

IAF Advisors
Energy Market Outlook
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Price Action: The June contract rose 13.6 cents (4.7%) to \$3.016 on a 25.1 cent range.

Price Outlook: Natural gas continued higher despite a record weekly injection and a further expansion in the yearly storage surplus. However, the injection was below expectations and the yearly storage surplus may have peaked with current storage estimations near to slightly lower than year's huge injections. With new buying apparent, prices could easily continue higher. CFTC data indicated a continued slide in the managed money net short speculative position. The drop in the net position was due to both a smaller short position and also an increasing net long position. Total delta adjusted open interest rose to 3.479 million as of May 12. Aggregated CME futures open interest rose to 1.039 million as of May 14. More short covering combined with increasing net length could drive prices even higher.

Weekly Storage: US working gas storage for the week ending May 8 indicated an injection of 111 bcf. Thus total working gas inventories rose to 1,897 bcf. Current inventories rise 737 bcf (63.5%) above last year while trailing the 5 year average by 44 bcf (2.3%).

Storage Outlook: This week's injection continued to indicate a slight tightening in the temperature adjusted supply/demand balance. Physical data for the current week suggests further tightening and end of season estimates have been lowered to approximately 4,150 bcf. Last year witnessed a very bearish temperature adjusted supply/demand balance.

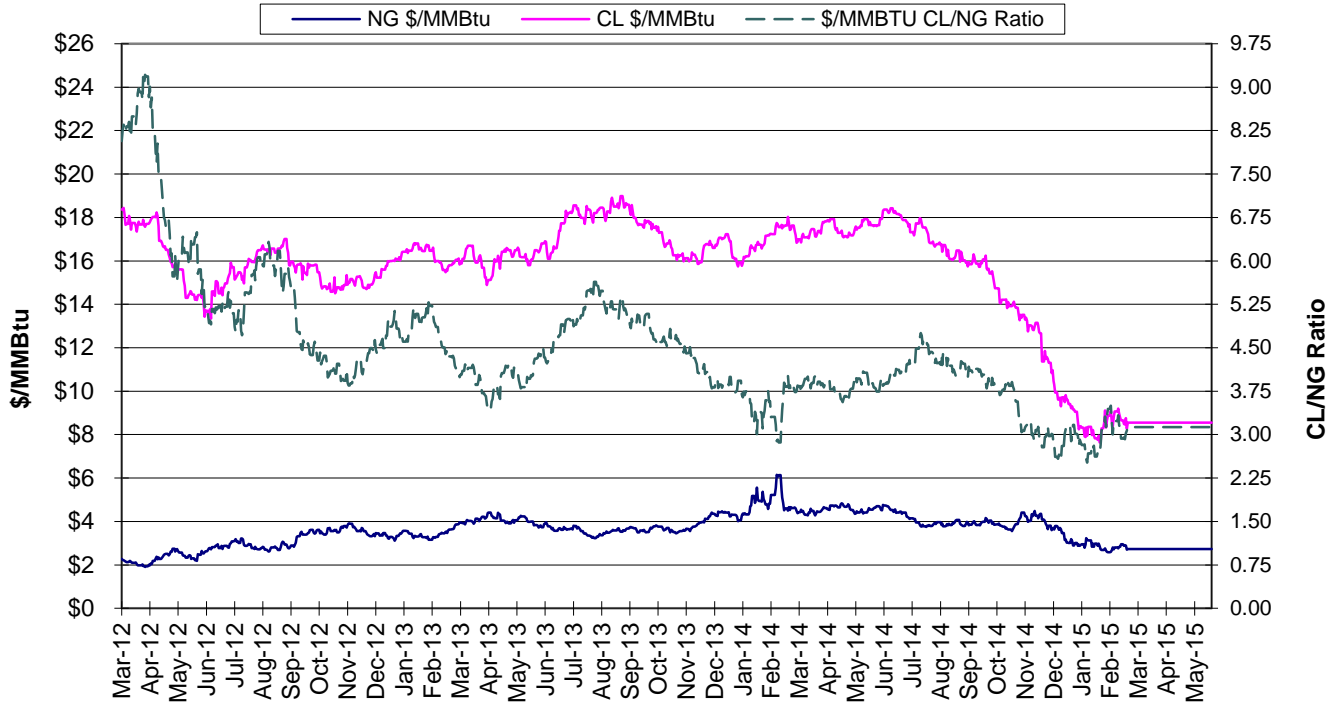
Supply Trends: Total supply fell 1.1 bcf/d to 74.8 bcf/d. US production and Canadian imports fell. Mexican exports and LNG imports were unchanged. The US Baker Hughes rig count fell 6 with oil activity lower while natural gas rose. The total US rig count now stands at 888. This is the lowest total US rig count since June 12, 2009. The Canadian rig count rose 2 and now stands at 77. Thus, the total North American rig count fell 4 to 965 and now trails last year by 1,049. This is the lowest total rig count since May 17, 2002. The higher efficiency US horizontal rig count fell 7 to 685 and falls 563 below last year. This is the lowest US horizontal rig count since February 26, 2010. The EIA's monthly productivity report was released and while June production is expected to decline, May's production was revised significantly higher and thus June's production is still expected to be higher than May's initial estimation. Currently, we estimate 32 total Haynesville rigs are required to maintain natural gas output. There are currently 27 total rigs operating in the Haynesville. This is not a static number and estimates will be updated monthly.

Demand Trends: Total demand fell 6.7 bcf/d to 58.9 bcf/d. Power demand was higher while all other sectors were lower. Electricity demand rose 3,064 gigawatt-hrs to 70,634 which exceeds last year by 426 (0.6%) and the 5 year average by 885 (1.3%).

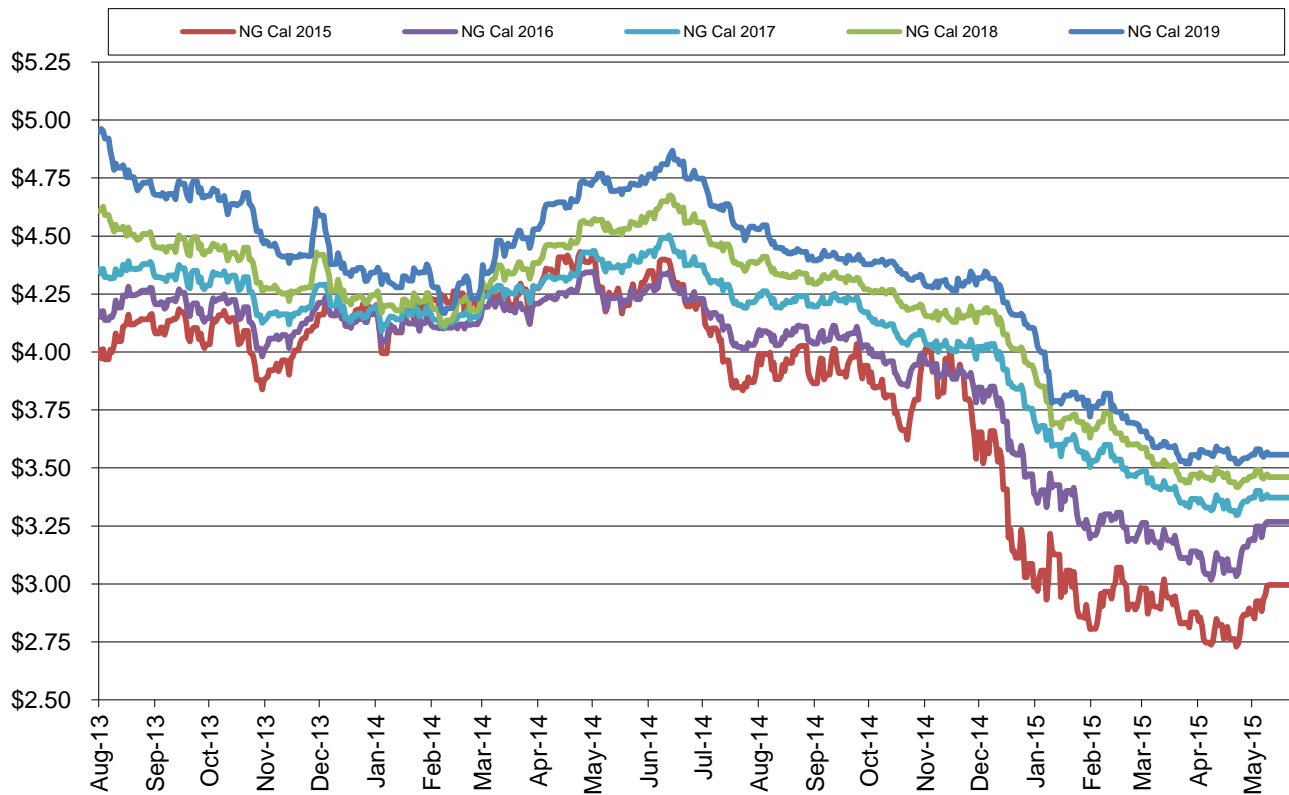
Other Factors: Nuclear output was again higher in the reference week as normal maintenance ends. Output should rise rapidly in coming weeks.

- We have switched to our proprietary cooling index. With a forecast through May 29, the total cooling index stands at 21 compared to 189 for 2014, 98 for 2013, 239 for 2012 and 91 for 2011.

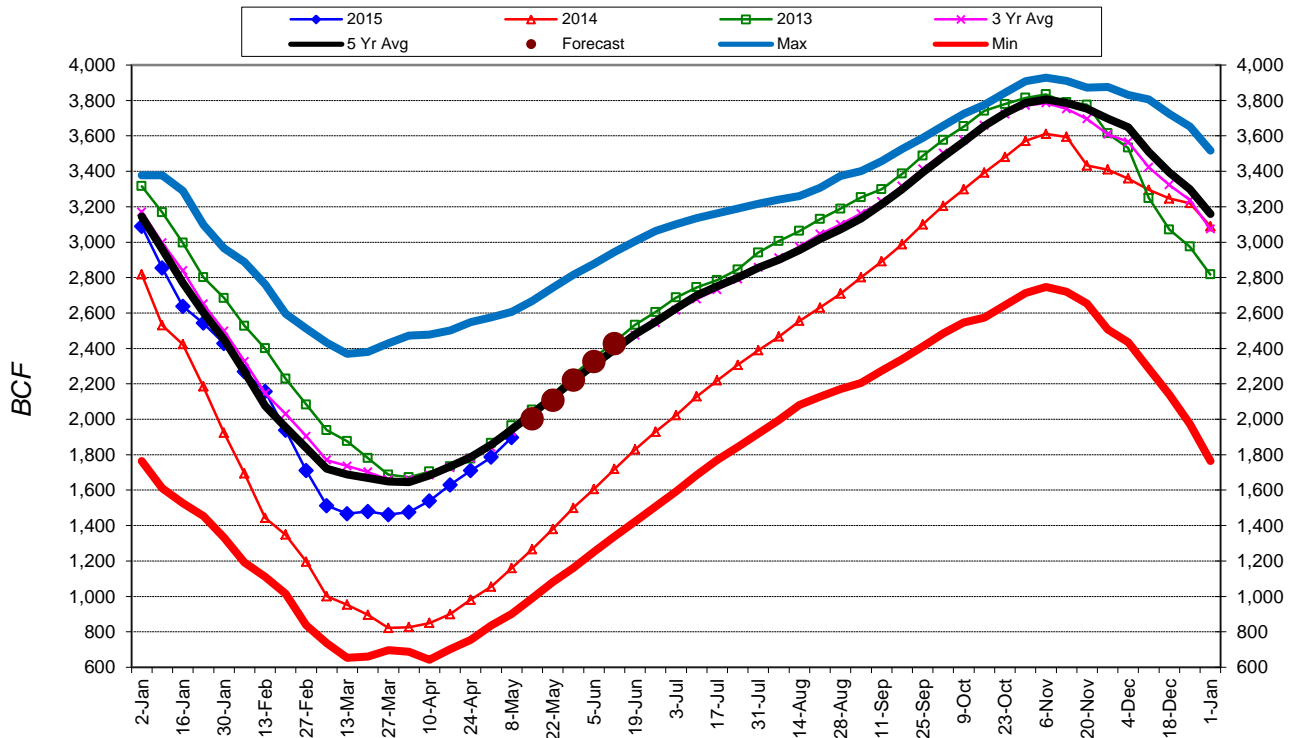
\$/MMBtu Ratio of NYMEX CL and NG



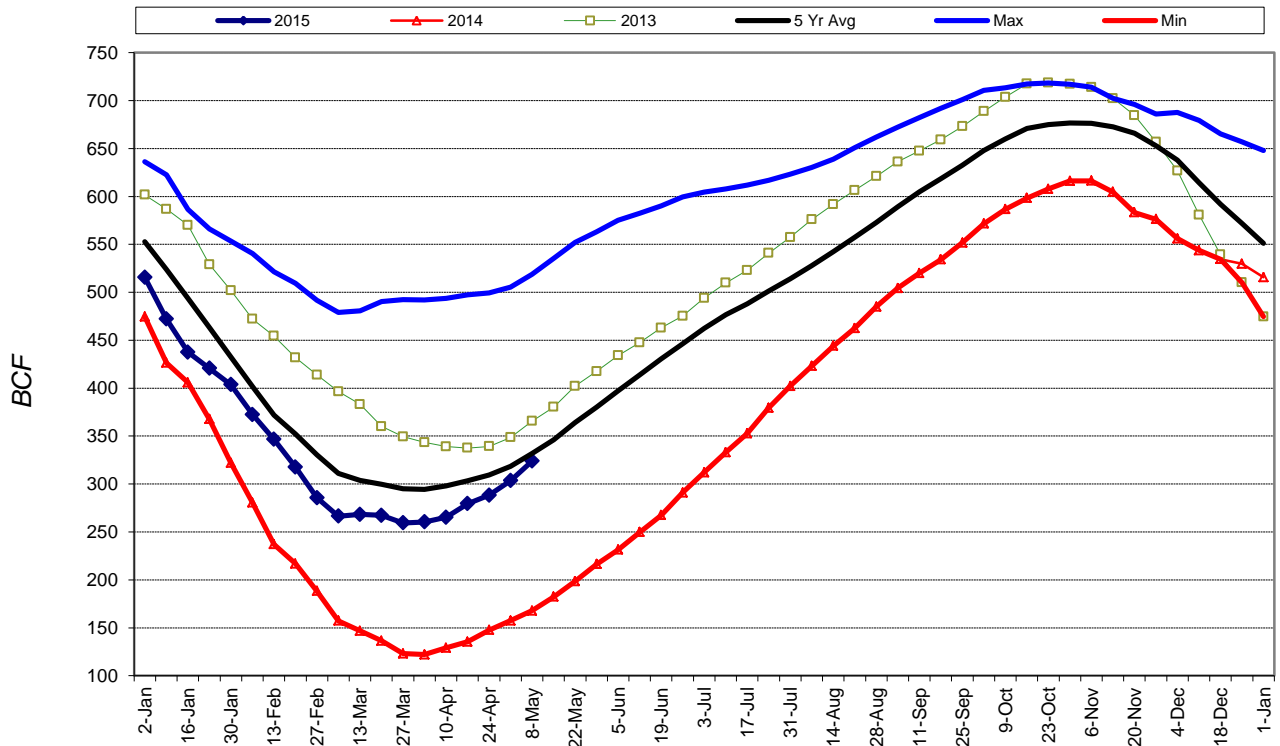
NYMEX Calendar Strips



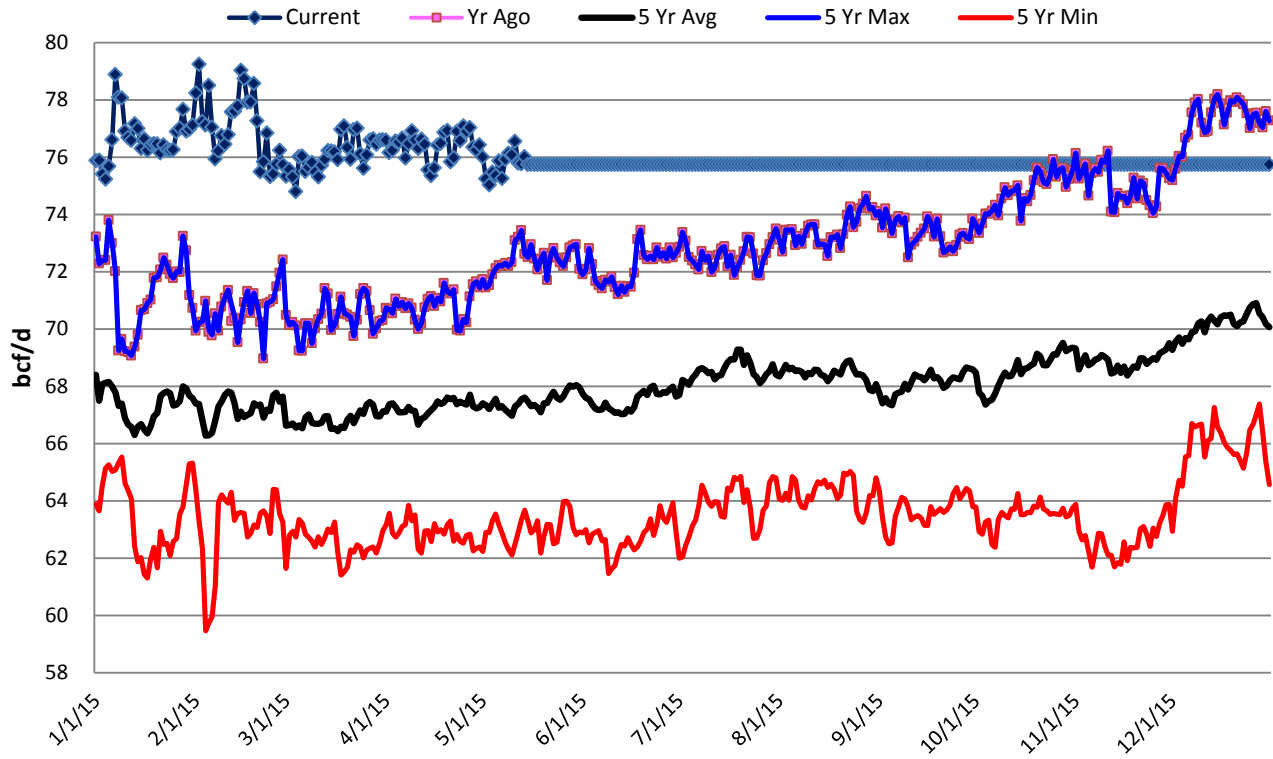
US Working Gas Storage - Source - EIA



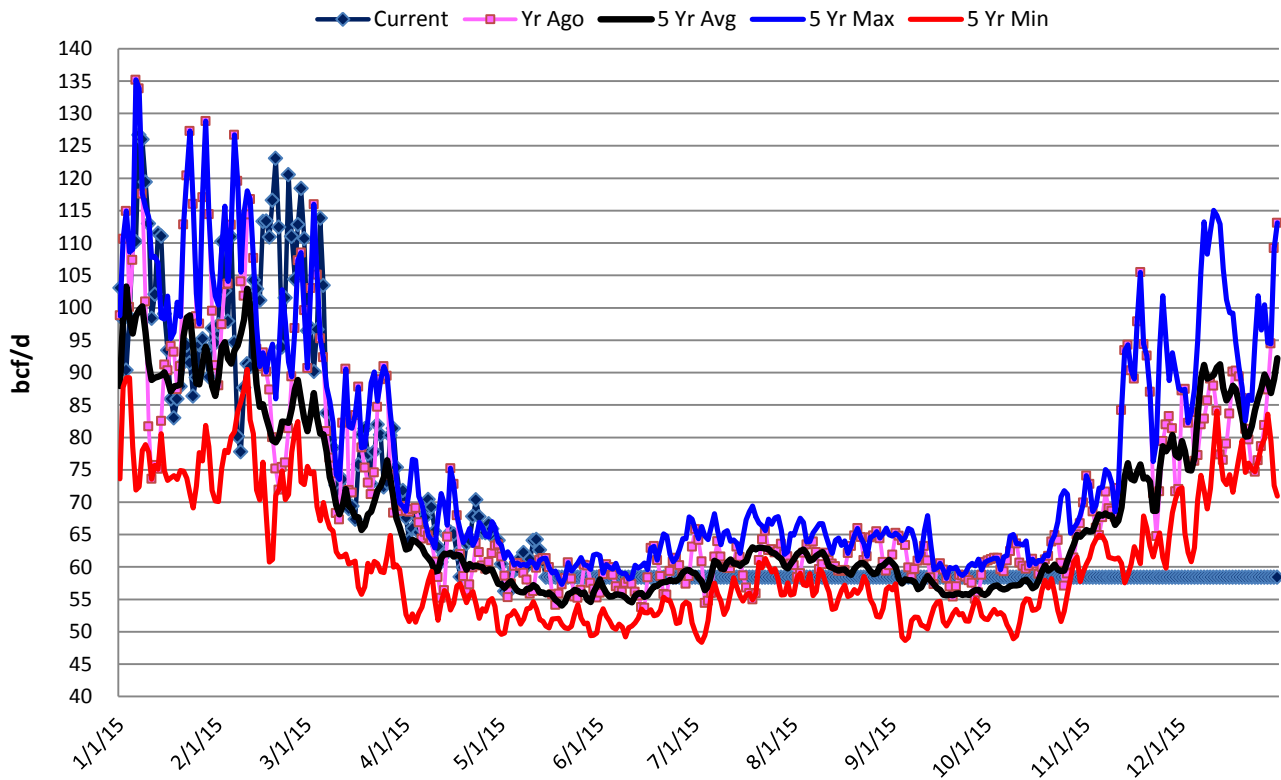
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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