

IAF Advisors  
Energy Market Outlook  
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**Price Action:** The April contract fell 23.8 cents (8.0%) to \$2.738 on a 36.1 cent range.

**Price Outlook:** Mother Nature remained bullish early in the week and a new high was indeed established. This was the 3rd week in a row of a new high. However, weather forecasts moderated and a much lower than expected storage withdrawal lead prices lower and a new weekly low was established as well. If weather forecasts do not indicate a return to the February bullish deviations from normal, prices are likely to head lower until the supply/demand balance turns bullish. It should be noted that both March 2013 and 2014 were quite cold. The CFTC data indicated a more considerable decrease in the managed money net short speculative position. It remains quite substantial and is slightly smaller than the early February level. Total open interest as of February 24 dropped to 3.69 million contracts. The option related position was also much lower. CME futures aggregated open interest fell to 984,000 as of February 26.

**Weekly Storage:** US working gas storage for the week ending February 20 indicated a draw of 219 bcf. Thus total working gas inventories fell to 1,938 bcf. Current inventories rise 590 bcf (43.8%) above last year while trailing the 5 year average by 33 bcf (1.7%).

**Storage Outlook:** After a mild December and normal January, February was the coldest since the incredibly cold February's of 1978 and 1979. Changing temperature forecasts added 273 bcf of demand throughout the month and drastically reduced end of season estimates. A continuation of these temperatures in March could lower end of season estimates even further.

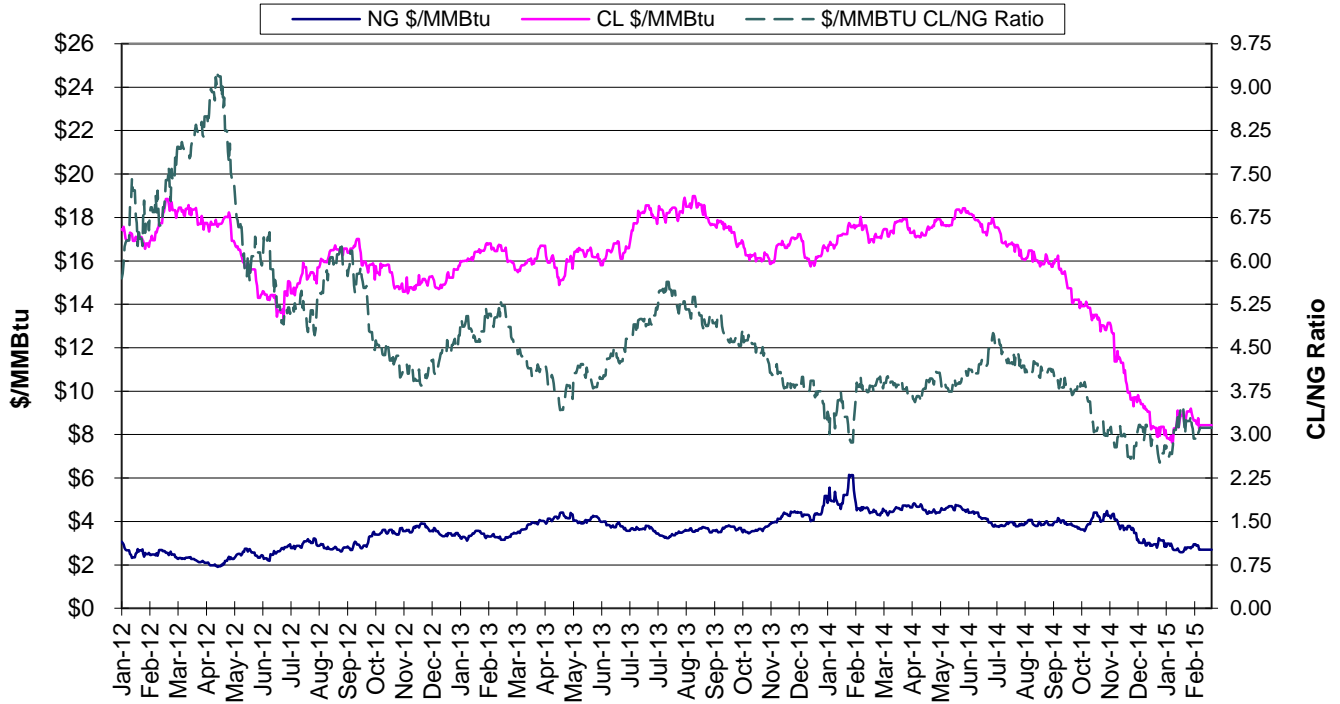
**Supply Trends:** Total supply rose 1.4 bcf/d to 77.8 bcf/d. Canadian and LNG imports were higher. US production was lower. Mexican exports were unchanged. The US Baker Hughes rig count fell 43 as both oil and natural gas activity declined. The total US rig count now stands at 1,267. The Canadian rig count fell 30 to 330. Thus, the total North American rig count fell 73 to 1,597 and now trails last year by 798. The higher efficiency US horizontal rig count fell 33 to 946 and falls 235 below last year. This is first time since December 31, 2010 that the US horizontal rig count has been below 950. Currently, we estimate 414 total Permian rigs are required to maintain natural gas output. There are currently 355 total rigs operating in the Permian. This is not a static number and estimates will be updated monthly. We will rotate between the Marcellus, Eagle Ford, Permian, Haynesville and Utica. The EIA Monthly Natural Gas report revealed yet another lower 48 US production record of 73.38 bcf/d in December.

**Demand Trends:** Total demand rose 25.1 bcf/d to 114.1 bcf/d. All sectors were higher with R&C again leading the way. Electricity demand rose 8,427 gigawatt-hrs to 86,062, which exceeds last year by 12,805 (17.5%) and the 5 year average by 9,941 (13.1%). The EIA Monthly Natural Gas report revealed that despite very moderate temperatures, demand was the 3rd highest on record for December.

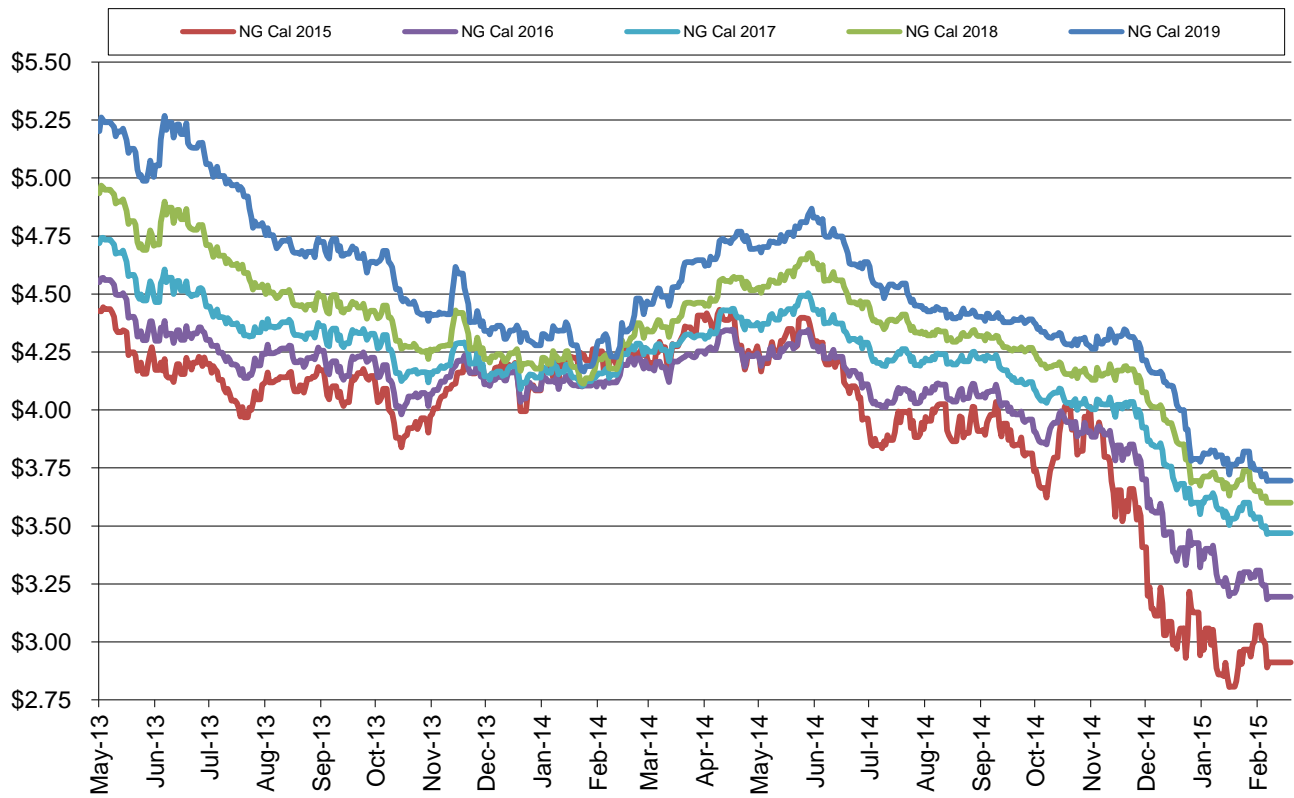
**Other Factors:** The S&P 500 established a new high, but backed off to end the week.

- Our proprietary heating index continues to remain in 3rd place with a forecast through March 13. The total index stands at 2,575 compared to 2,804 for 2013/14, 2,533 for 2012/13, 2,396 for 2011/12 and 2,759 for 2010/11.

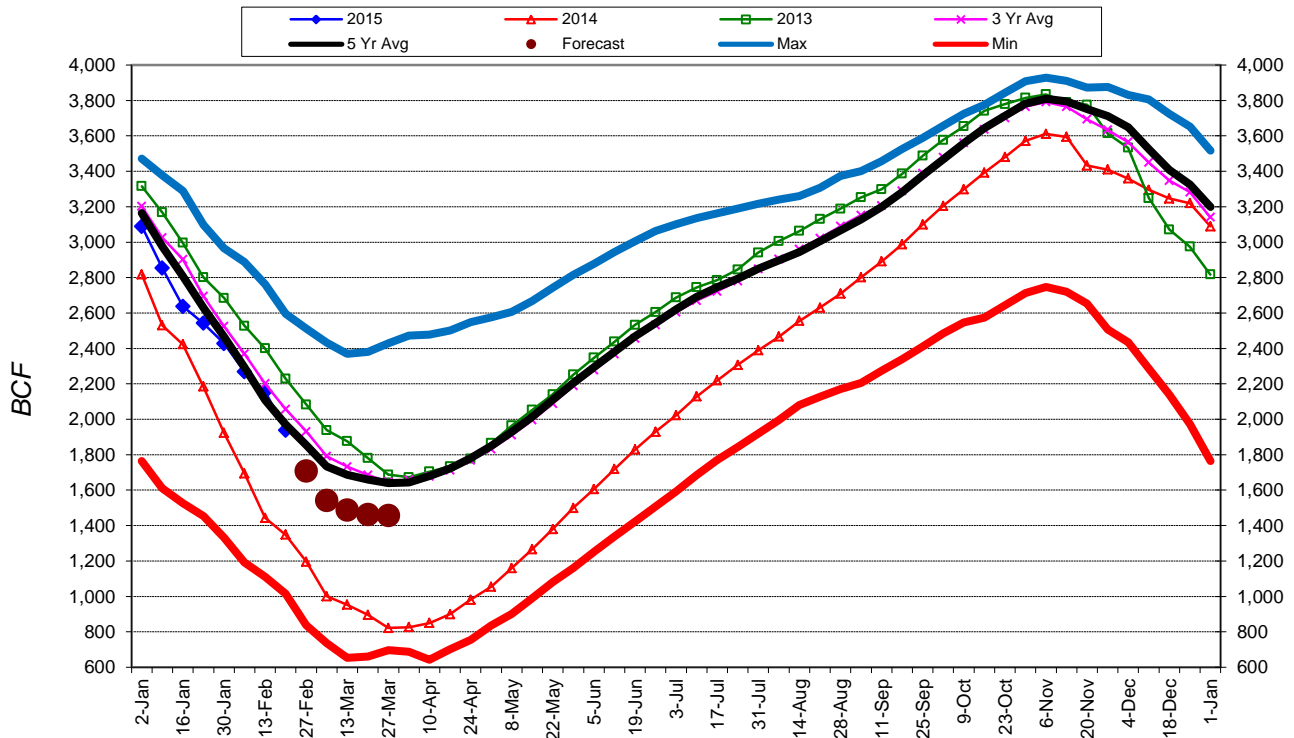
## \$/MMBtu Ratio of NYMEX CL and NG



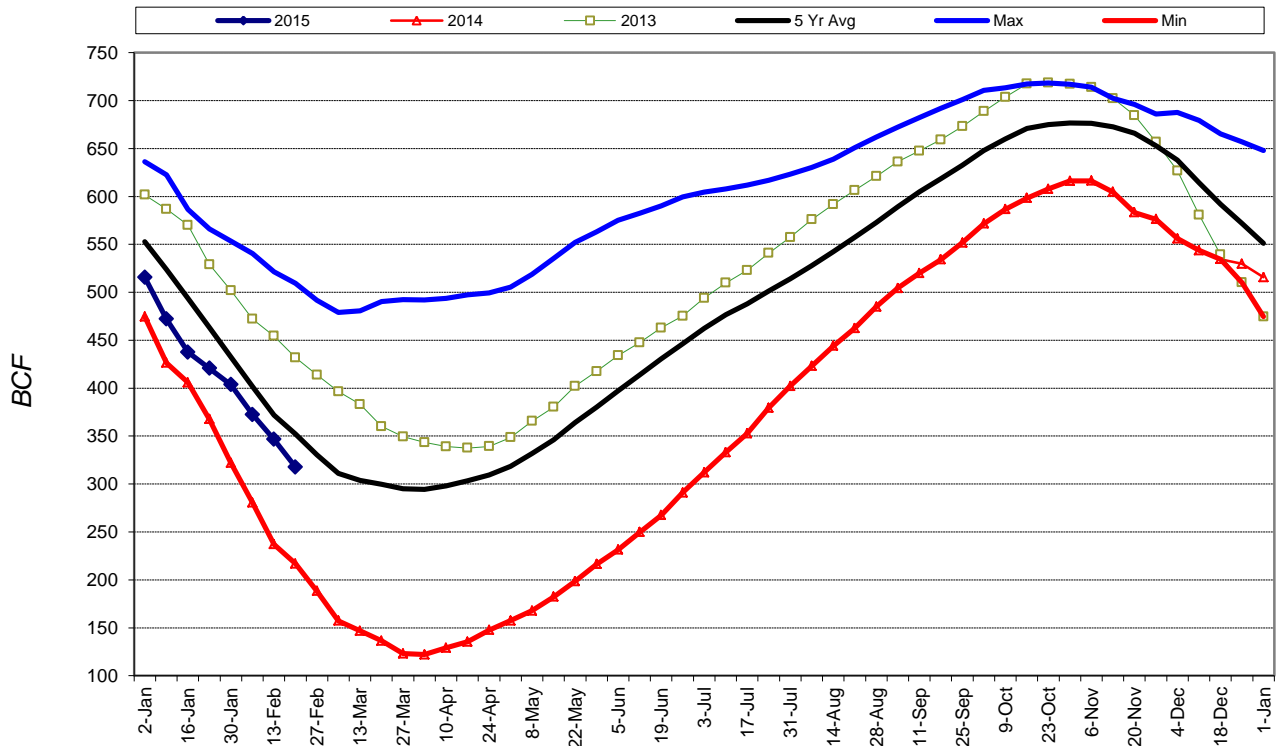
## NYMEX Calendar Strips



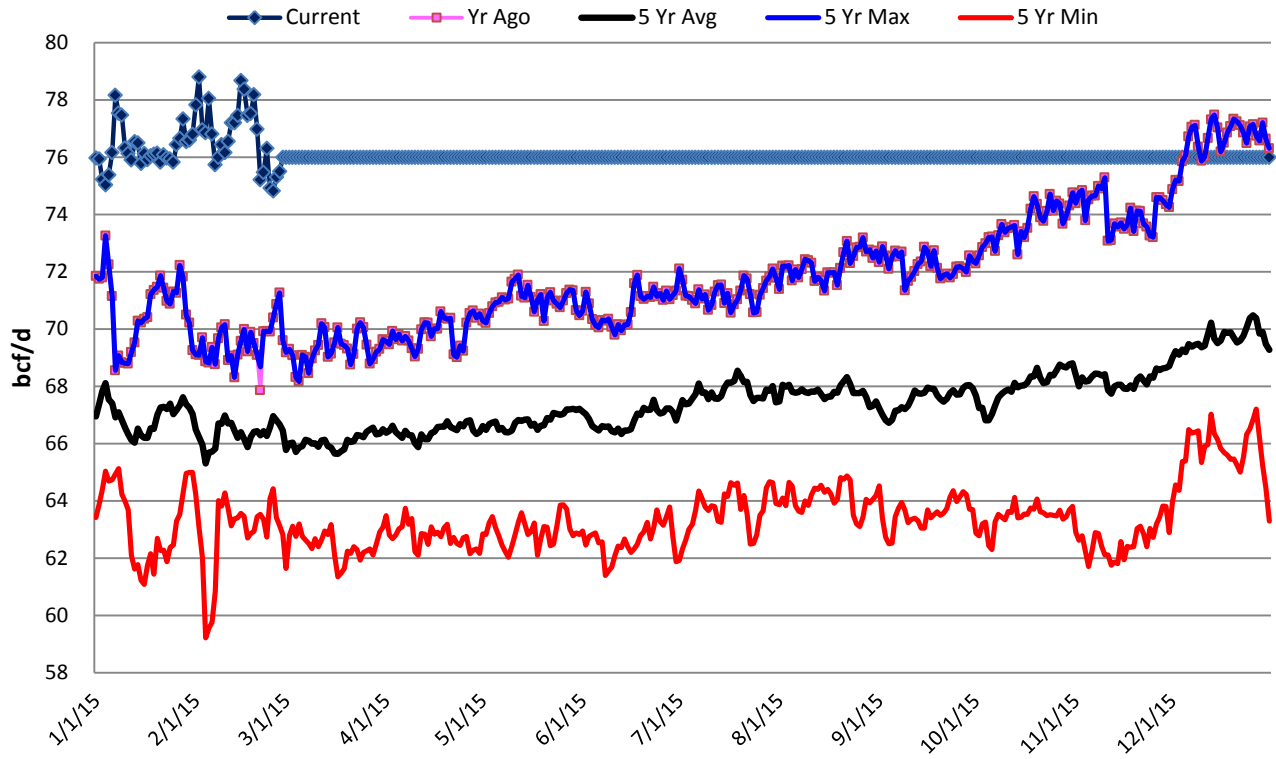
## US Working Gas Storage - Source - EIA



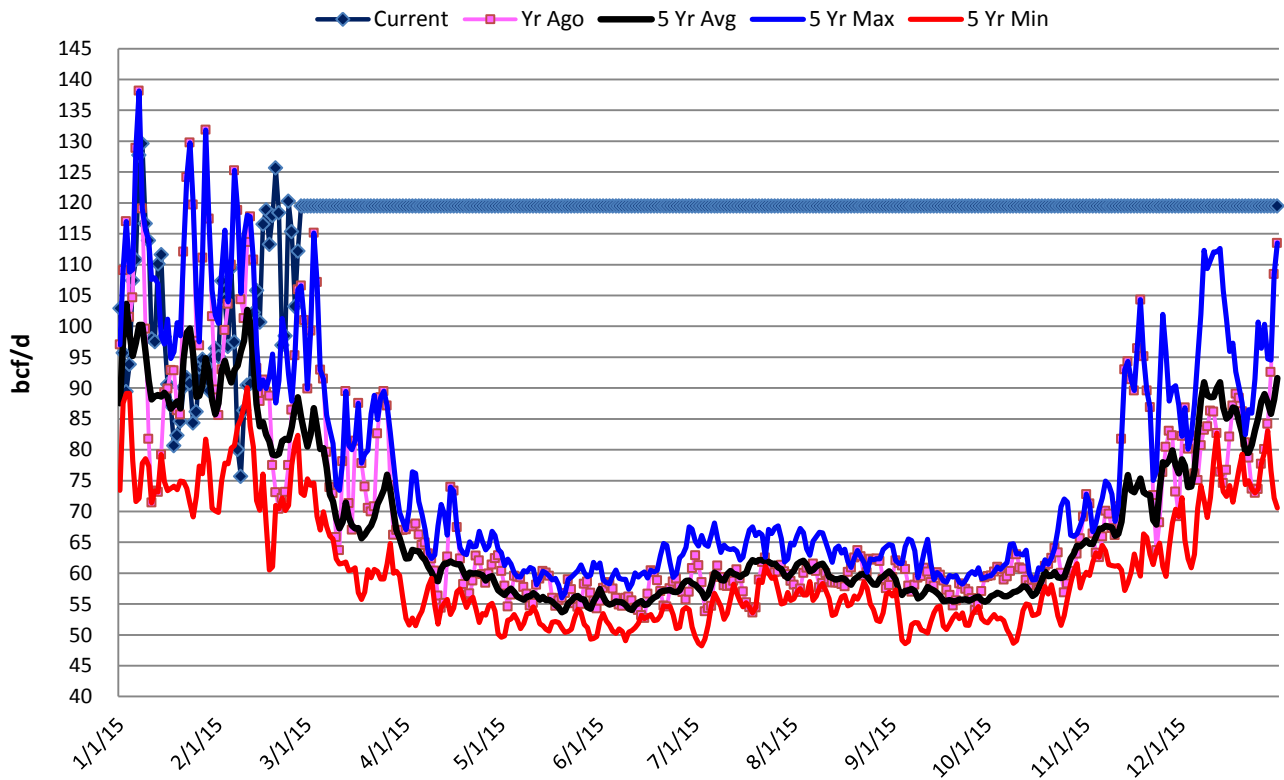
## Canadian Working Gas Storage - Enerdata



## US Total Supply



## US Total Demand



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

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