

IAF Advisors
Energy Market Outlook
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March 20, 2015

Price Action: The April contract rose 5.9 cents (2.2%) to \$2.786 on a 25.5 cent range.

Price Outlook: Natural gas returned to historical norms with a new high established this week. With the settle price closer to last week's low and with expectations for a build in this week's inventory storage report, a new low is expected. Still, late March and early April temperatures can generate significant heating demand in the northern climes and considering the abundant snow cover, that is still a possibility. However, overall demand will be declining rapidly in coming weeks. The CFTC data indicated a rather large reduction in the managed money net short speculative position to the smallest since the middle of January. Total open interest as of March 17 rose slightly to 3.64 million contracts while the option related position fell. CME futures aggregated open interest rose to 983,000 as of March 19. The current position would allow either lots of buying or selling.

Weekly Storage: US working gas storage for the week ending March 13 indicated a draw of 45 bcf. Thus total working gas inventories fell to 1,467 bcf. Current inventories rise 514 bcf (53.9%) above last year while trailing the 5 year average by 219 bcf (13.0%).

Storage Outlook: With a small injection projected for the week ending March 20 and close to unchanged for March 27, it is considered likely the current 1,467 bcf level represents the low for 2015. Current projections suggest the yearly storage surplus will be over 650 bcf to begin the injection season. If the pace of injections does not begin to reduce this surplus, prices are likely to head lower.

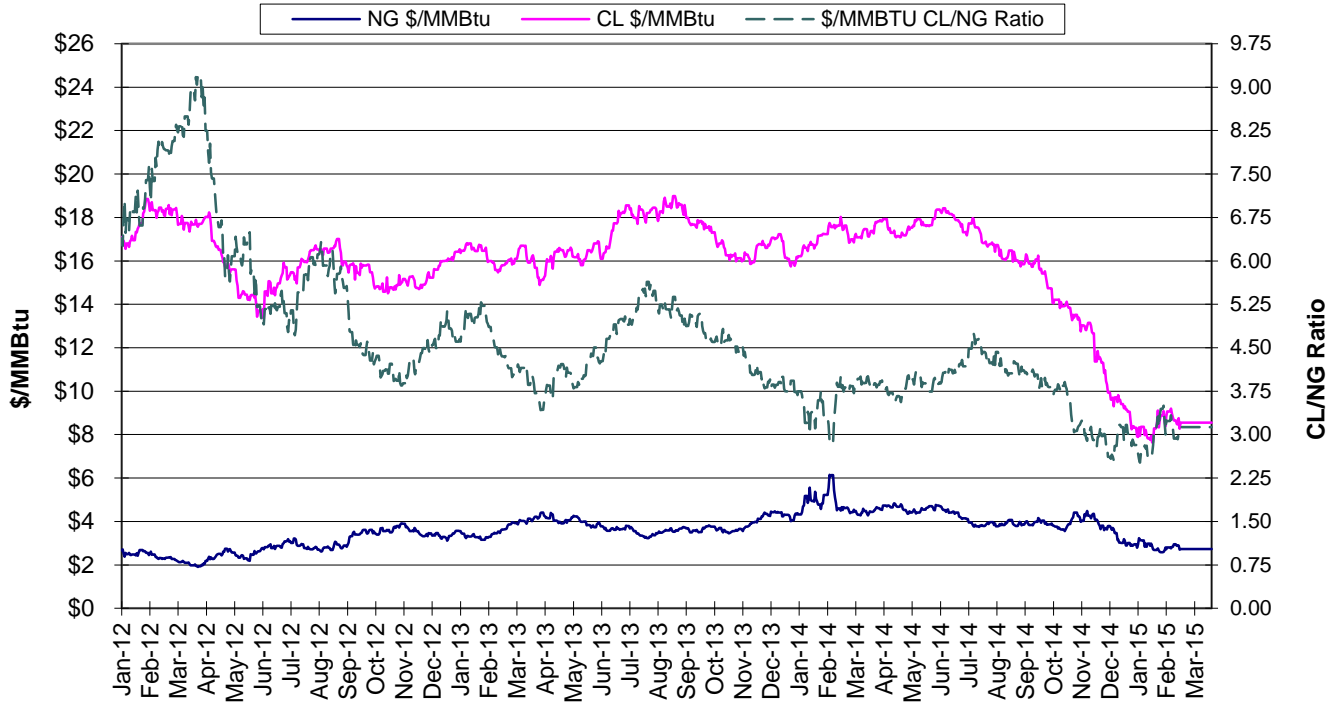
Supply Trends: Total supply was unchanged at 75.1 bcf/d. Higher US production and lower Mexican exports were offset by lower Canadian and LNG imports. The US Baker Hughes rig count fell 56 as both oil and natural gas activity declined. The total US rig count now stands at 1,069. The Canadian rig count fell 80 to 140. Thus, the total North American rig count fell 136 to 1,209 and now trails last year by 983. **The higher efficiency US horizontal rig count fell 20 to 829 and falls 377 below last year. This is lowest US horizontal rig count since June 18, 2010. Currently, we estimate 468 total Permian rigs are required to maintain natural gas output. There are currently 292 total rigs operating in the Permian. This is not a static number and estimates will be updated monthly.**

Demand Trends: Total demand fell 23.6 bcf/d to 79.1 bcf/d. All sectors were lower with R&C easily leading the pack. Electricity demand fell 9,770 gigawatt-hrs to 70,995 which trails last year by 447 (0.6%) and the 5 year average by 467 (0.7%).

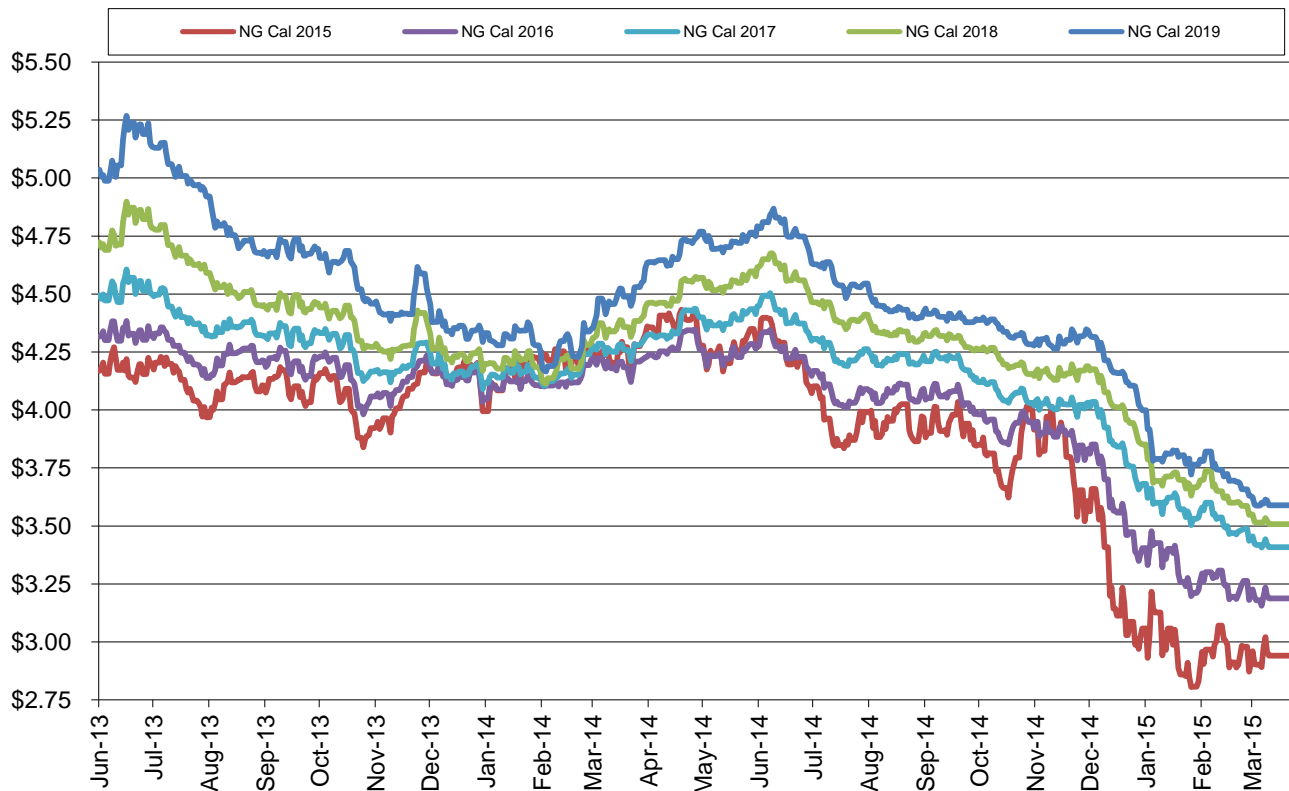
Other Factors: Nuclear output in the reference week continues its' normal seasonal decline. Output is still above last year while trailing the 5 year average. Seasonal maintenance is expected to peak in mid-April.

- Our proprietary heating index remained in 4th place with a forecast through April 3. The total index stands at 2,800 compared to 3,095 for 2013/14, 2,871 for 2012/13, 2,466 for 2011/12 and 3,013 for 2010/11.

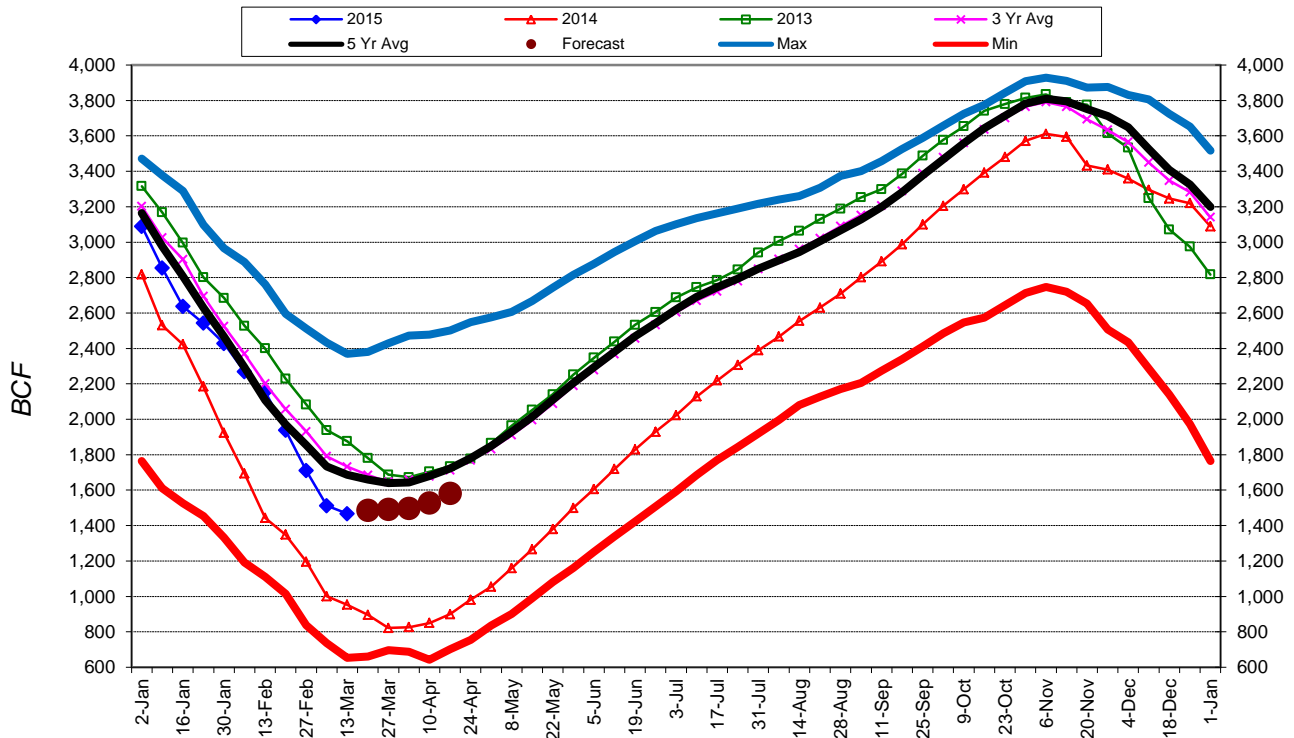
\$/MMBtu Ratio of NYMEX CL and NG



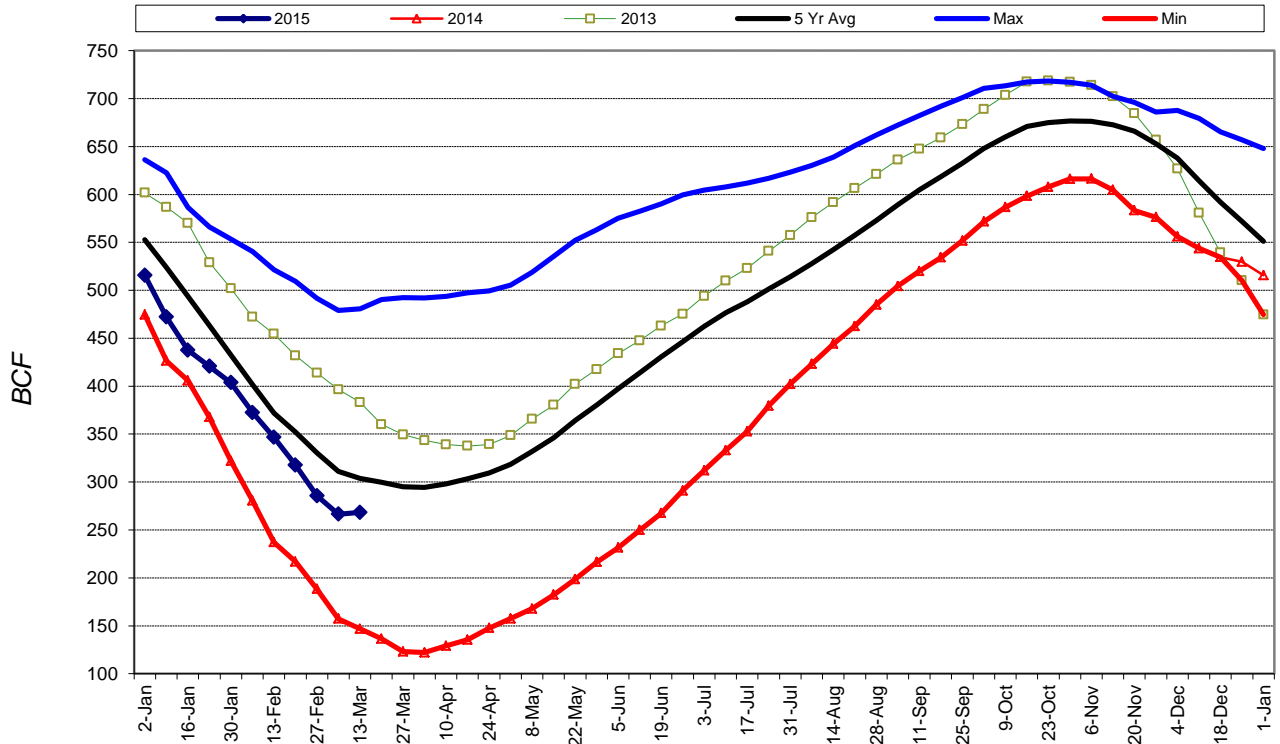
NYMEX Calendar Strips



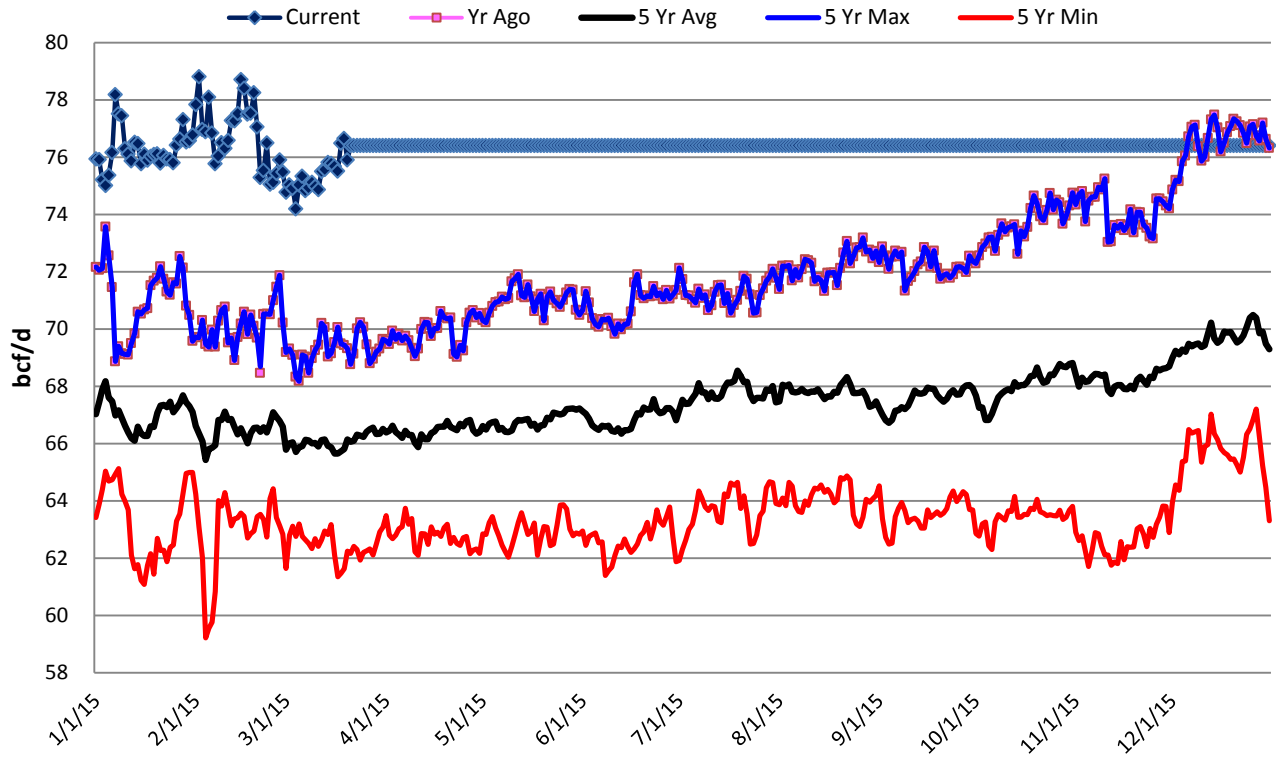
US Working Gas Storage - Source - EIA



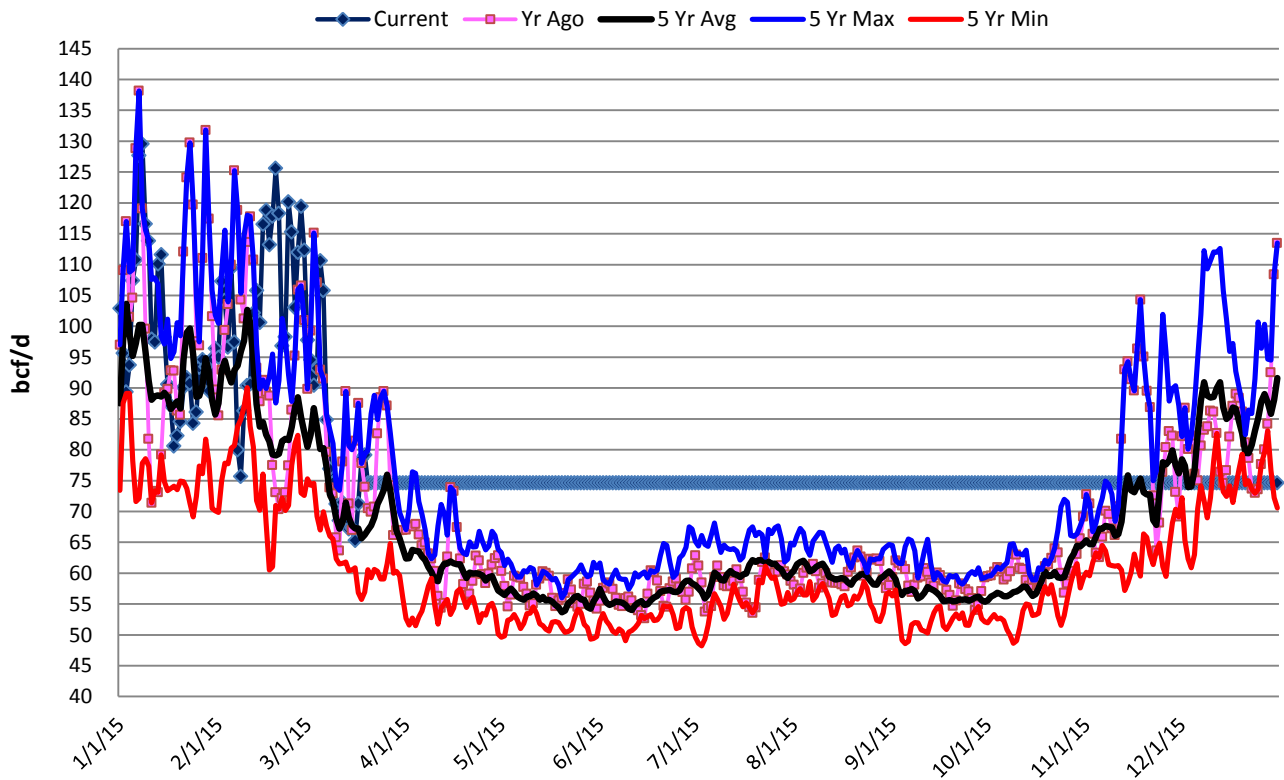
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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