

IAF Advisors
Energy Market Outlook
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Price Action: The April contract rose 10.5 cents (3.8%) to \$2.839 on a 22.9 cent range.

Price Outlook: True to form, the market established a new low before heading higher. Even though prices ended near the weekly high, moderating temperature forecasts and a still fundamentally bearish supply/demand balance suggest a new weekly low. Still, the market has been unable to forge new lows even as winter comes to a close. Price action the next few weeks is crucial as injections are expected to trail last year in April and erode the yearly storage surplus. A declining storage surplus has generally been price supportive. This is especially true if the pace of surplus reduction is rapid. The CFTC data indicated an increase in the managed money net short speculative position. It remains smaller than the positions of February. Total open interest as of March 3 dropped to 3.61 million contracts. The option related position actually rose. CME futures aggregated open interest rose to 989,000 as of March 5.

Weekly Storage: US working gas storage for the week ending February 27 indicated a draw of 228 bcf. Thus total working gas inventories fell to 1,710 bcf. Current inventories rise 514 bcf (43.0%) above last year while trailing the 5 year average by 145 bcf (7.8%).

Storage Outlook: Forecasts for moderating temperatures toward the latter half of March may result in small builds during this period. This remains dependent on actual temperatures with the heavy Northeast snow cover likely tempering warm ups. Still, the supply/demand balance is deemed bearish and until there is a more apparent tightening in the supply/demand balance, price rallies are probably going to remain limited.

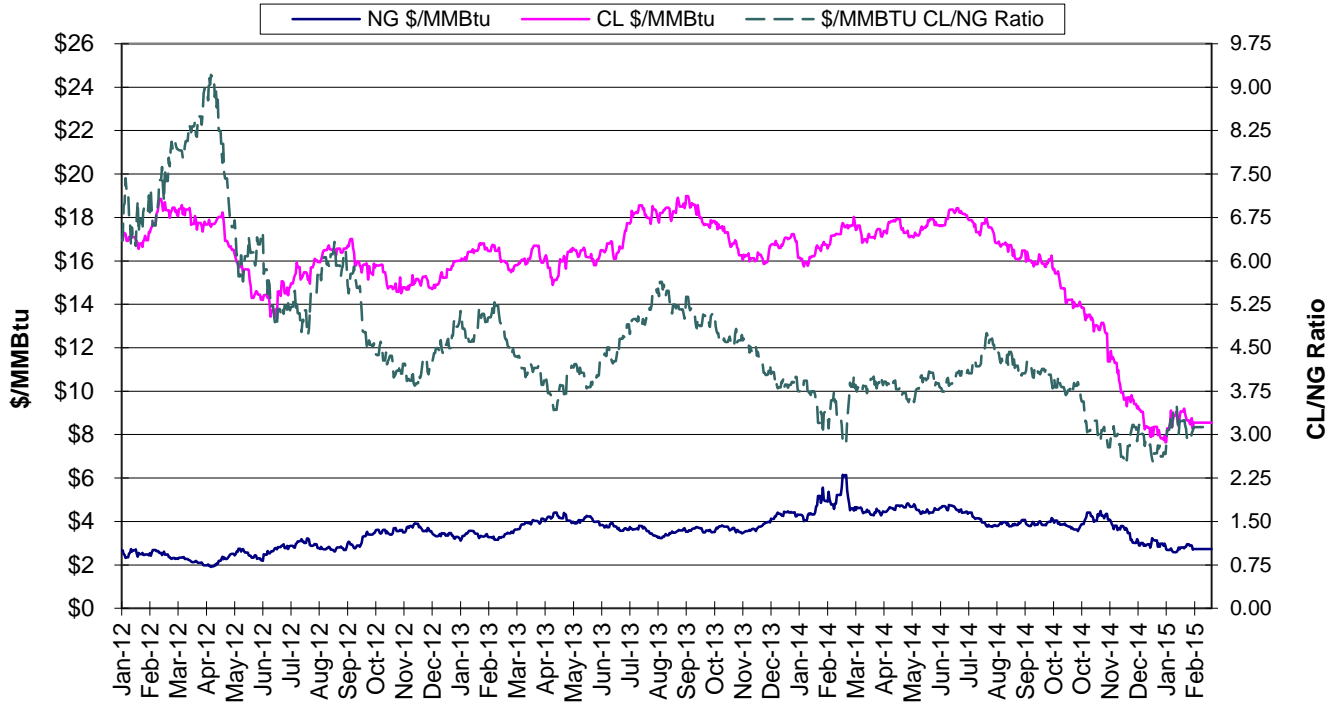
Supply Trends: Total supply fell 2.2 bcf/d to 75.6 bcf/d. US production, Canadian and LNG imports were lower while Mexican exports were higher. The US Baker Hughes rig count fell 75 as both oil and natural gas activity declined. The total US rig count now stands at 1,192. The Canadian rig count fell 30 to 300. Thus, the total North American rig count fell 105 to 1,492 and now trails last year by 887. The higher efficiency US horizontal rig count fell 51 to 895 and falls 307 below last year. This is first time since August 20, 2010 that the US horizontal rig count has been below 900. Currently, we estimate 29 total Haynesville rigs are required to maintain natural gas output. There are currently 38 total rigs operating in the Haynesville. This is not a static number and estimates will be updated monthly.

Demand Trends: Total demand fell 4.9 bcf/d to 109.2 bcf/d. All sectors were lower with R&C again leading the way. Electricity demand fell 667 gigawatt-hrs to 85,395 which exceeds last year by 7,308 (9.4%) and the 5 year average by 9,881 (13.1%).

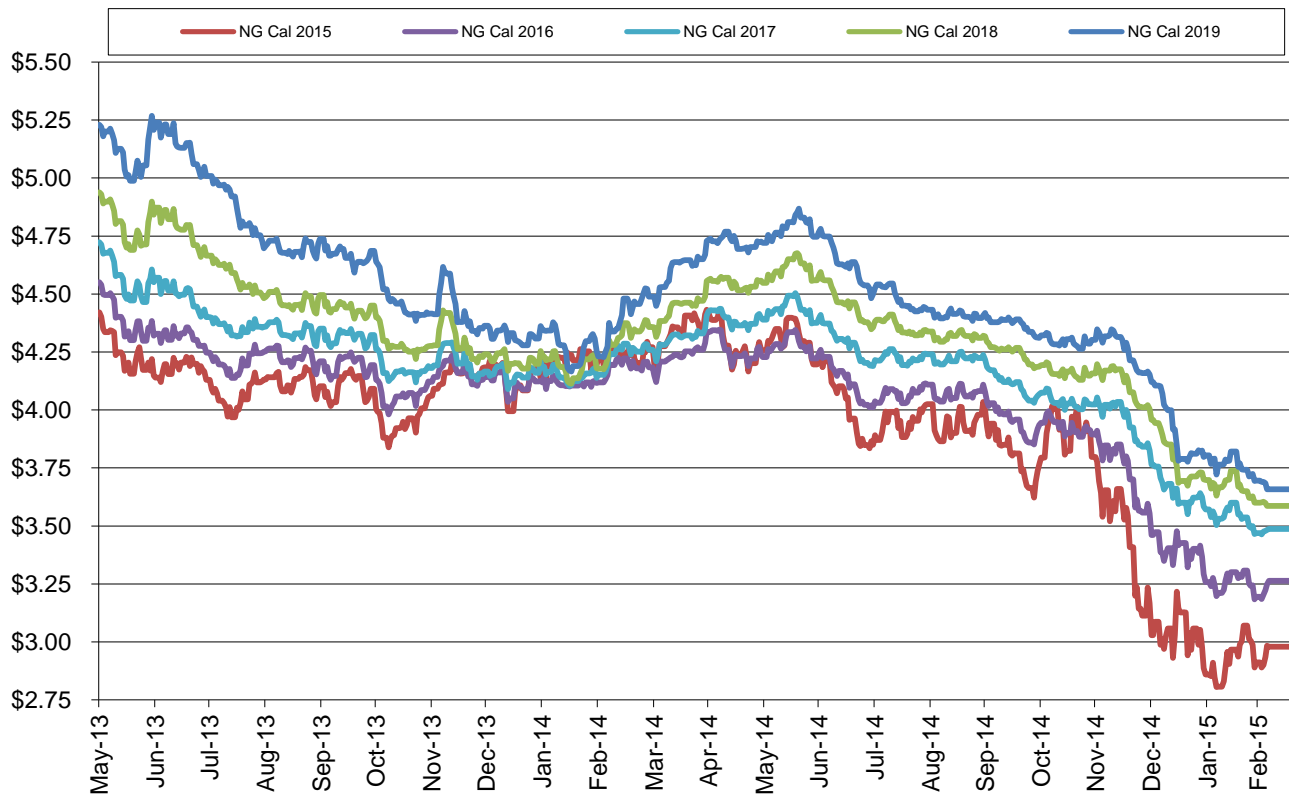
Other Factors: After establishing a new daily closing high, the S&P 500 ended on a weak note despite a strong US jobs report.

- Our proprietary heating index is barely hanging onto to 3rd place with a forecast through March 20. The total index stands at 2,694 compared to 2,917 for 2013/14, 2,646 for 2012/13, 2,417 for 2011/12 and 2,828 for 2010/11.

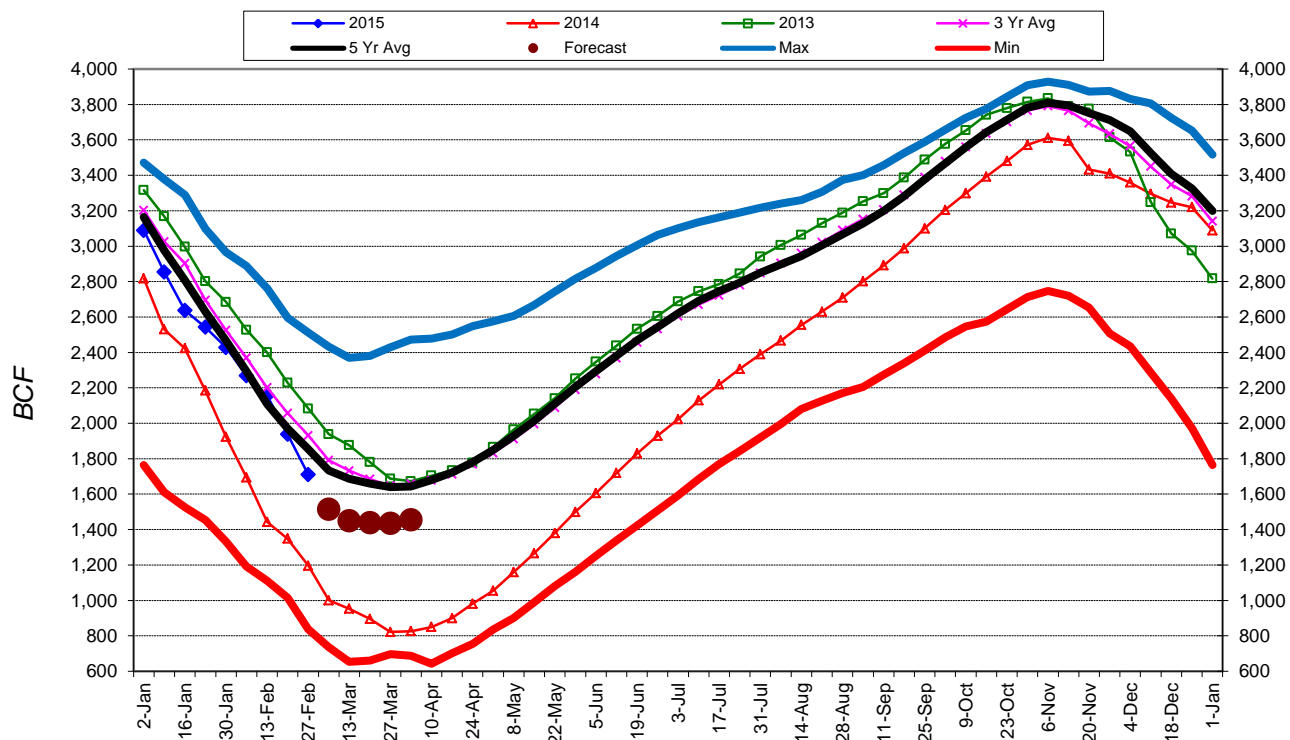
\$/MMBtu Ratio of NYMEX CL and NG



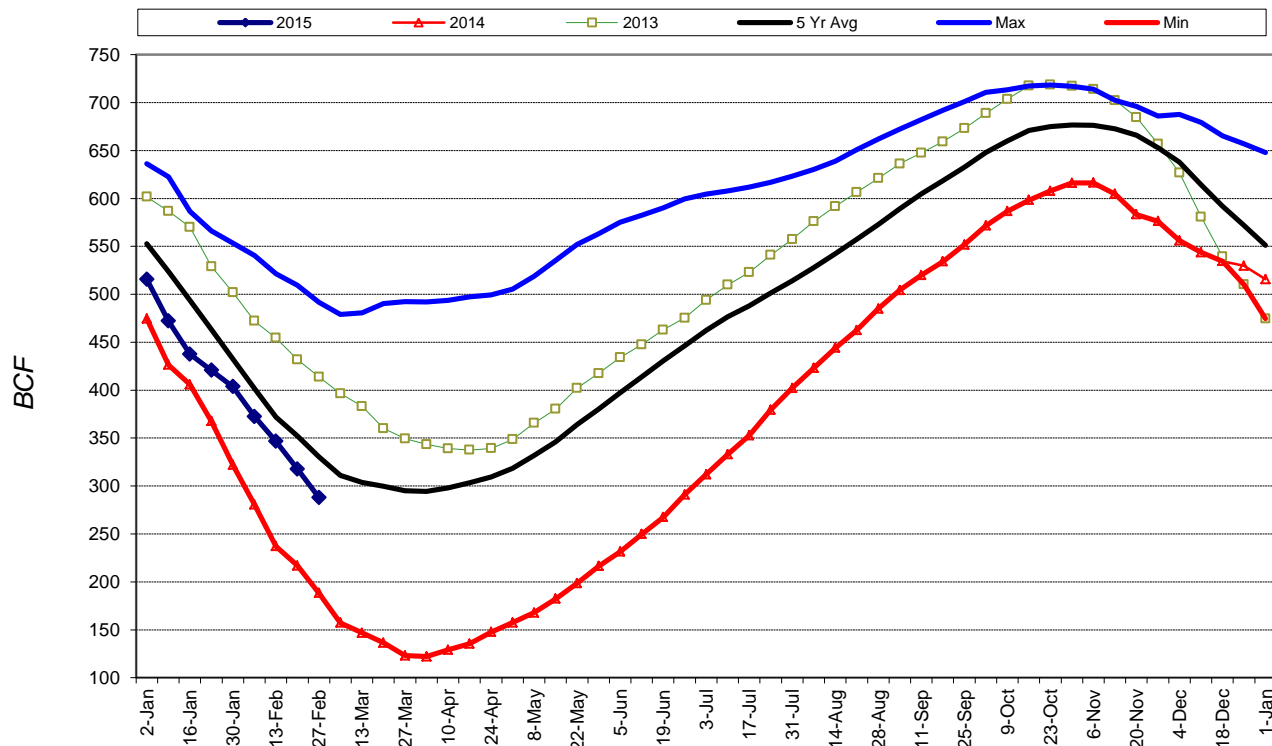
NYMEX Calendar Strips



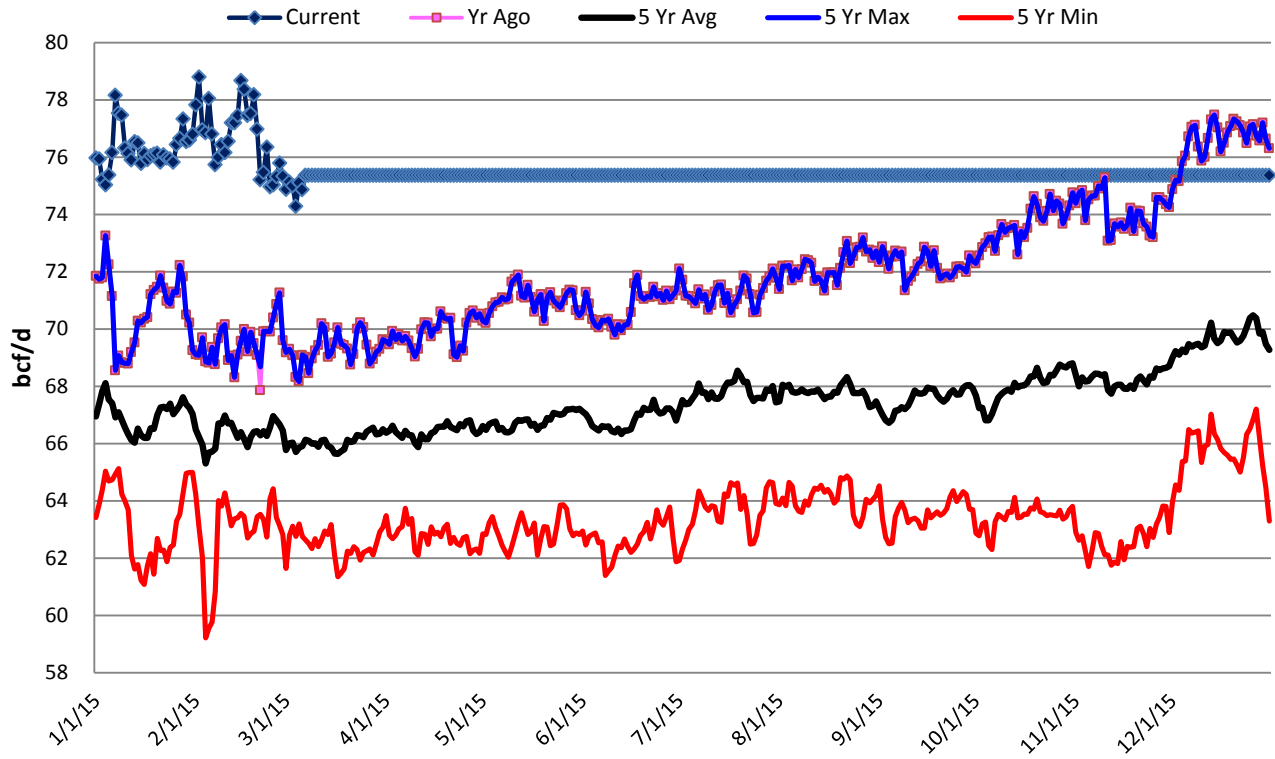
US Working Gas Storage - Source - EIA



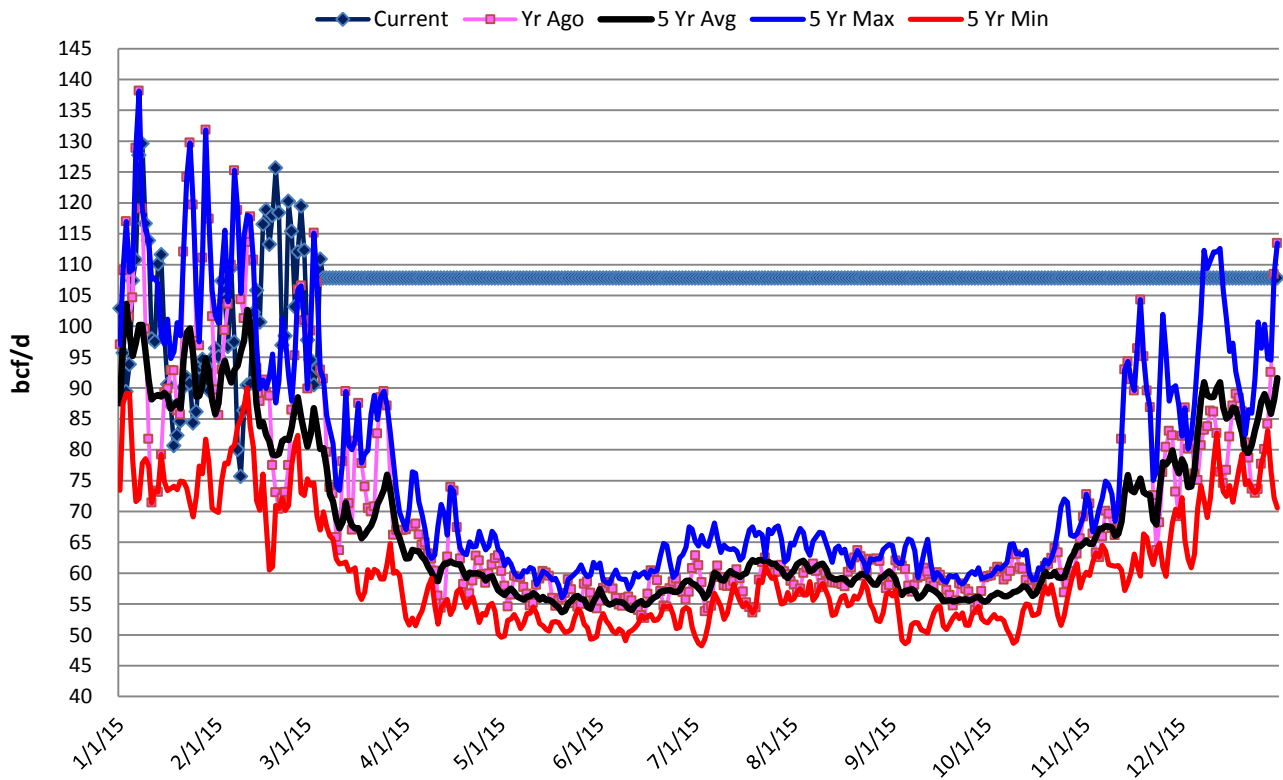
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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