

IAF Advisors
Energy Market Outlook
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Price Action: The August contract fell 5.2 cents (1.8%) to \$2.773 on a 21.3 cent range.

Price Outlook: Natural gas established a new low on the week as the EIA storage report was well above expectations. However, the market actually rallied after the report and some short covering may have aided the price advance. The last 7 weeks have seen no more than two weeks in a row move in the same direction and reinforces our view that the market may remain very choppy between \$2.50 and \$3.00 in coming weeks without some new driver. The combined managed money net short position rose with new shorts the primary driver of the increase. The net short position is almost 92,000 contracts. Total delta adjusted open interest rose to 3.500 million as of July 7. Aggregated CME futures open interest fell to 1.016 million as of July 10. The market remains vulnerable to short covering rallies.

Weekly Storage: US working gas storage for the week ending July 3 indicated an injection of 91 bcf. Thus total working gas inventories rose to 2,668 bcf. Current inventories rise 646 bcf (31.9%) above last year while surpassing the 5 year average by 41 bcf (1.6%).

Storage Outlook: The recent trend of a falling yearly storage surplus and rising surplus to the five year average should remain in place over the next few weeks. The EIA has reported storage over the last 5 weeks of +435 bcf compared to our estimate of +436 bcf and we are quite pleased with that. Our November storage forecast is just above 4,050 bcf. This will be a record storage level if achieved. The previous weekly storage record was 3,929 bcf in 2012.

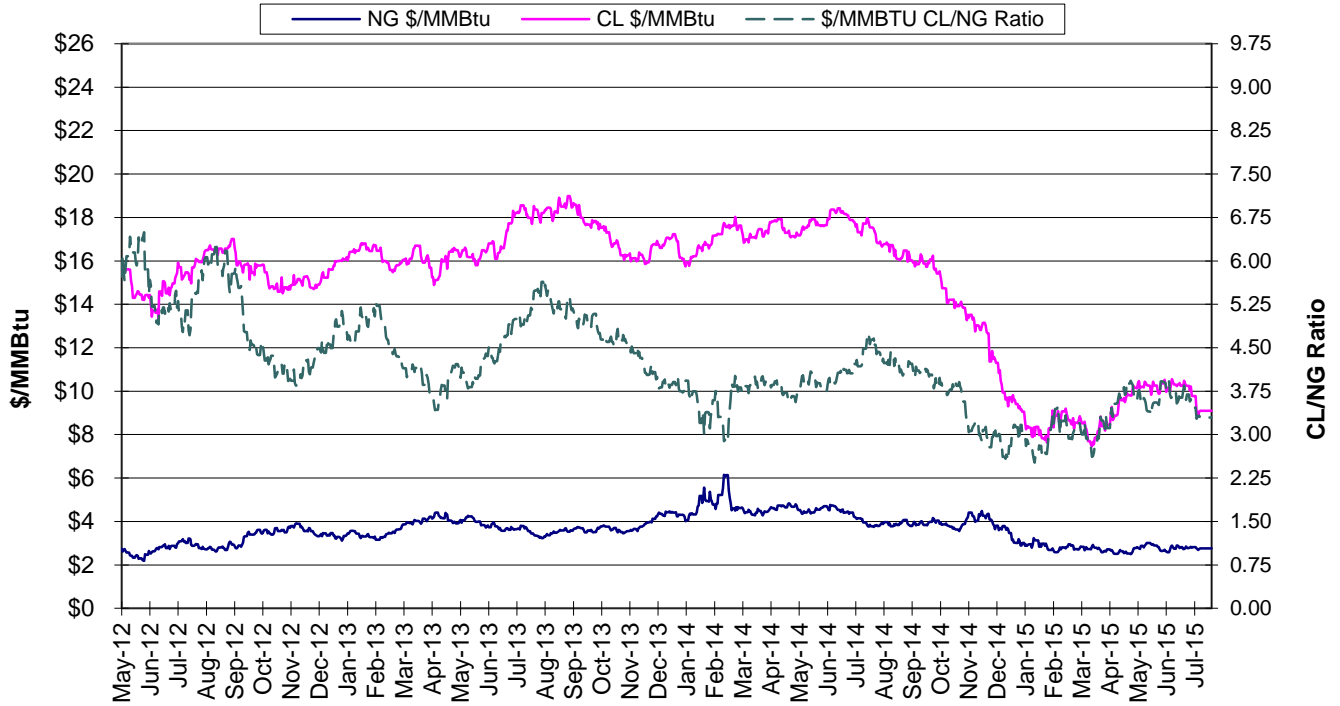
Supply Trends: Total supply fell (0.2) bcf/d to 74.7 bcf/d. US production and Canadian imports fell. Mexican exports and LNG imports rose. The US Baker Hughes rig count rose 1 with oil activity higher while natural gas fell. The total US rig count now stands at 863. It appears the low in the rig count has been established. The Canadian rig count rose 30 and now stands at 169. Thus, the total North American rig count rose 31 to 1,032 and now trails last year by 1,158. This is an actual reduction in the yearly deficit compared to last week. The higher efficiency US horizontal rig count fell 3 to 654 and falls 622 below last year. This is the lowest US horizontal rig count since January 29, 2010. The latest EIA monthly natural gas report indicated a rise in April lower 48 US production that came very close to the December record.

Demand Trends: Total demand fell 2.1 bcf/d to 62.6 bcf/d. Industrial demand was higher with power and R&C lower. Electricity demand fell 6,872 gigawatt-hrs to 80,249 which trails last year by 3,363 (4.0%) and the 5 year average by 5,326 (6.2%). The latest EIA monthly natural gas report indicated demand recorded a third consecutive monthly record.

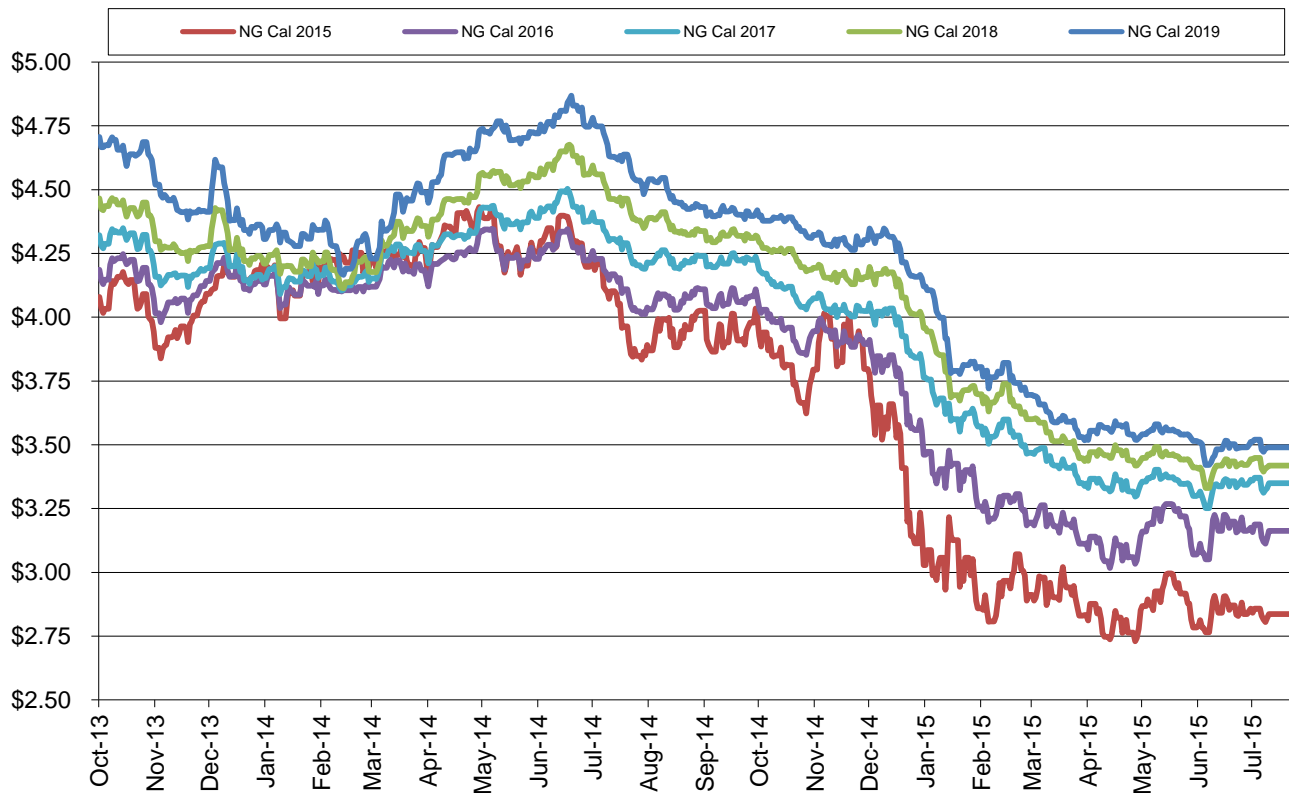
Other Factors Nuclear output was again higher in the reference week as seasonal maintenance ended and unplanned issues were resolved. Recent output was above 95,000 MW with only one unit offline.

- With a forecast through July 24, the 2015 total cooling index is rising as temperatures increase. The current index is at 1,870 compared to 1,755 for 2014, 2,632 for 2013, 4,357 for 2012 and 3,166 for 2011.

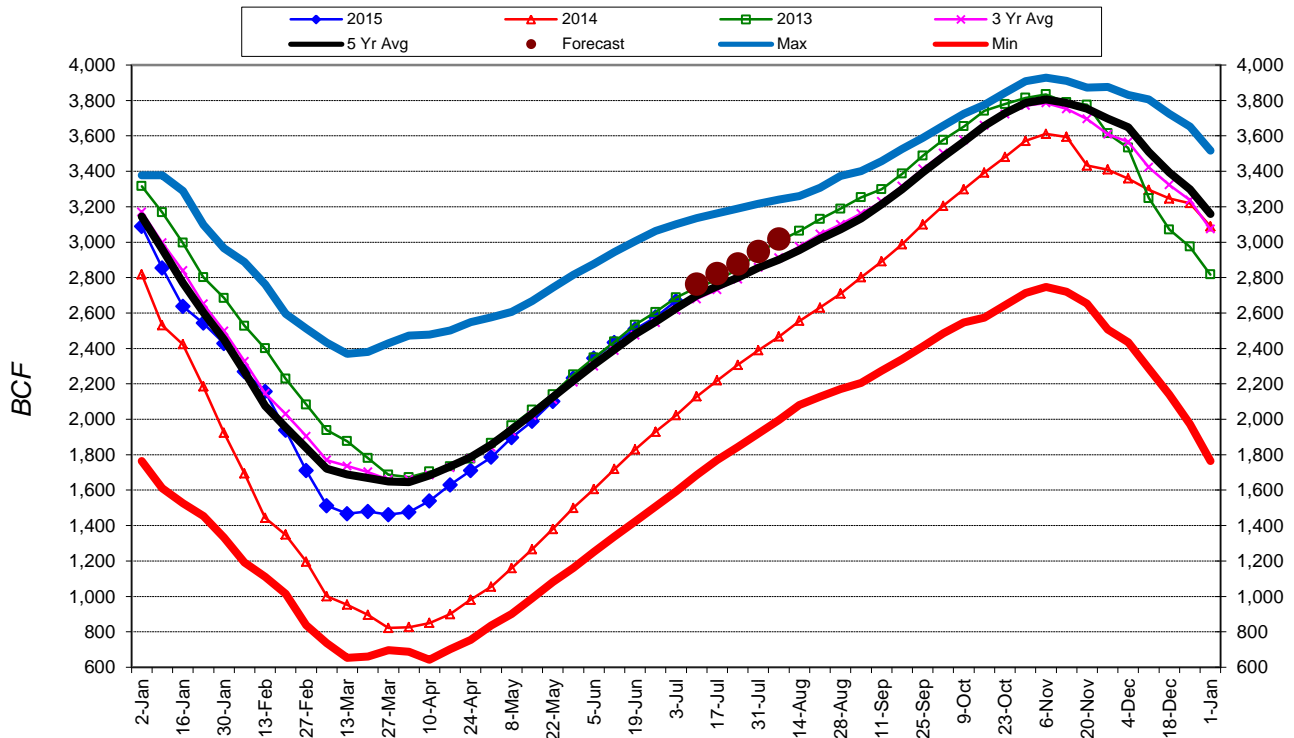
\$/MMBtu Ratio of NYMEX CL and NG



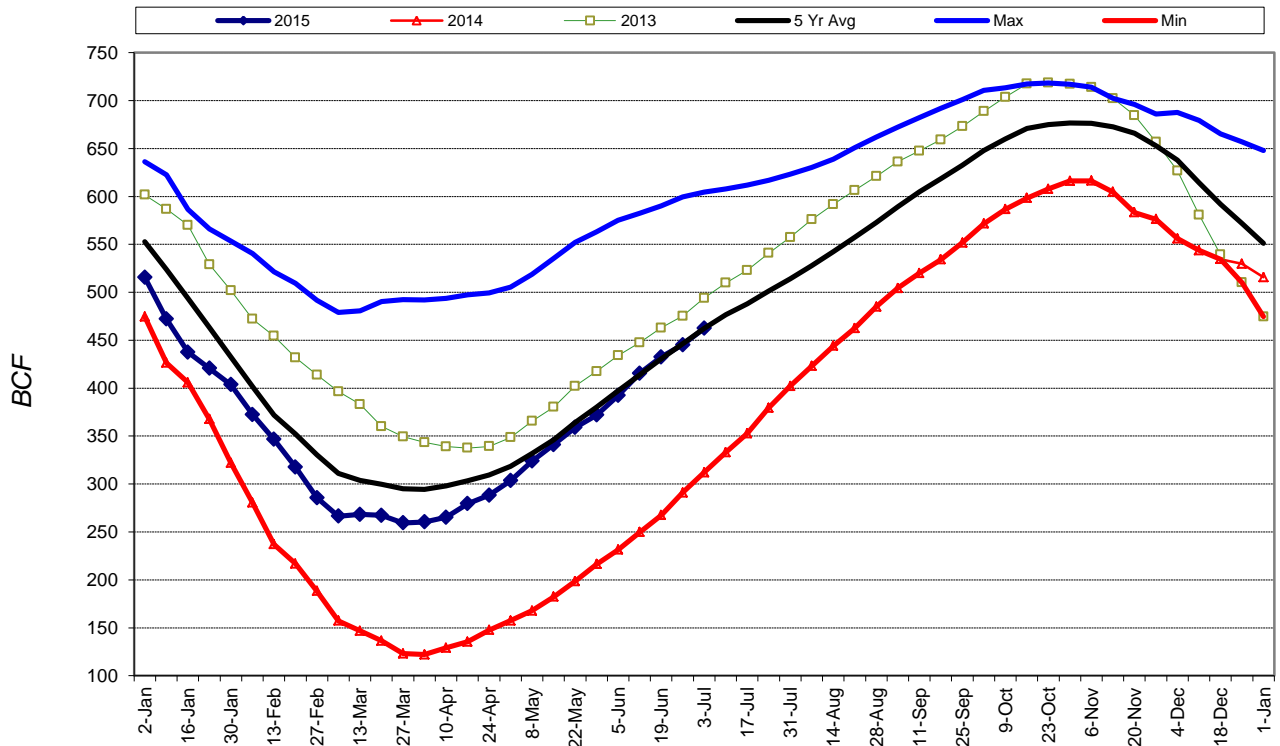
NYMEX Calendar Strips



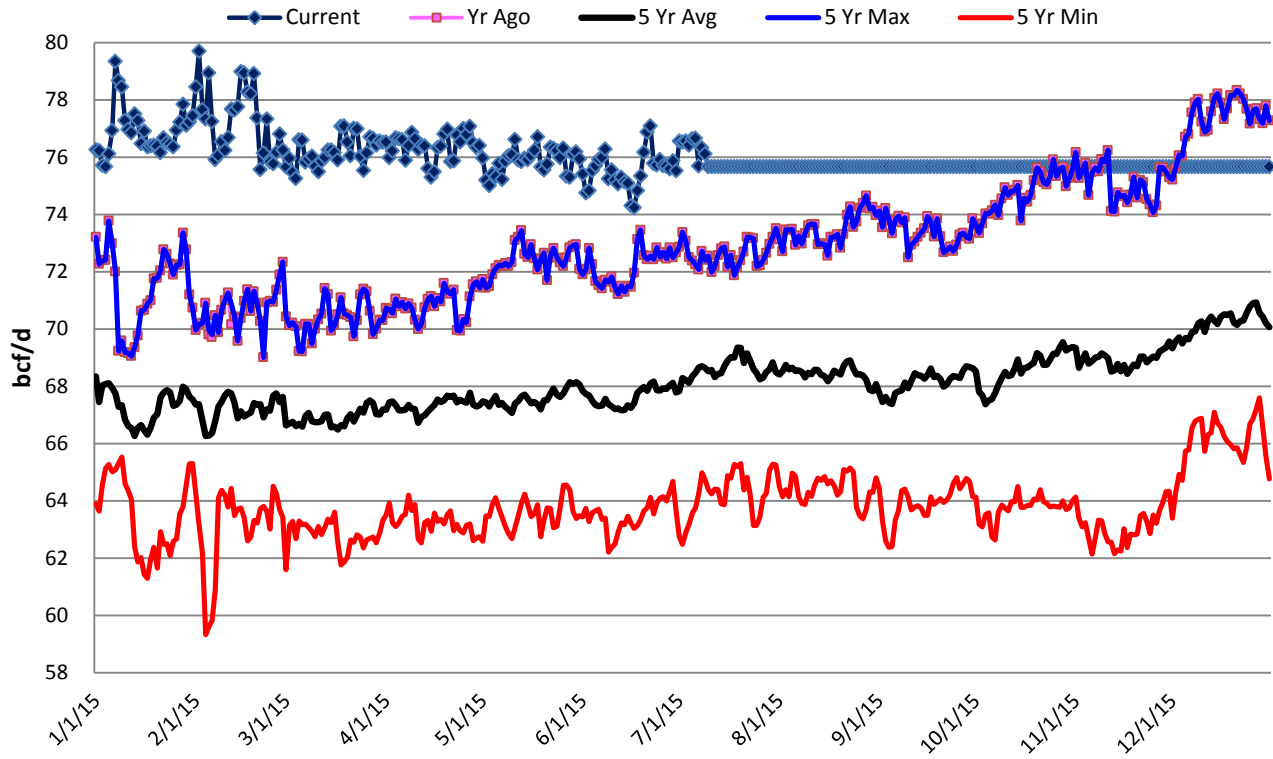
US Working Gas Storage - Source - EIA



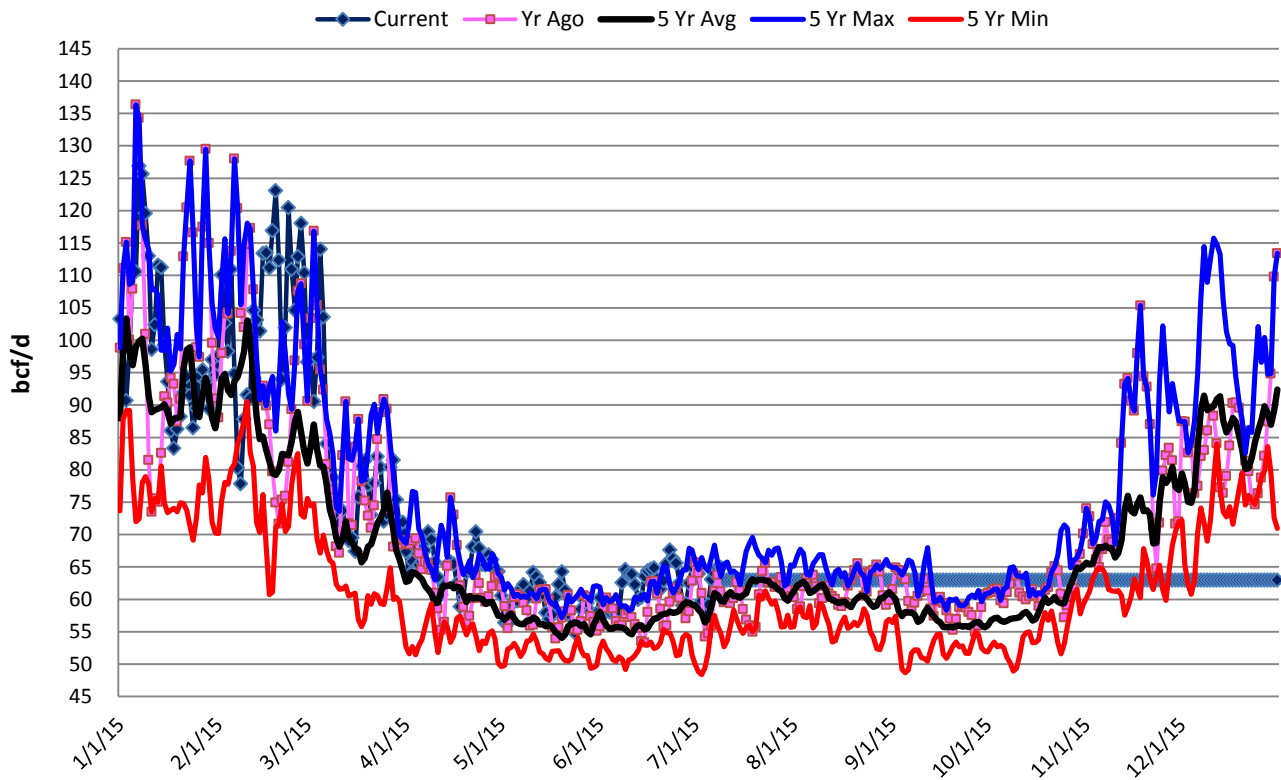
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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