

IAF Advisors  
Energy Market Outlook  
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February 20, 2015

**Price Action:** The March contract rose 14.7 cents (5.2%) to \$2.951 on a 28.7 cent range.

**Price Outlook:** Mother Nature has turned bullish and drove prices to a new weekly high. This is the 2nd weekly high in a row and only the 2nd time since August that prices have risen 2 weeks in a row. Prices rose 3 weeks in a row in November. Prices ended near the weekly high and if weather forecasts remain bullish, the easiest path is certainly for a new weekly high. However, any moderation in the weather forecasts is likely to be treated harshly with a still bearish temperature supply/demand balance in place. It should be noted that both March 2013 and 2014 were quite cold. The CFTC data indicated a slight decrease in the managed money net short speculative position. It remains quite substantial. Total open interest as of February 17 increased to 3.97 million contracts. The option related position was barely higher. CME futures aggregated open interest fell to 999,000 as of February 19. This is first time open interest has been below one million since January 28.

**Weekly Storage:** US working gas storage for the week ending February 13 indicated a draw of 111 bcf. Thus total working gas inventories fell to 2,157 bcf. Current inventories rise 714 bcf (49.5%) above last year and 49 bcf (2.3%) above the 5 year average. This is the 1st surplus to the 5 year average since November 22, 2013.

**Storage Outlook:** In early February, there were considerations of the yearly storage surplus possibly reaching 1,000 bcf. Now, there is the potential the yearly storage may have plateaued and actually witnessed the peak if these temperature forecasts persist through the balance of March.

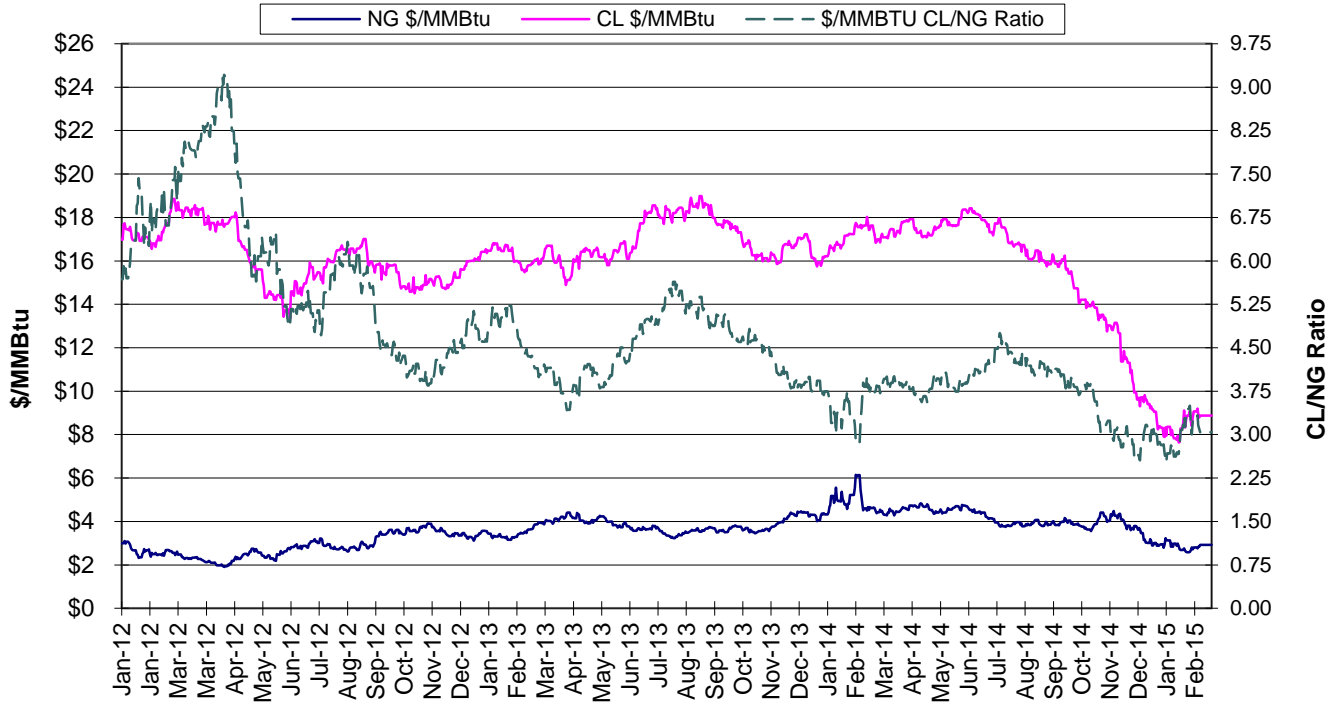
**Supply Trends:** Total supply fell 1.0 bcf/d to 76.4 bcf/d. US production was higher. Canadian and LNG imports were lower with Mexican exports higher. The US Baker Hughes rig count fell 48 as both oil and natural gas activity declined. The total US rig count now stands at 1,310. The Canadian rig count fell 22 to 360. Thus, the total North American rig count fell 70 to 1,670 and now trails last year by 733. The higher efficiency US horizontal rig count fell 46 to 979 and falls 203 below last year. This is the first time since March 25, 2011 that the US horizontal rig count has been below 1,000. Currently, we estimate 165 total Eagle Ford rigs are required to maintain natural gas output. There are currently 160 total rigs operating in the Eagle Ford. 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 fell 11.6 bcf/d to 89.0 bcf/d. All sectors were lower with R&C again leading the way. Electricity demand fell 1,515 gigawatt-hrs to 77,635, which trails last year by 5,710 (6.9%) and the 5 year average by 2,416 (3.0%). Weather forecasts since February 3 have added an impressive 285 bcf of demand due to colder temperatures. This clearly highlights the impact of Mother Nature and also the still significant impact late winter temperatures can have on end of season storage projections and the supply/demand balance.

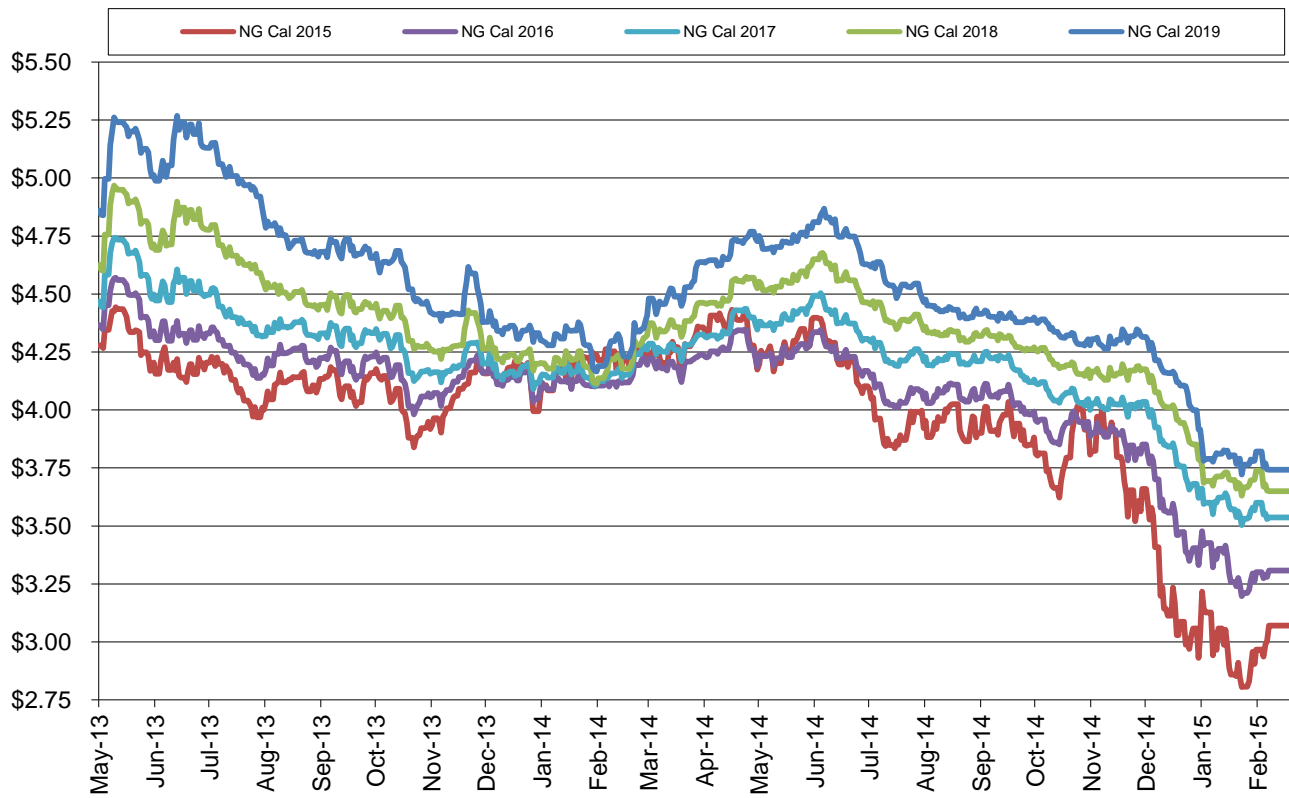
**Other Factors:** The S&P 500 continued to rise and established another new closing high.

- Our proprietary heating index continues to remain in 3rd place with a forecast through March 6. The total index stands at 2,475 compared to 2,692 for 2013/14, 2,414 for 2012/13, 2,303 for 2011/12 and 2,653 for 2010/11.

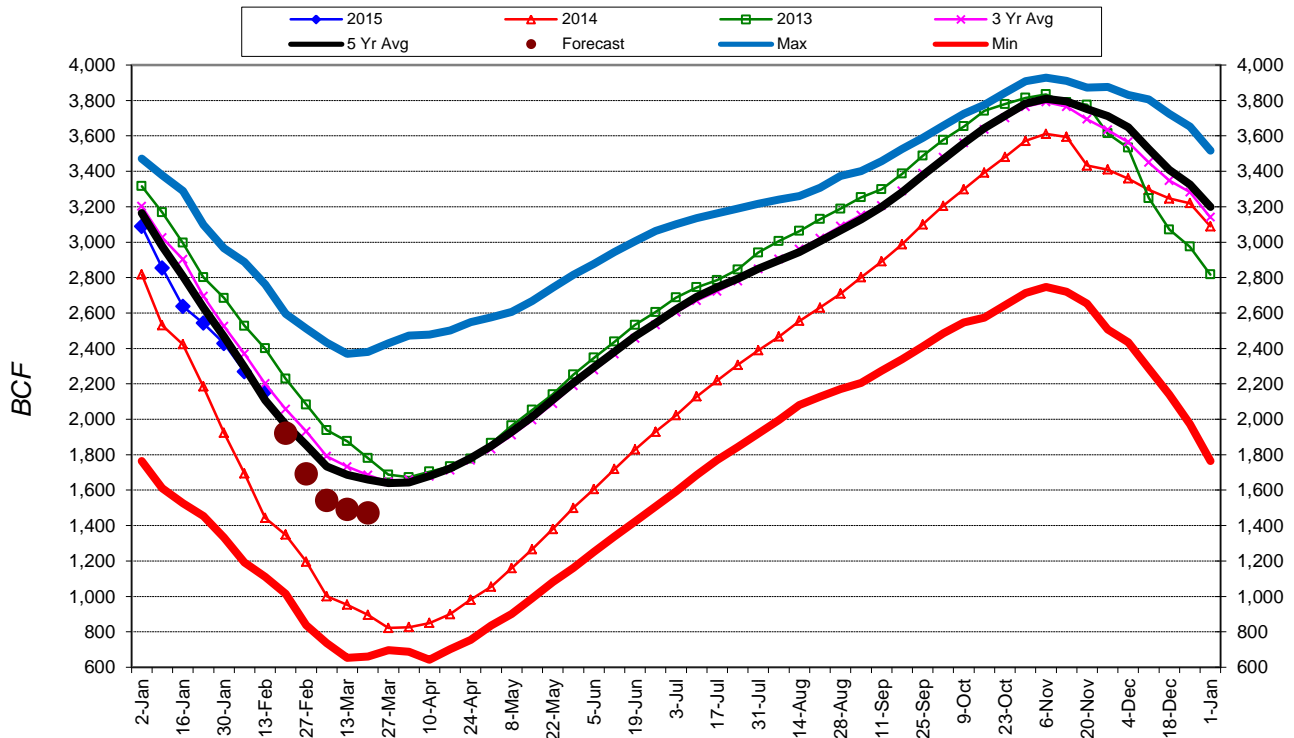
## \$/MMBtu Ratio of NYMEX CL and NG



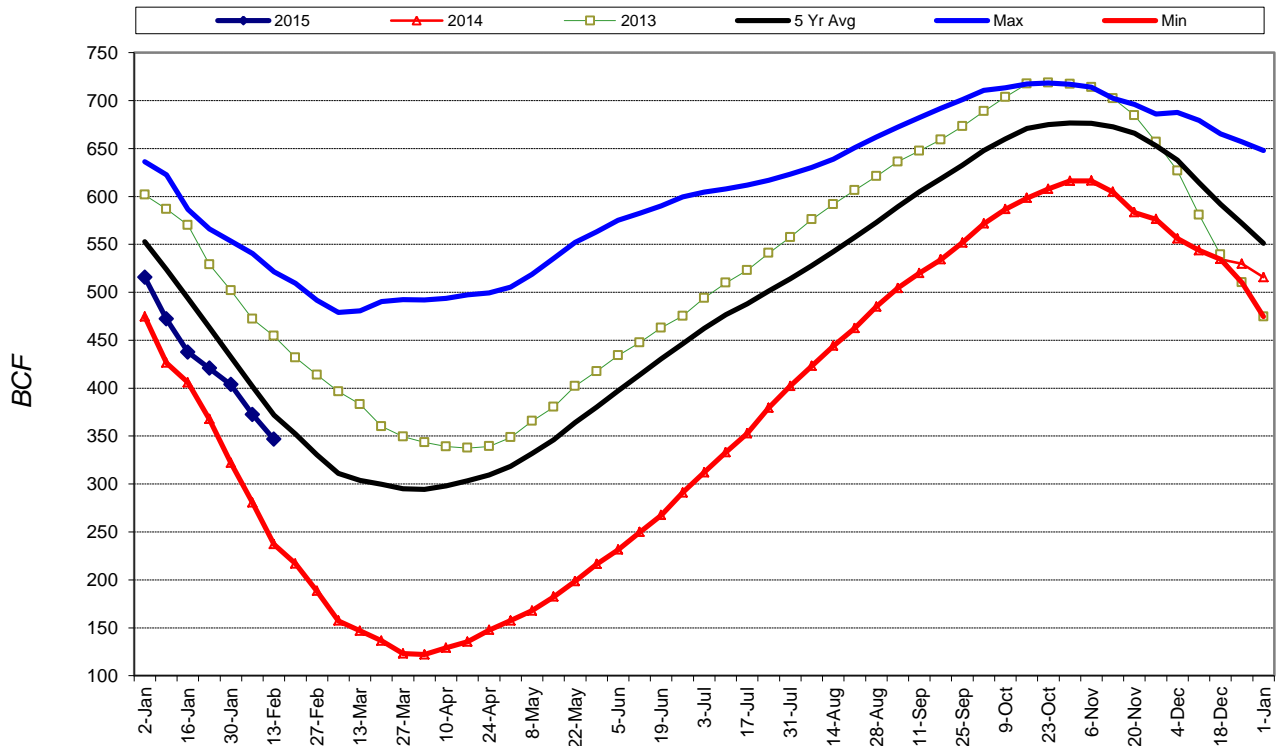
## NYMEX Calendar Strips



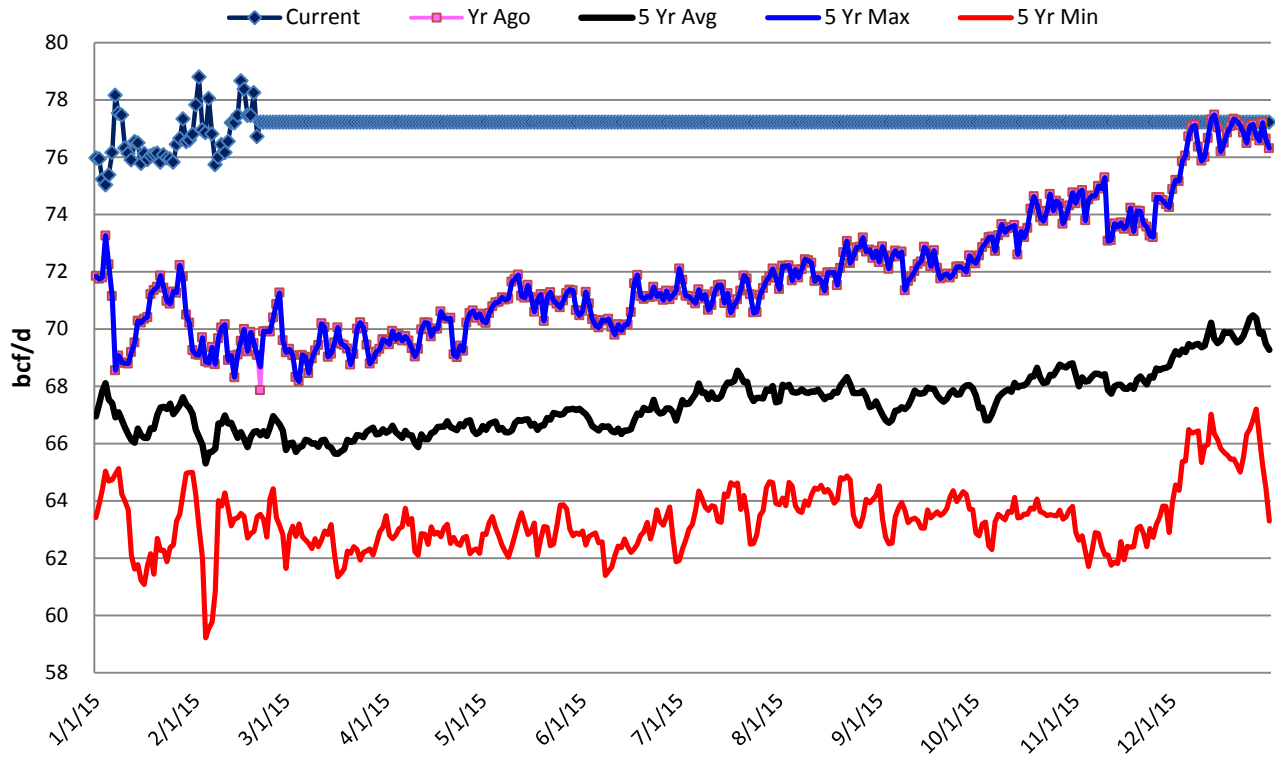
## US Working Gas Storage - Source - EIA



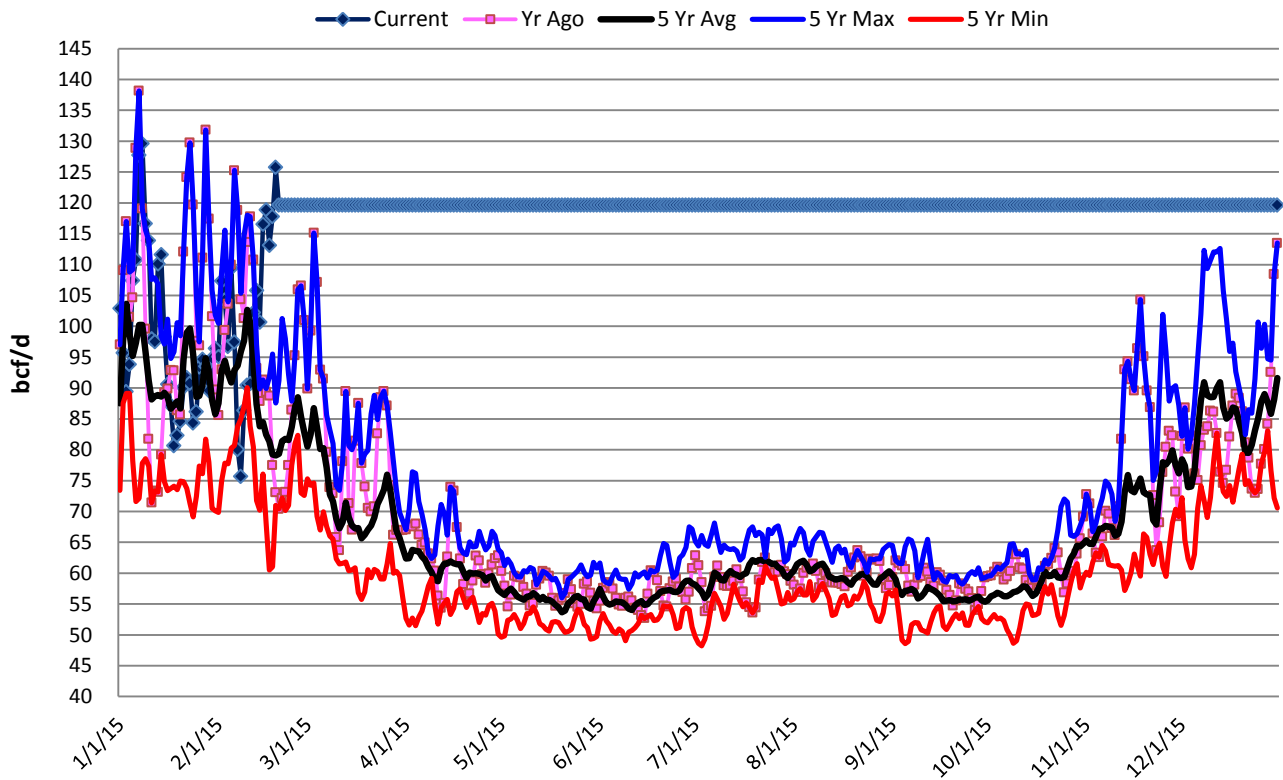
## Canadian Working Gas Storage - Enerdata



## US Total Supply



## US Total Demand



#### **ADDITIONAL INFORMATION AVAILABLE UPON REQUEST**

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