

IAF Advisors
Energy Market Outlook
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Price Action: The June contract rose 20.8 cents (8.1%) to \$2.776 on a 31.9 cent range.

Price Outlook: Natural gas broke to a new low and then ended on a tear to establish a new high as well. The weekly range expanded to just below the historical average of 32.3 cents. The market ended higher and with a now huge speculative short position, prices may continue higher. However, the temperature adjusted supply/demand balance is still considered bearish and prices are expected to slip unless the yearly storage surplus begins to decline measurably. CFTC data indicated a surge in the managed money net short speculative position that leaves the position the largest since November 2009. Total open interest slipped to 3.51 million as of April 28. Therefore, the current position is extremely large as a percent of the total market. Aggregated CME futures and swaps open interest rose to 1.036 million as of April 30.

Weekly Storage: US working gas storage for the week ending April 24 indicated an injection of 81 bcf. Thus total working gas inventories rose to 1,710 bcf. Current inventories rise 729 bcf (74.3%) above last year while trailing the 5 year average by 76 bcf (4.3%).

Storage Outlook: This weeks' storage injection was the first bullish change vs market expectation in many weeks. While it was still considered bearish, it did elicit a strong rally. However, storage levels remain on pace to exceed 4,100 bcf in November unless the supply/demand tightens more appreciably.

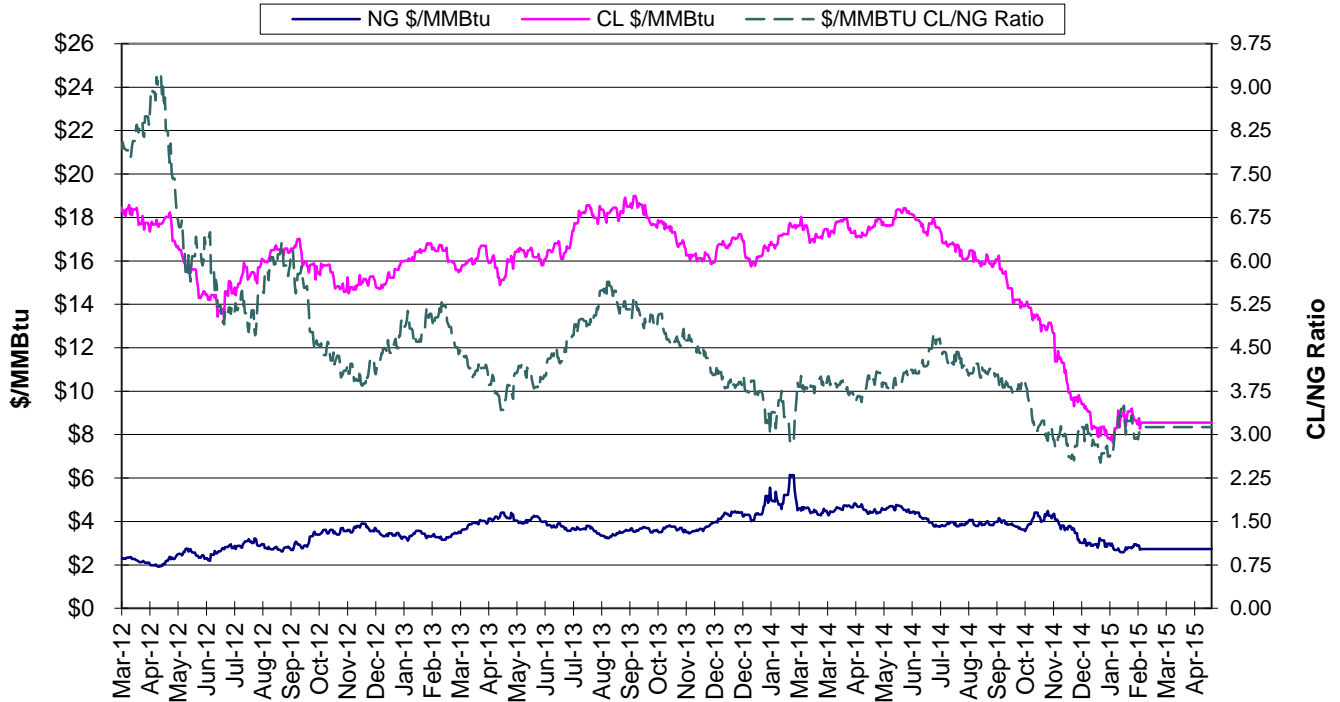
Supply Trends: Total supply rose 0.3 bcf/d to 75.9 bcf/d. US production rose. Canadian and LNG imports and Mexican exports were all unchanged. The US Baker Hughes rig count fell 27 with both oil and natural gas activity lower. The total US rig count now stands at 905. This is the lowest total rig count since June 19, 2009. The Canadian rig count was unchanged at 79. Thus, the total North American rig count fell 27 to 984 and now trails last year by 1,033. The higher efficiency US horizontal rig count fell 21 to 699 and falls 548 below last year. This is the lowest US horizontal rig count since March 5, 2010. The EIA Monthly Natural Gas report indicated an uptick in February natural gas production that remains short of the record December level.

Demand Trends: Total demand rose 0.5 bcf/d to 63.1 bcf/d. R&C demand was higher with all other sectors unchanged. Electricity demand fell 235 gigawatt-hrs to 68,385 which exceeds last year by 720 (1.1%). It trails the 5 year average by 30 (0.0%). The EIA Monthly Natural Gas report indicated record February demand, eclipsing January 2014 on national temperatures that were nearly identical.

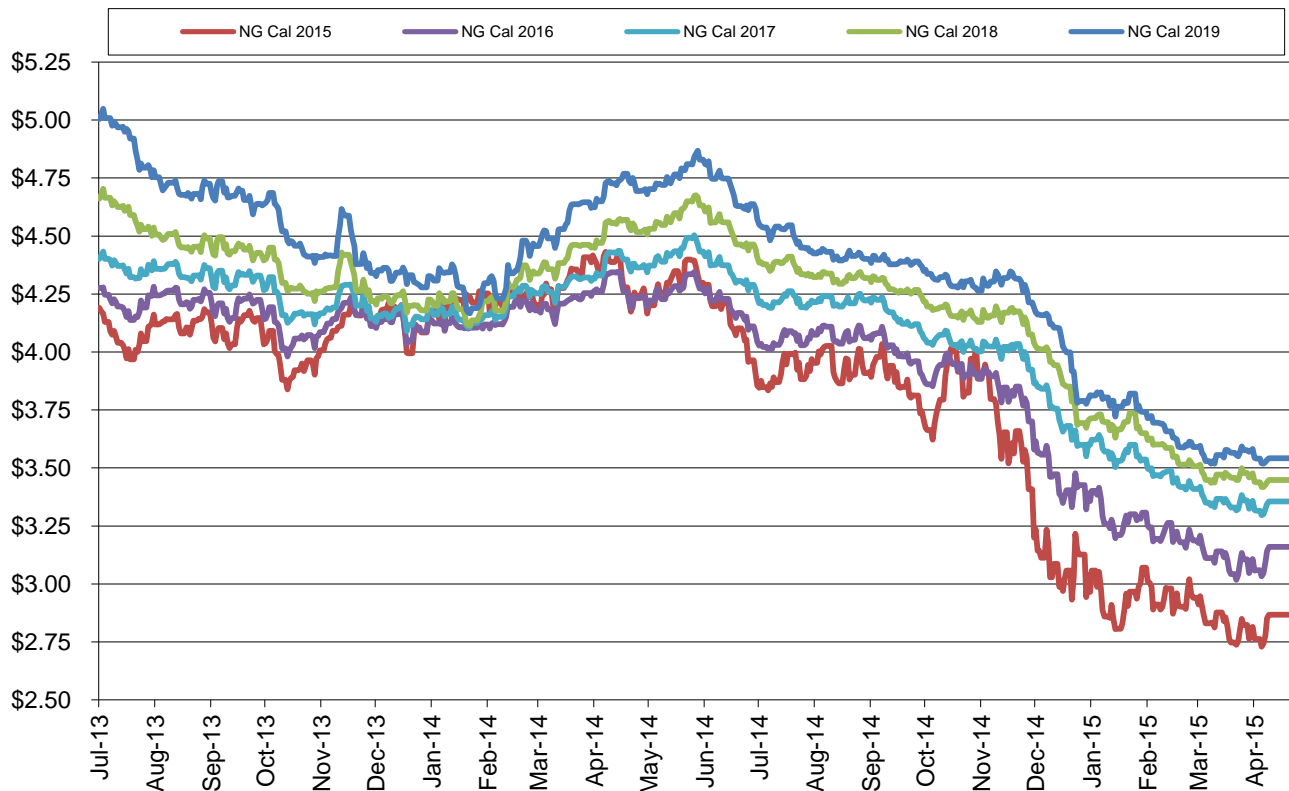
Other Factors: Just as last week, nuclear output was slightly lower in the reference week as normal maintenance is nearing an end. Output is still well above last year and the 5 year average as this year's maintenance schedule was light.

- Our proprietary heating index remained in 4th place with a forecast through May 15 as the heating season comes to a close. The total index stands at 2,882 compared to 3,230 for 2013/14, 3,048 for 2012/13, 2,567 for 2011/12 and 3,142 for 2010/11. We will soon transition to the cooling index.

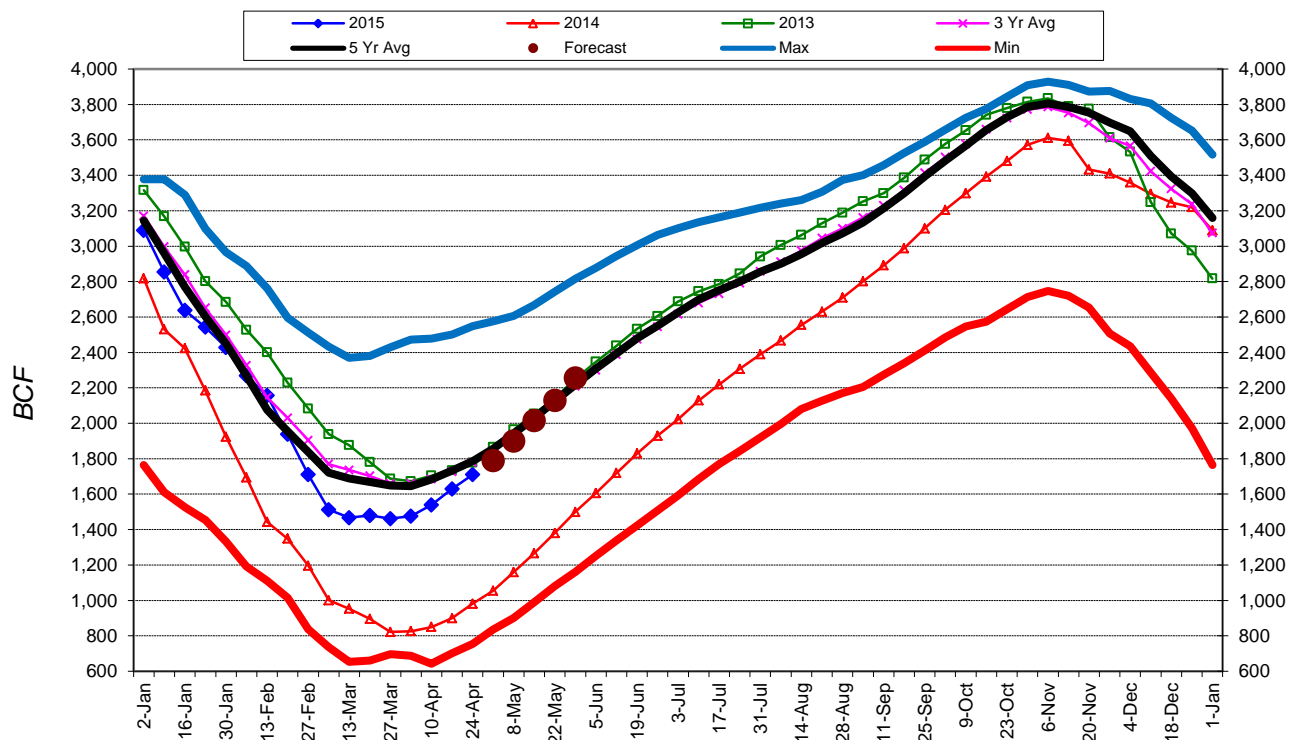
\$/MMBtu Ratio of NYMEX CL and NG



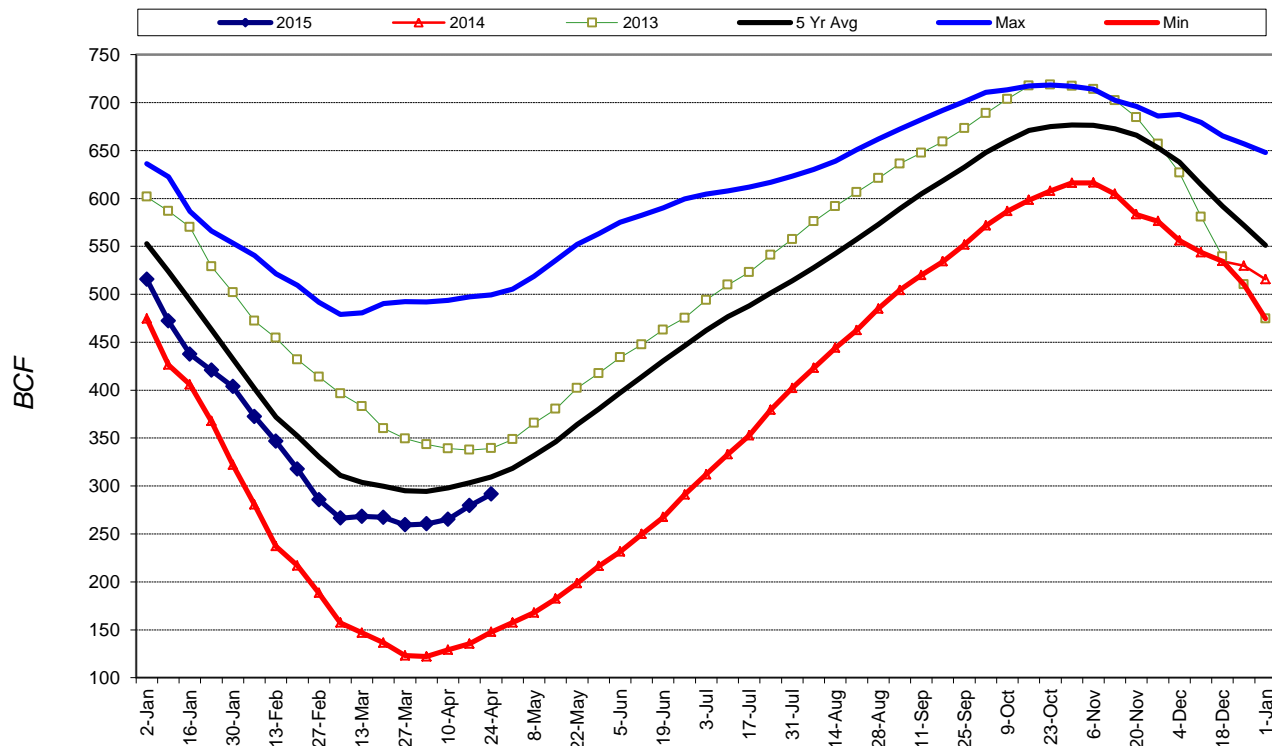
NYMEX Calendar Strips



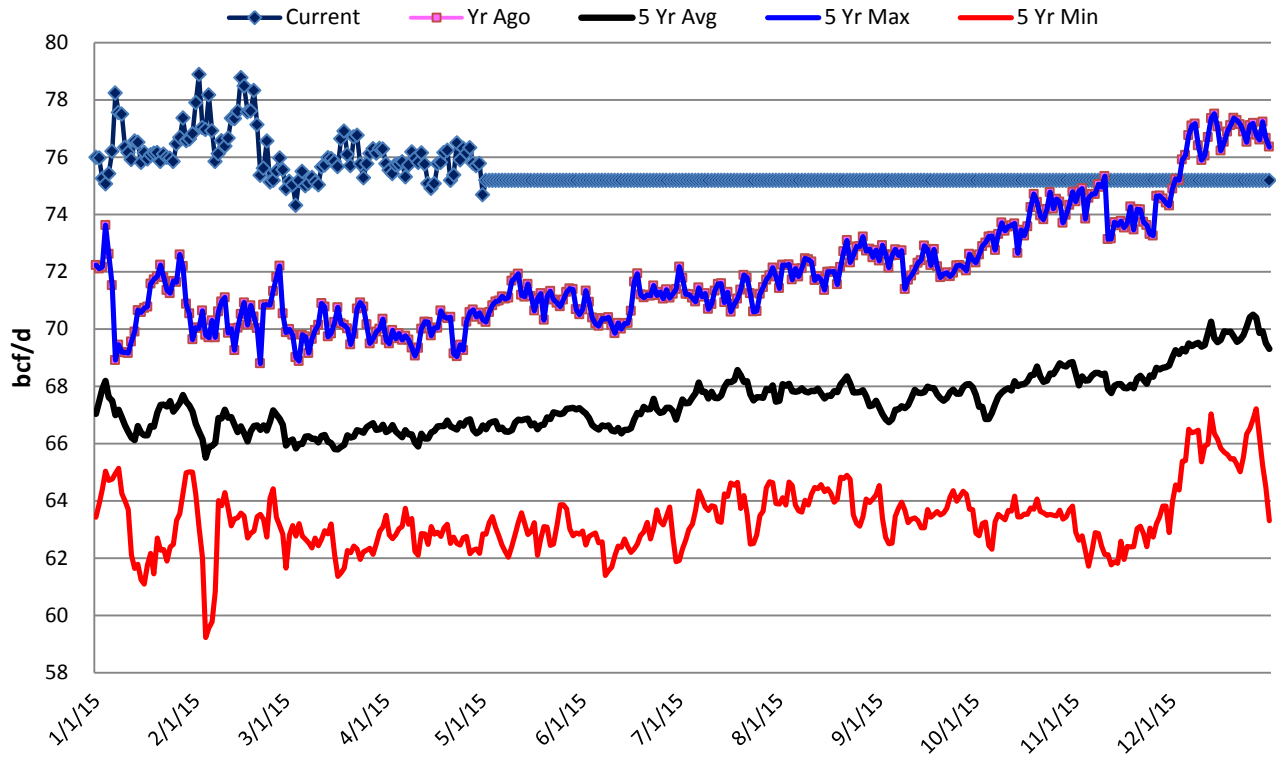
US Working Gas Storage - Source - EIA



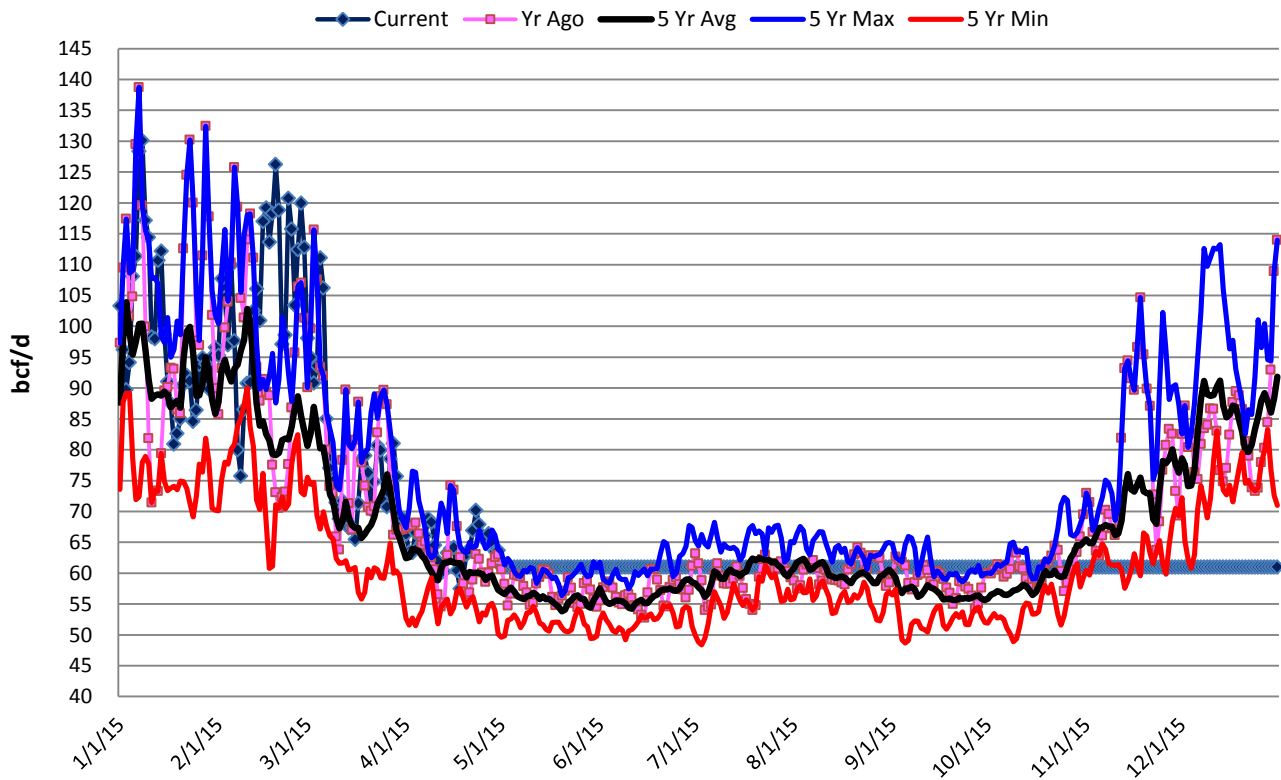
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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