

IAF Advisors
Energy Market Outlook
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Price Action: The March contract fell 11.2 cents (4.2%) to \$2.579 on a 21.6 cent range.

Price Outlook: Prices did indeed continue lower and unless the weather turns significantly colder or storage changes begin to reduce the yearly storage surplus, prices are likely still headed lower. This is now the 4th consecutive week of a new weekly low. There have been 38 instances since 2000 with exactly 4 weeks in a row of new lows. There have been 20 such instances with exactly 5 consecutive weeks of new lows. Natural gas has a history of rather sizable corrections to the prevailing trend, but the fundamentals remain quite bearish. The CFTC data revealed another rather sizable increase in the managed money net short speculative position. This is now the largest speculative net short position since January 2012. Total open interest as of February 3 remained at 3.90 million contracts. The option related position rose. CME futures aggregated open interest rose to 1.017 million as of February 5.

Weekly Storage: US working gas storage for the week ending January 30 indicated a draw of 115 bcf. Thus total working gas inventories fell to 2,428 bcf. Current inventories rise 505 bcf (26.3%) above last year while trailing the 5 year average by 38 bcf (1.6%).

Storage Outlook: While cold temperatures could still lower end of season storage estimations, much below temperatures are required to keep the yearly storage from exceeding 900 bcf in late March or early April. This was similar to the level achieved in 2012. Considering a still bearish supply/demand balance, a storage surplus of 1,000 bcf is possible.

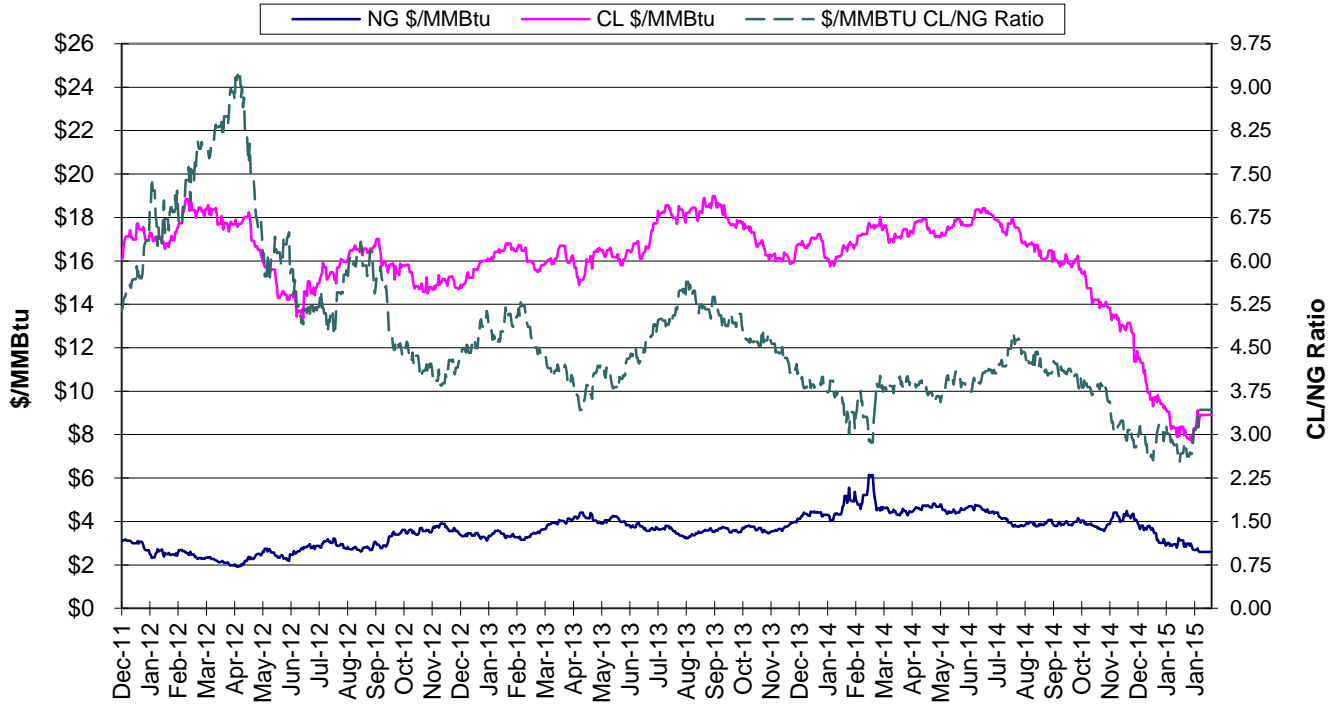
Supply Trends: Total supply rose 0.3 bcf/d to 76.5 bcf/d. US production and Canadian imports rose. Mexican exports were higher with LNG imports lower. The US Baker Hughes rig count fell 87 as both oil and natural gas activity declined. The total US rig count now stands at 1,456. The Canadian rig count dropped 13 to 381. Thus, the total North American rig count fell 100 to 1,837 and now trails last year by 555. The higher efficiency US horizontal rig count fell 80 to 1,088 and falls 88 below last year. Currently, we estimate 18 Utica total rigs are required to maintain natural gas output. There are currently 41 total rigs operating in the Utica. This is not a static number and estimates will be updated monthly. We will rotate between the Marcellus, Eagle Ford, Permian, Haynesville and Utica.

Demand Trends: Total demand rose 3.6 bcf/d to 89.9 bcf/d. All sectors were higher with R&C leading the way. Electricity demand rose 1,186 gigawatt-hrs to 77,867, which trails last year by 7,820 (9.1%) and the 5 year average by 1,825 (2.3%). Although temperature adjusted demand is stout, the supply/demand balance remains bearish with supply gains still larger.

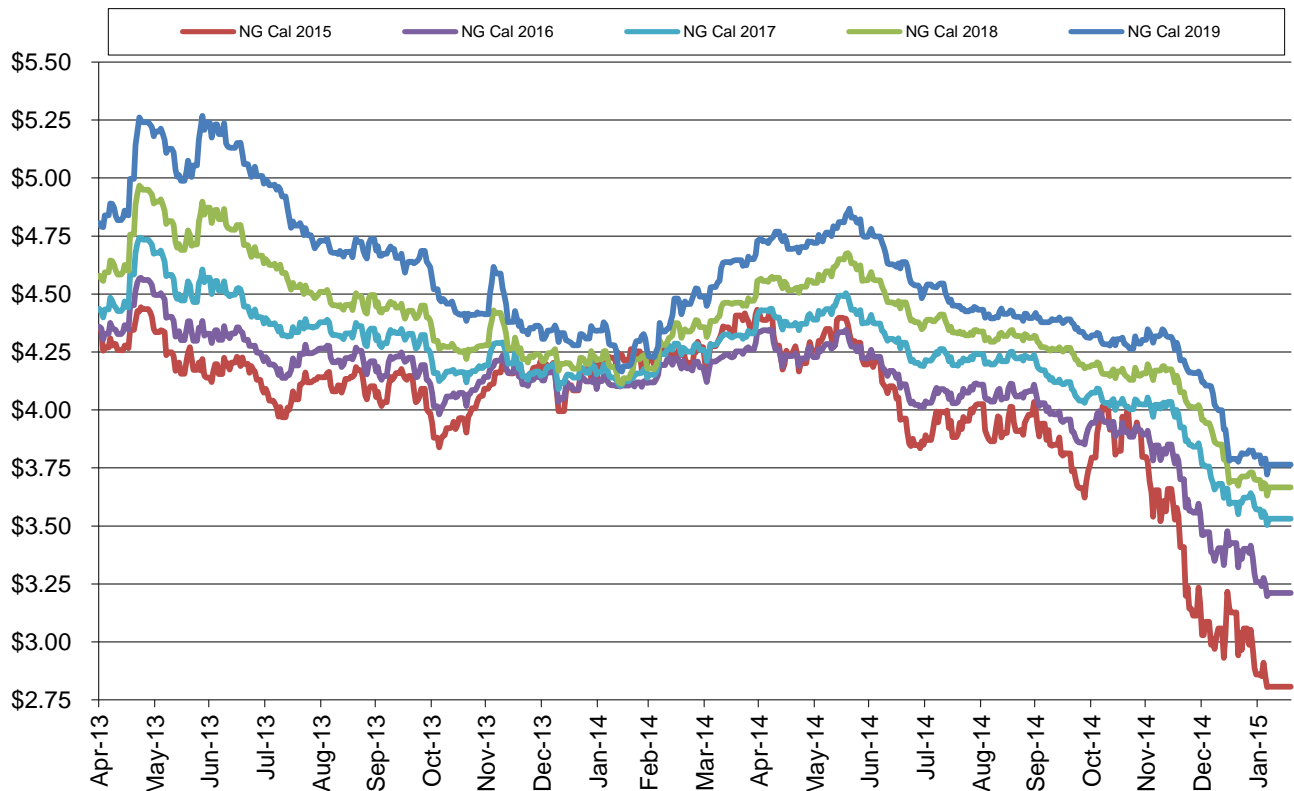
Other Factors: The S&P 500 rose back toward all-time highs.

- Our proprietary heating index continues to remain in 3rd place with a forecast through February 20. The total index stands at 2,164 compared to 2,423 for 2013/14, 2,108 for 2012/13, 2,062 for 2011/12 and 2,373 for 2010/11.

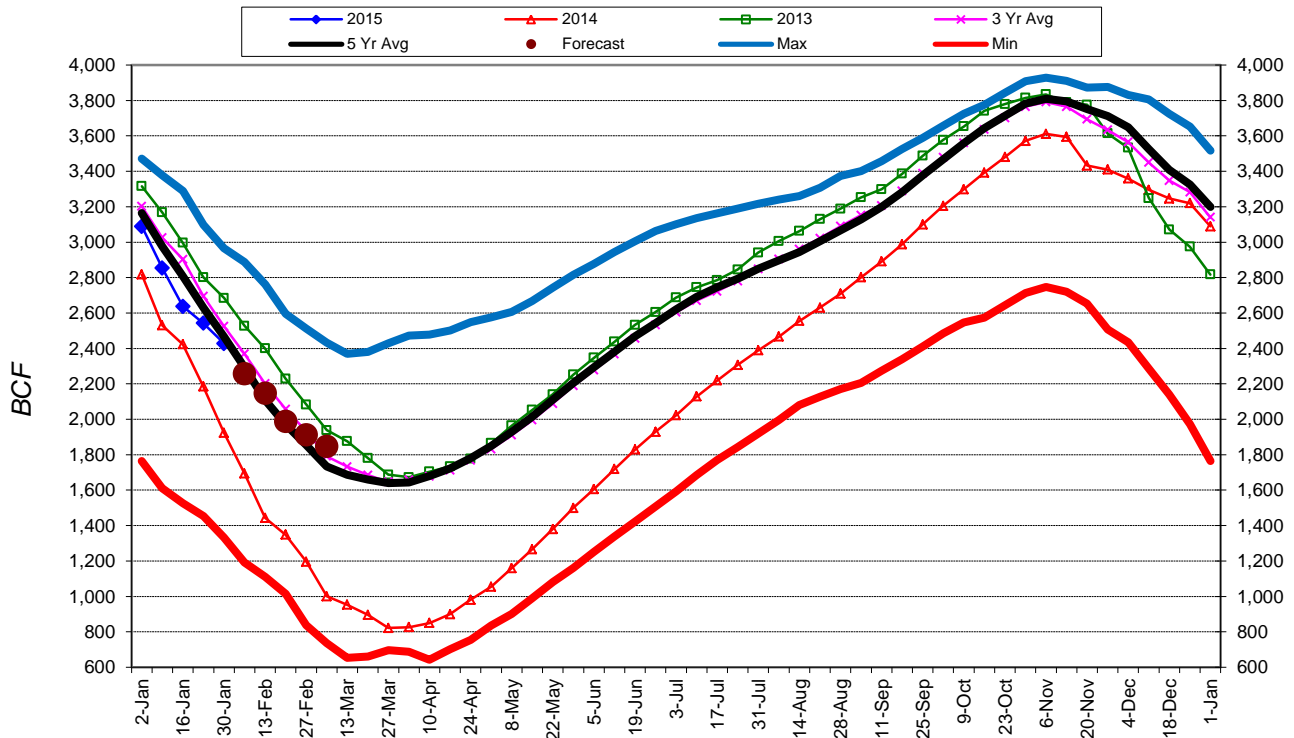
\$/MMBtu Ratio of NYMEX CL and NG



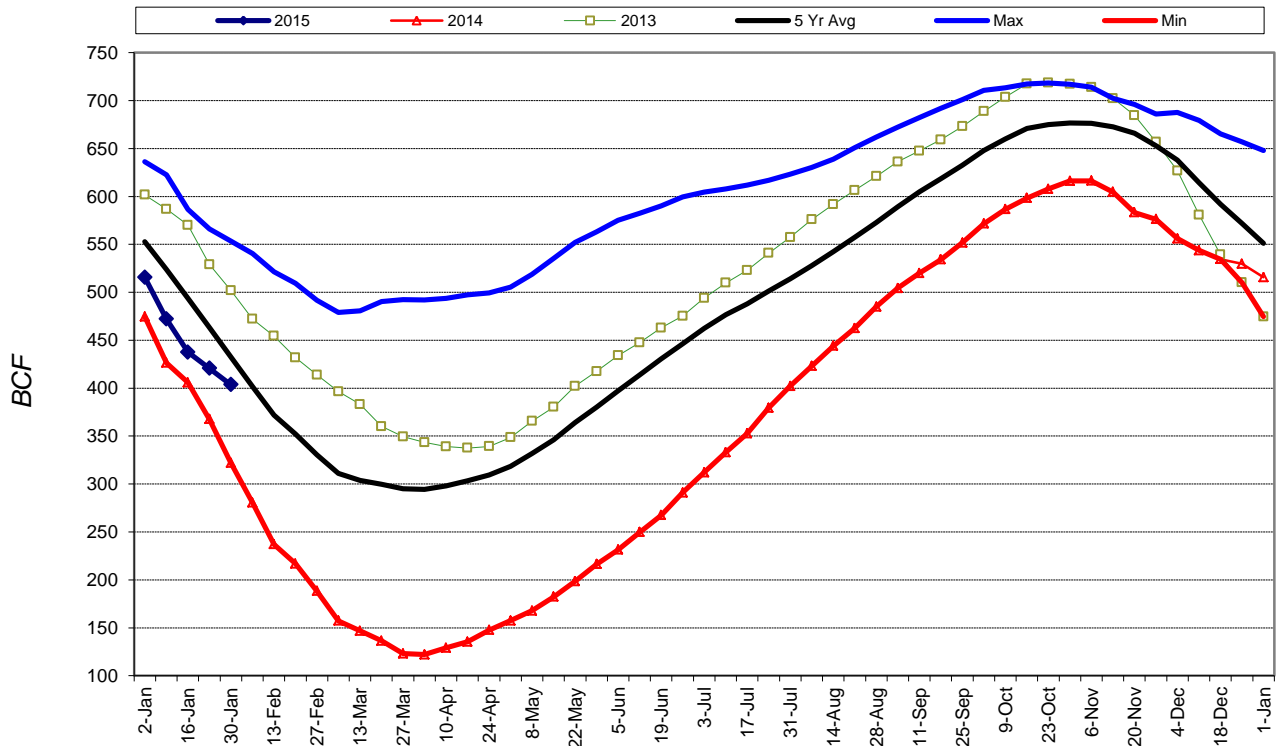
NYMEX Calendar Strips



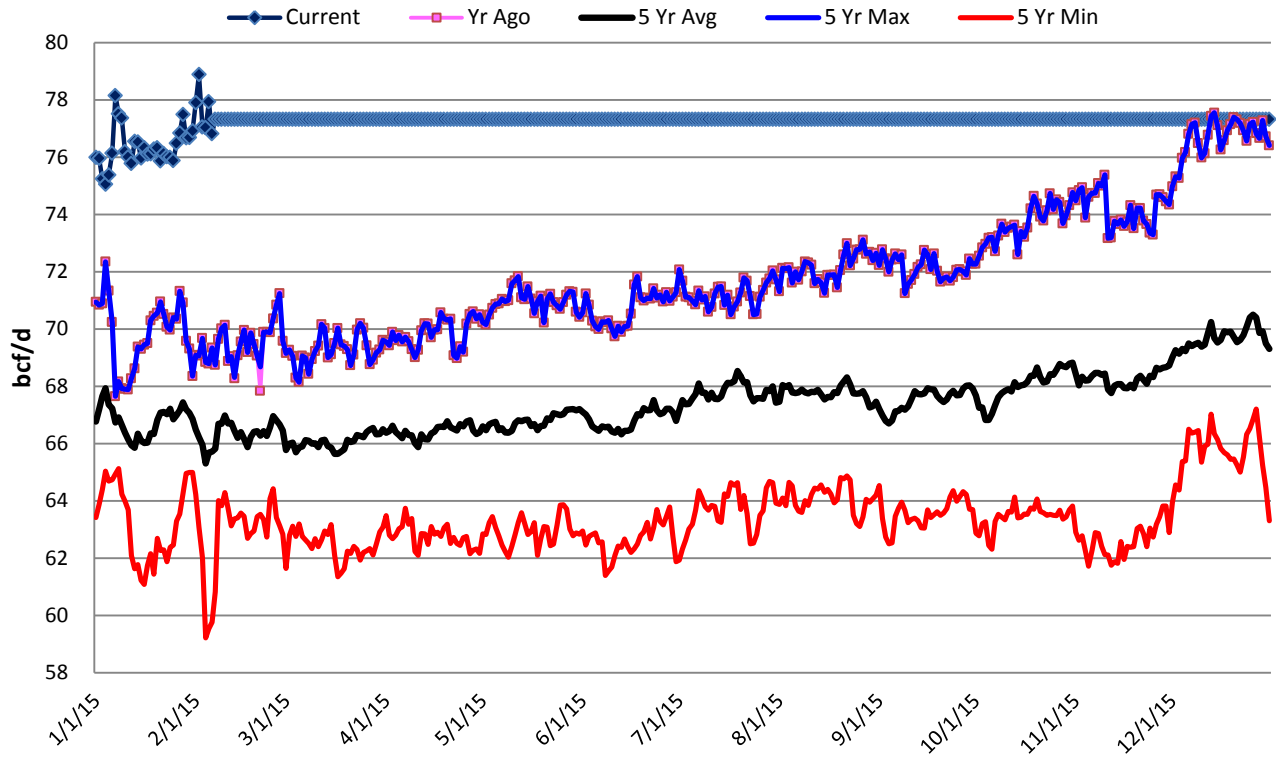
US Working Gas Storage - Source - EIA



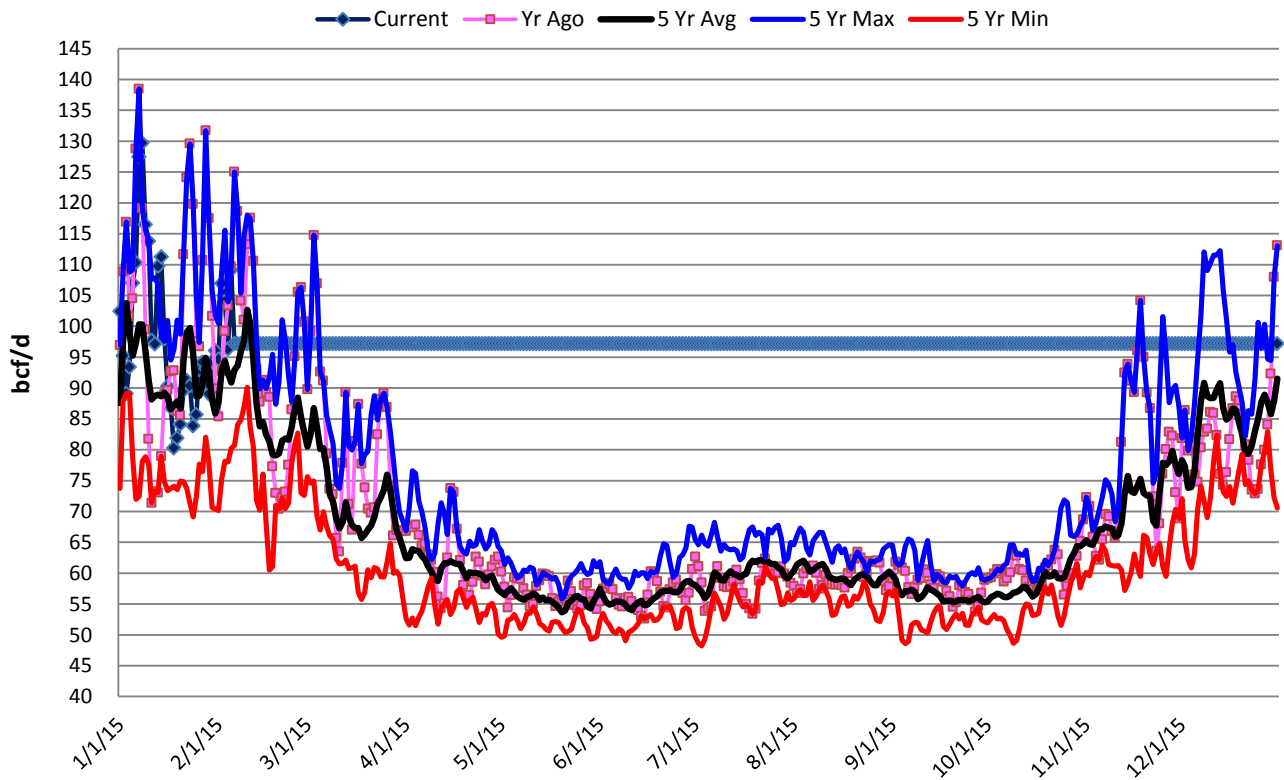
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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