX CL and NG



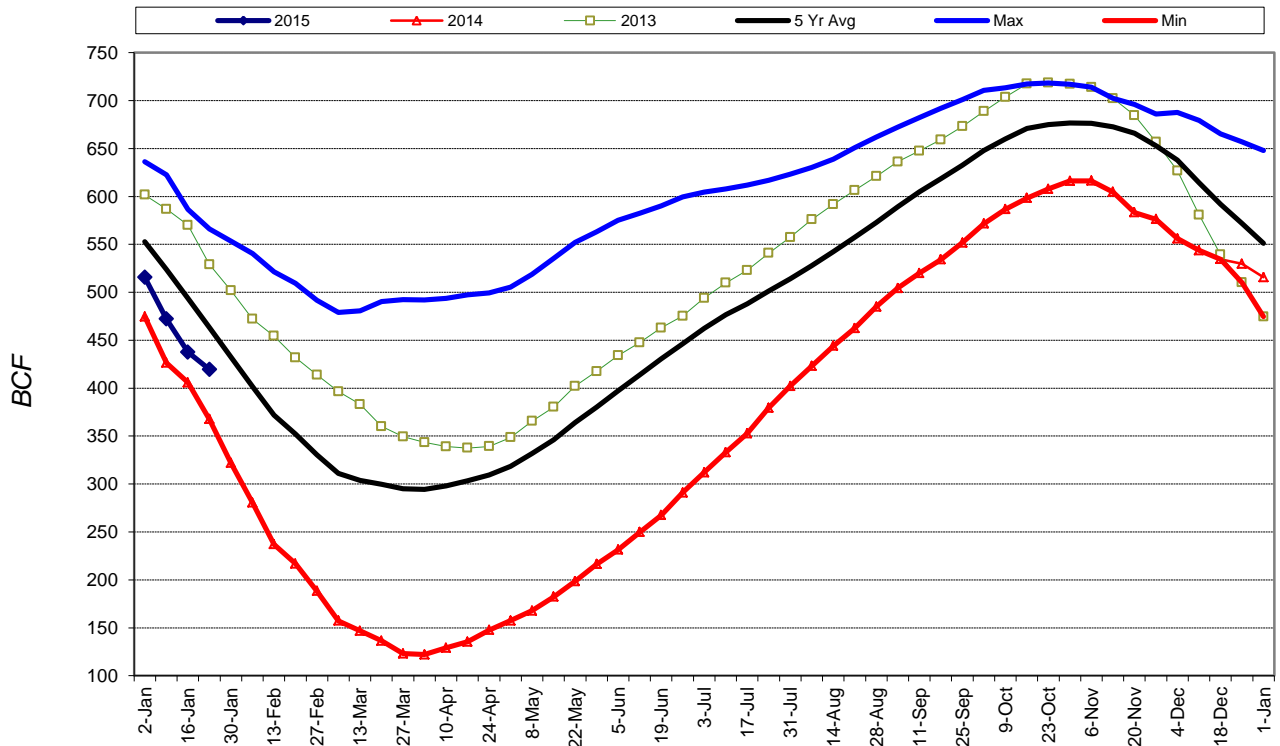
NYMEX Calendar Strips



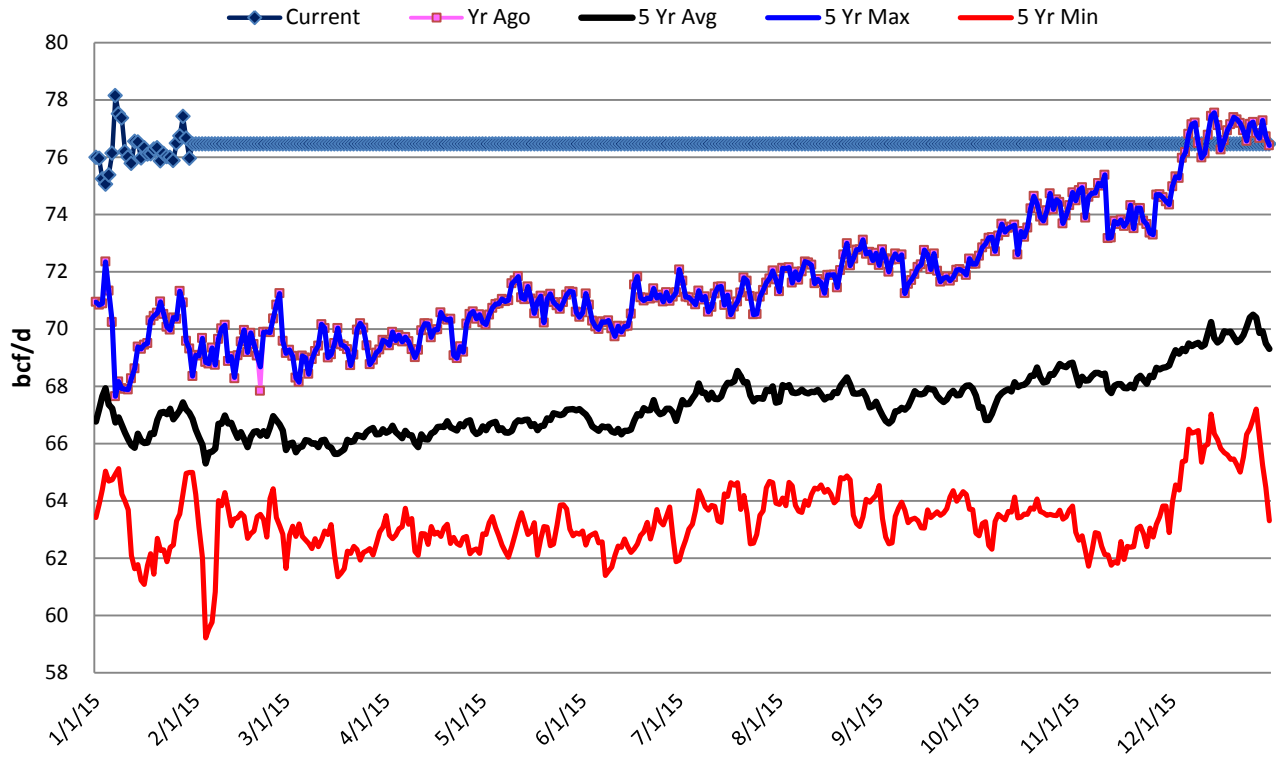
US Working Gas Storage - Source - EIA



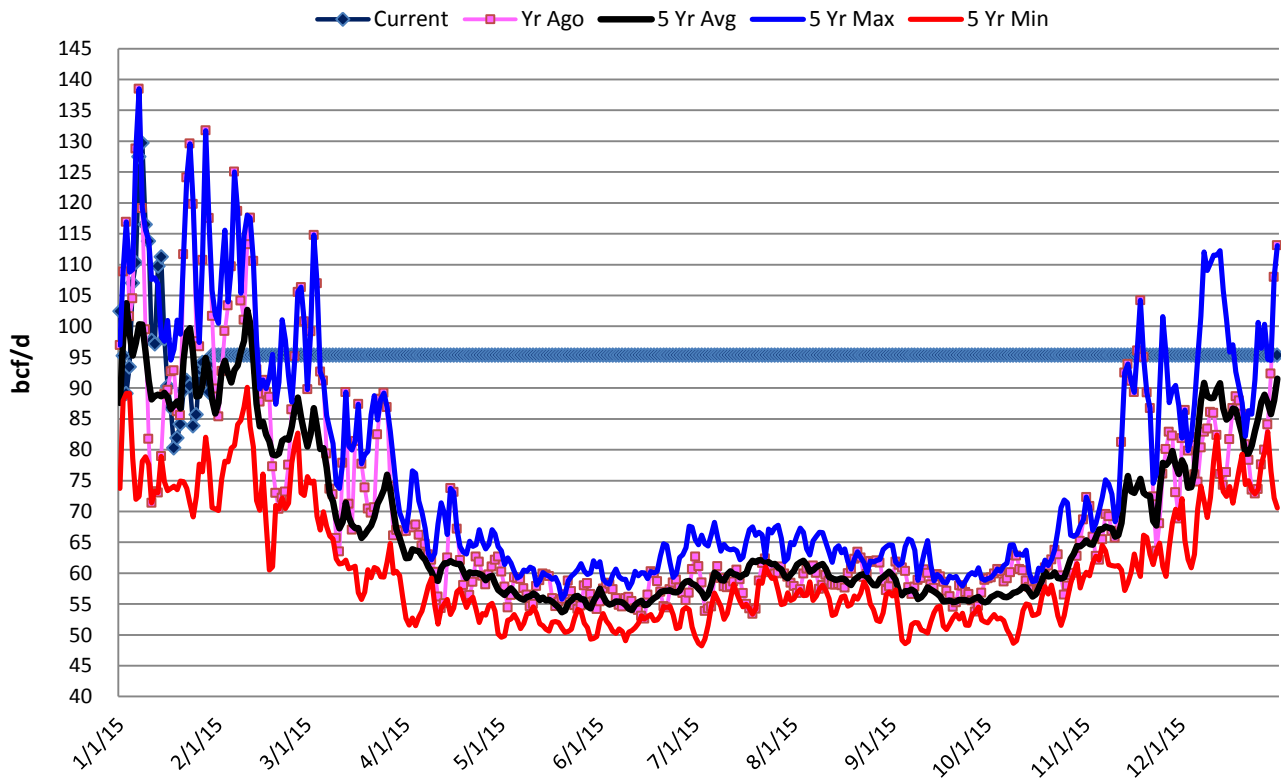
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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