

IAF Advisors  
Energy Market Outlook  
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**Price Action:** The June contract rose 10.4 cents (3.7%) to \$2.880 on a 17.7 cent range.

**Price Outlook:** Natural gas continued higher despite a solid weekly injection and a temperature adjusted supply/demand balance that remains bearish. Short covering was evident and while fundamentally prices are expected to weaken, short covering rallies can be both extended and carry further than imagined. CFTC data indicated a plunge in the managed money net short speculative position that nearly cut the position in half. Total open interest fell to 3.423 million as of May 5. Aggregated CME futures and swaps open interest fell to 1.008 million as of May 7. There remains the distinct possibility of more short covering.

**Weekly Storage:** US working gas storage for the week ending May 1 indicated an injection of 76 bcf. Thus total working gas inventories rose to 1,786 bcf. Current inventories rise 731 bcf (69.3%) above last year while trailing the 5 year average by 70 bcf (3.8%).

**Storage Outlook:** Current estimations suggest May injections could establish a new record of over 500 bcf with the latest long term projections indicating storage levels may reach almost 4,200 bcf in November. It should be noted that last year's weekly storage report included an 8 bcf reclassification of base to working gas. The storage report indicated an increase of 105 bcf while the number of "new" molecules was 97 bcf.

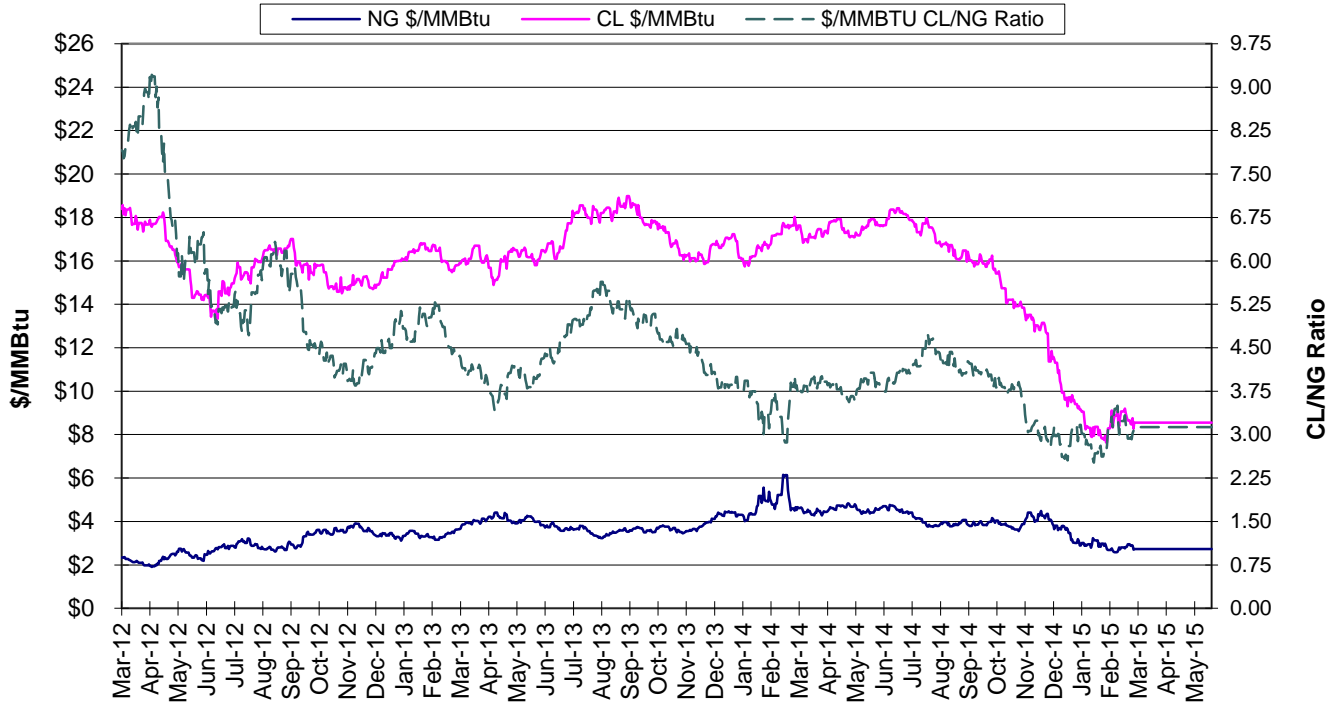
**Supply Trends:** Total supply rose 0.2 bcf/d to 76.1 bcf/d. US production rose. Canadian imports were lower and Mexican exports were higher. LNG imports were unchanged. The US Baker Hughes rig count fell 11 with both oil and natural gas activity lower. The total US rig count now stands at 894. This is the lowest total US rig count since June 12, 2009. The Canadian rig count fell 4 and now stands at 75. Thus, the total North American rig count fell 15 to 969 and now trails last year by 1,031. This is the lowest total North American rig count since May 17, 2002. The higher efficiency US horizontal rig count fell 7 to 692 and falls 551 below last year. This is the lowest US horizontal rig count since February March 26, 2010. A review of company Q1 E&P reports generally retain a very consistent theme of lower costs and improved efficiencies. Expectations are still for continued US natural gas supply growth. Currently, we estimate 219 total Eagle Ford rigs are required to maintain natural gas output. There are currently 105 total rigs operating in the Eagle Ford. This is not a static number and estimates will be updated monthly.

**Demand Trends:** Total demand rose 2.3 bcf/d to 65.4 bcf/d. R&C demand lead all sectors higher. Electricity demand fell 580 gigawatt-hrs to 67,570 which trails last year by 1,282 (1.9%). It trails the 5 year average by 2,030 (2.9%).

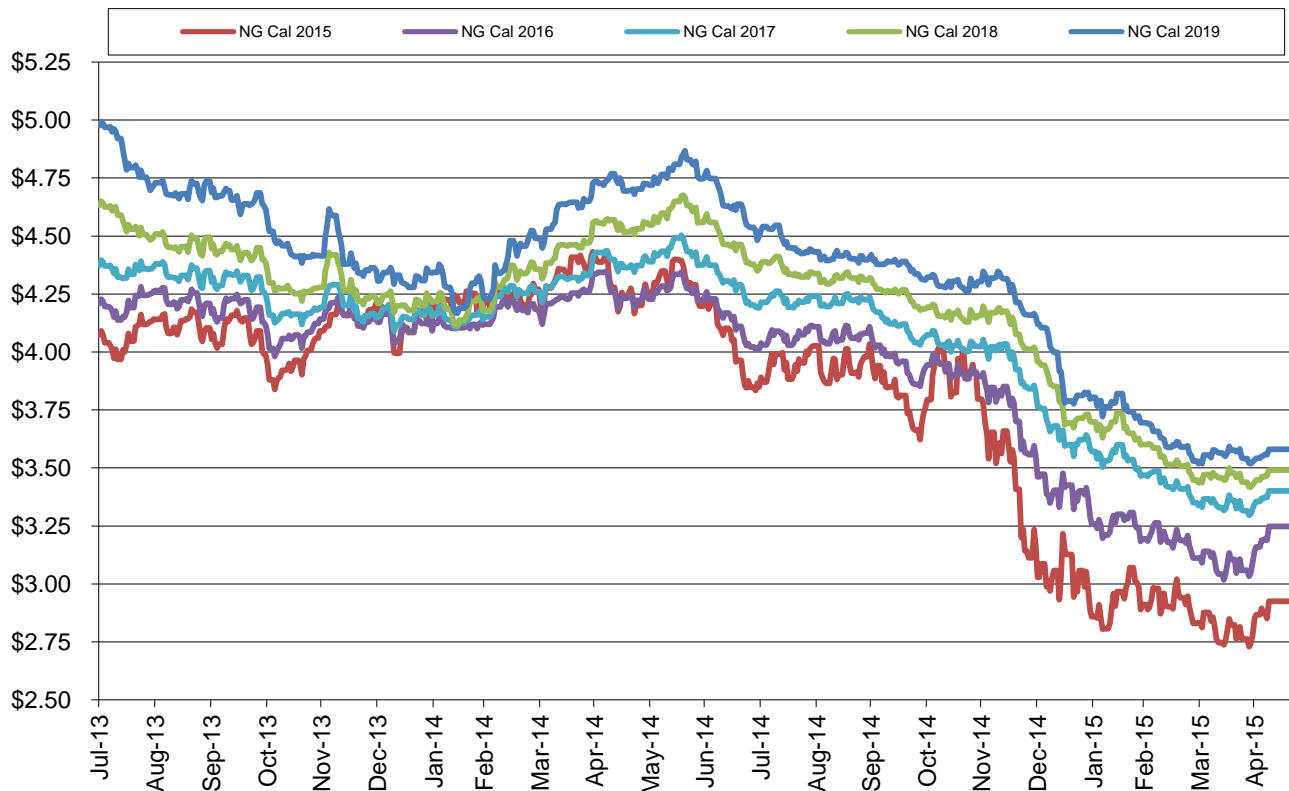
**Other Factors:** Nuclear output was slightly higher in the reference week as normal maintenance ends. Output should rise rapidly in coming weeks.

- Our proprietary heating index remained in 4th place with a forecast through May 22 as the heating season comes to a close. The total index stands at 2,885 compared to 3,231 for 2013/14, 3,048 for 2012/13, 2,567 for 2011/12 and 3,143 for 2010/11. We will soon transition to the cooling index.

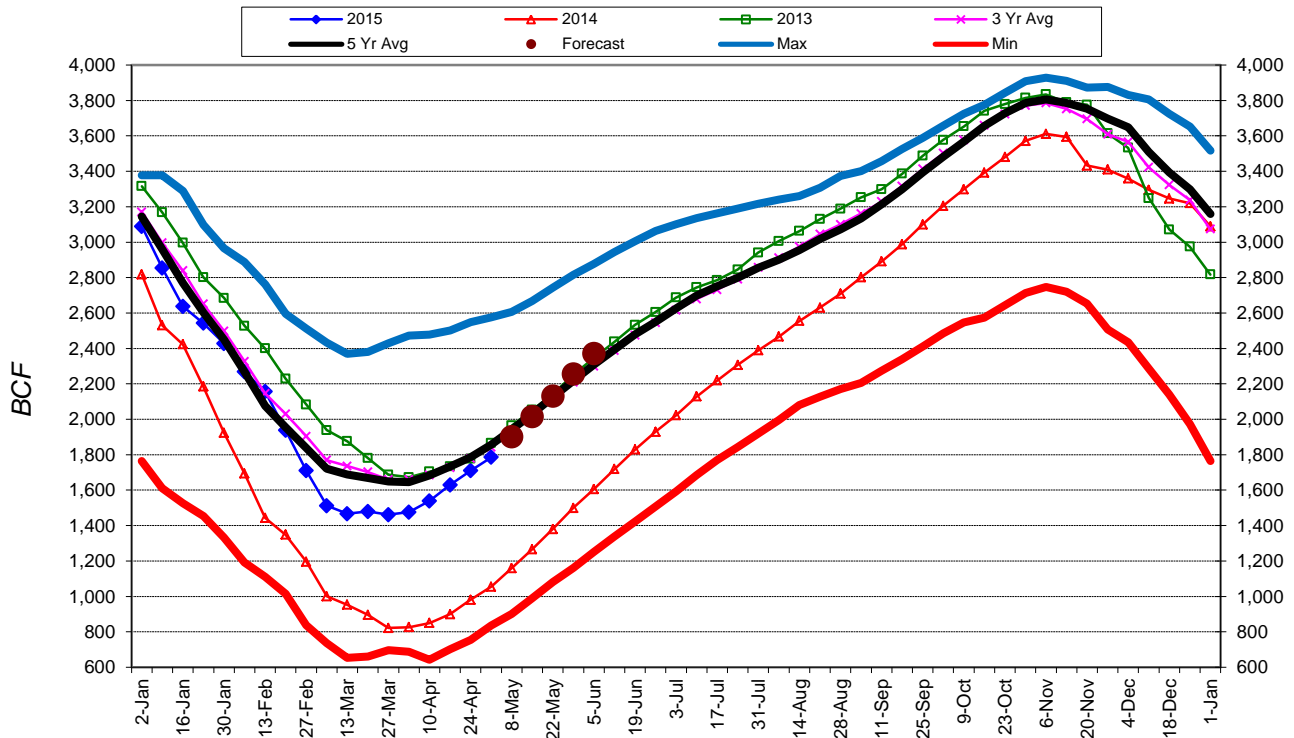
## \$/MMBtu Ratio of NYMEX CL and NG



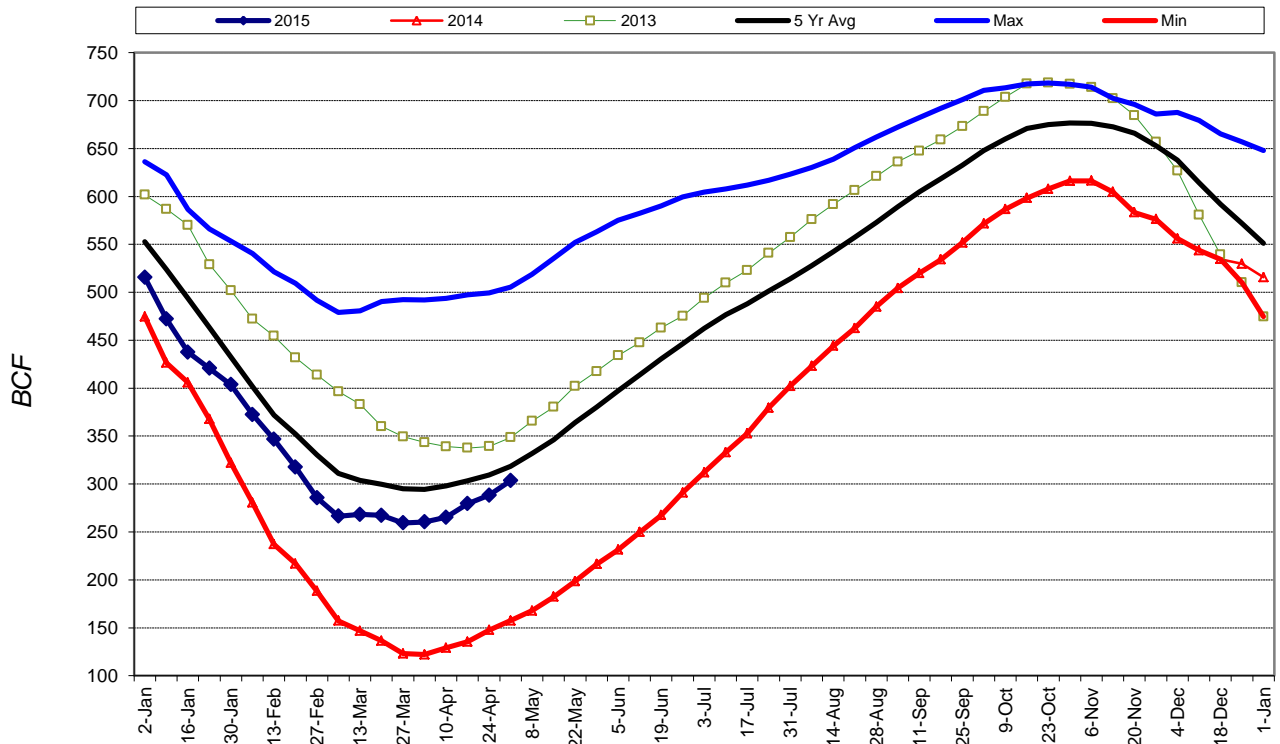
## NYMEX Calendar Strips



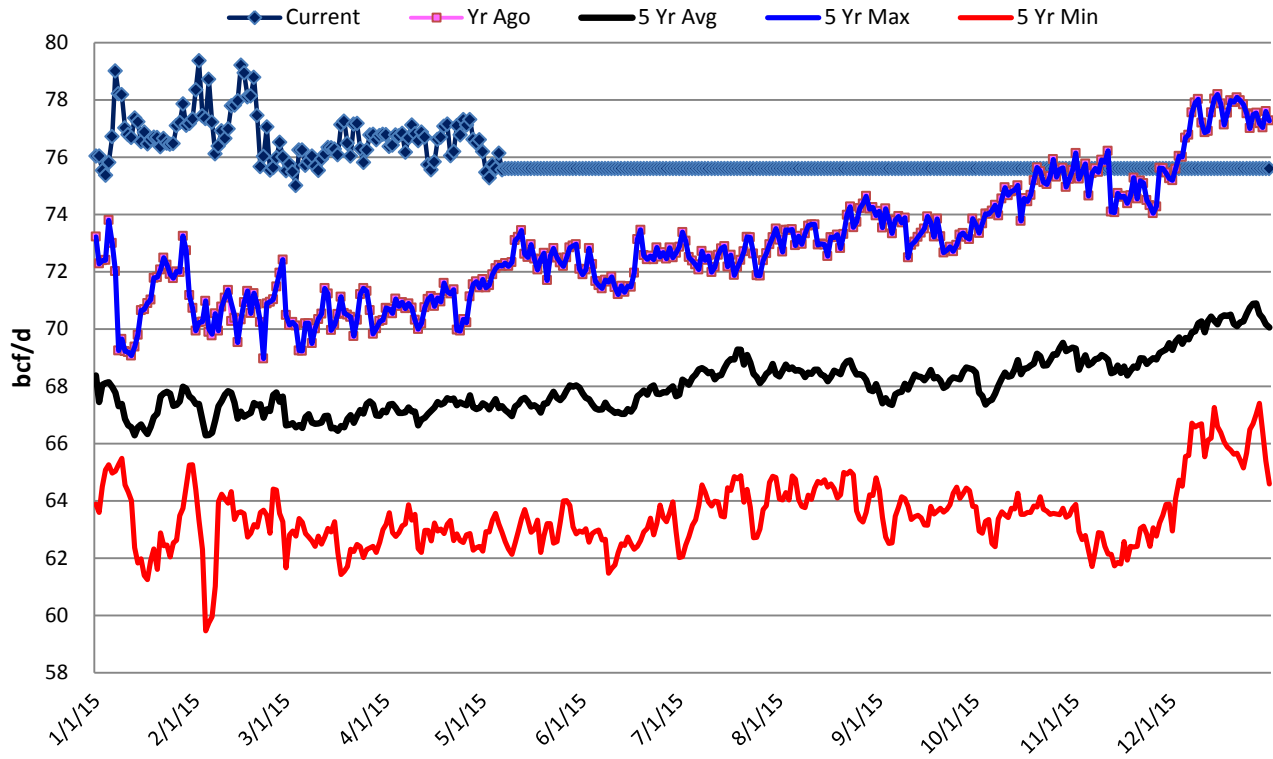
## US Working Gas Storage - Source - EIA



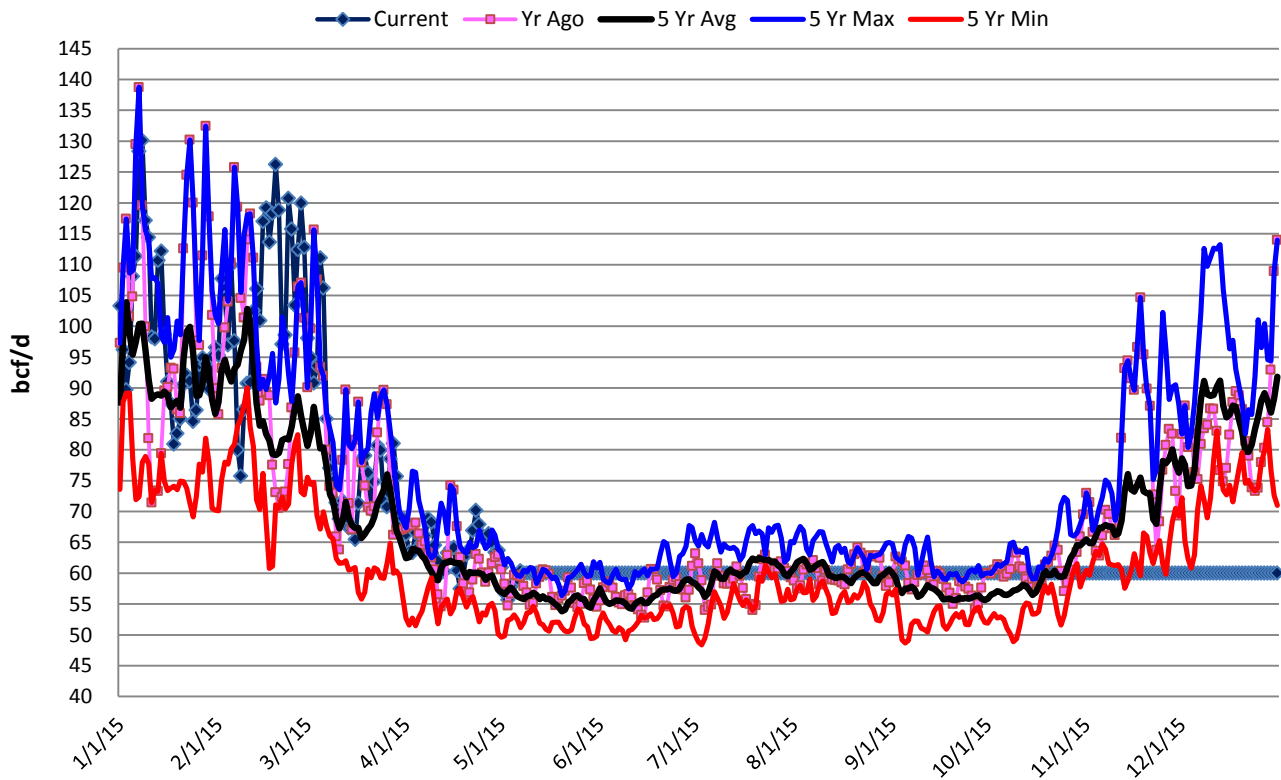
## Canadian Working Gas Storage - Enerdata



## US Total Supply



## US Total Demand



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

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