

IAF Advisors  
Energy Market Outlook  
Kyle Cooper, (713) 722-7171, Kyle.Cooper@IAFAdvisors.com  
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**Price Action:** The August contract rose 10.0 cents (3.6%) to \$2.870 on a 14.7 cent range.

**Price Outlook:** Natural gas established a new high and is in the upper end of the recent \$2.50 and \$3.00 range. With a forecast for upcoming heat, the path of least resistance certainly seems higher. However, a large number of shorts have already covered and with a small weekly range, establishing both a new high and low is increasingly likely. The combined managed money net short position collapsed as both longs and shorts liquidated. The net short position fell over 26,000 contracts to just over 66,000 contracts. Total delta adjusted open interest fell to 3.437 million as of July 14. Aggregated CME futures open interest fell to 1.010 million as of July 17. The market is certainly less vulnerable to short covering rallies after this week's liquidation.

**Weekly Storage:** US working gas storage for the week ending July 10 indicated an injection of 99 bcf. Thus total working gas inventories rose to 2,767 bcf. Current inventories rise 638 bcf (30.0%) above last year while surpassing the 5 year average by 69 bcf (2.6%). The last 5 EIA reports have indicated total injections of 423 bcf compared to our estimate of 418 bcf. That is certainly within our tolerance and despite the forecast heat, inventories remain on track to exceed 4,000 bcf in early November, eclipsing the record 3,929 bcf of 2012.

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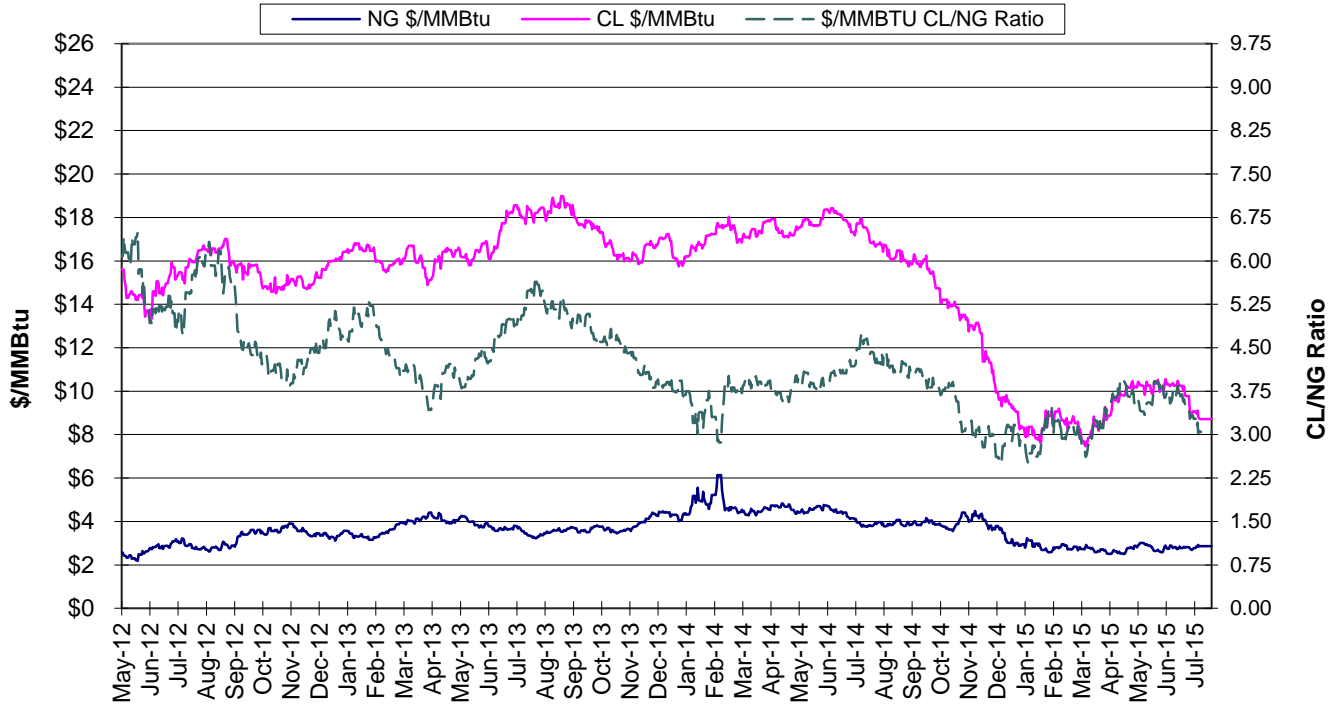
**Supply Trends:** Total supply rose +0.2 bcf/d to 74.8 bcf/d. US production rose with all others essentially flat. The US Baker Hughes rig count fell 6 with oil activity lower while natural gas rose. The total US rig count now stands at 857. This week's drop takes it back to the recent June 19 low. The Canadian rig count rose 23 and now stands at 192. Thus, the total North American rig count rose 17 to 1,049 and now trails last year by 1,203. This is an increase in the yearly deficit compared to last week. The higher efficiency US horizontal rig count fell 4 to 650 and falls 638 below last year. This is the lowest horizontal rig count since January 29, 2010. The latest EIA Drilling Productivity report suggested another drop in shale production for both July and August. Also of note is that revisions to previous estimates have been net lower in 2015. The report's history through 2014 had been for revisions to increase previous estimates.

**Demand Trends:** Total demand fell 0.7 bcf/d to 61.9 bcf/d. R&C and industrial demand were higher with power lower. Electricity demand rose 4,797 gigawatt-hrs to 85,046 which trails last year by 1,697 (2.0%) and the 5 year average by 3,321 (3.8%).

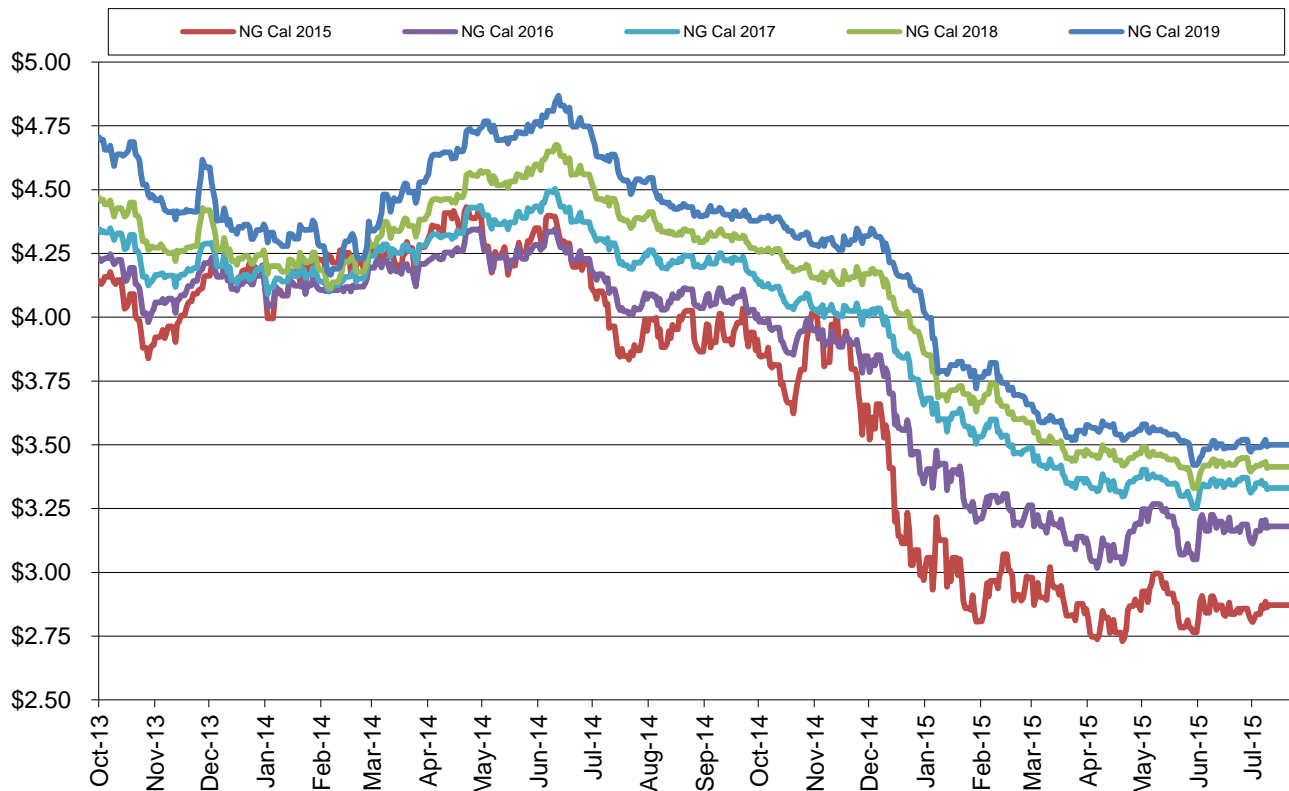
**Other Factors** Nuclear output was again higher in the reference week as seasonal maintenance ended. However, unplanned issues dropped recent output below 94,000 MW.

- With a forecast through July 31, the 2015 total cooling index is rising as temperatures increase. The current index is at 2,355 compared to 2,052 for 2014, 2,845 for 2013, 4,923 for 2012 and 3,725 for 2011.

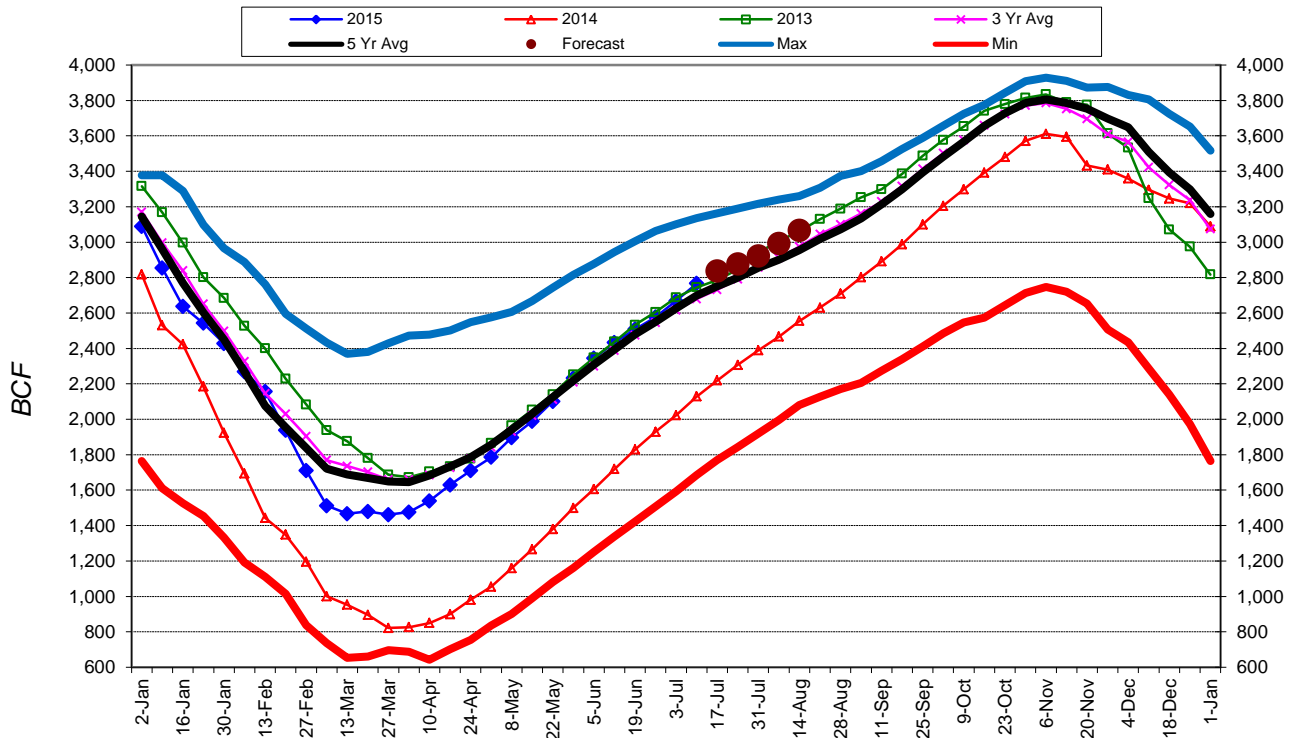
## \$/MMBtu Ratio of NYMEX CL and NG



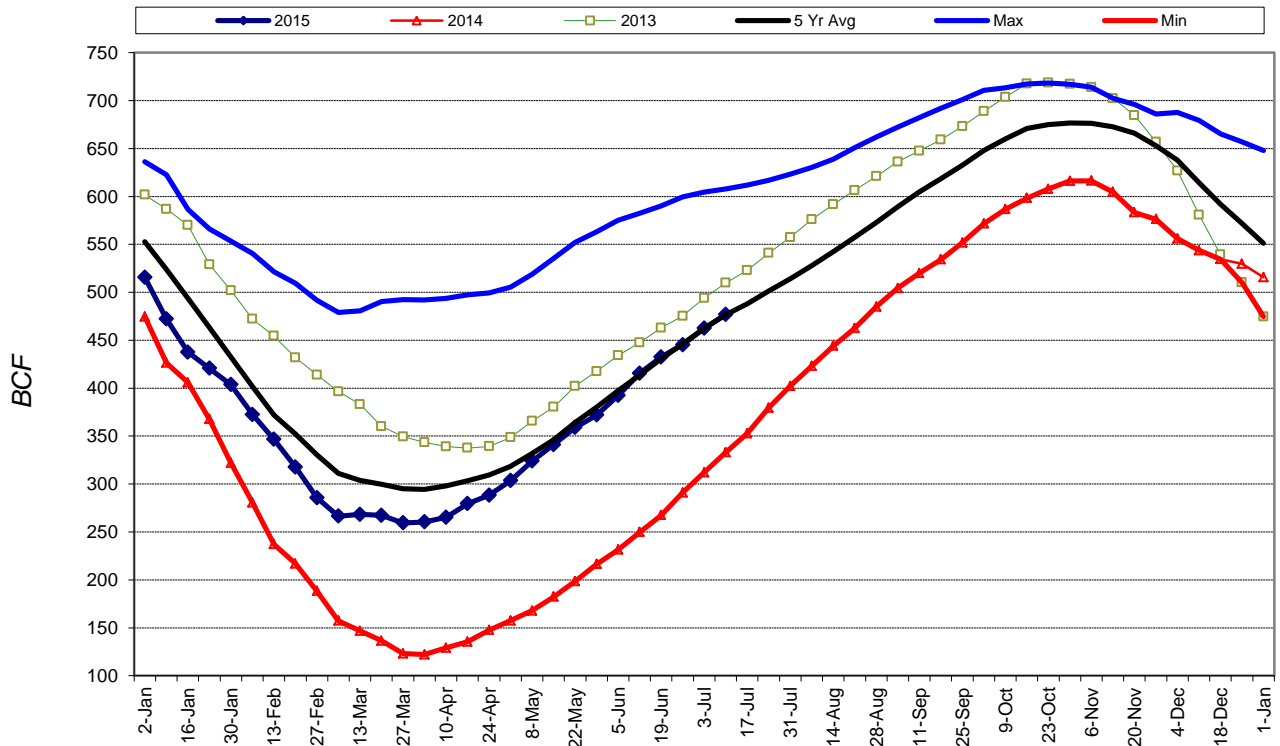
## NYMEX Calendar Strips



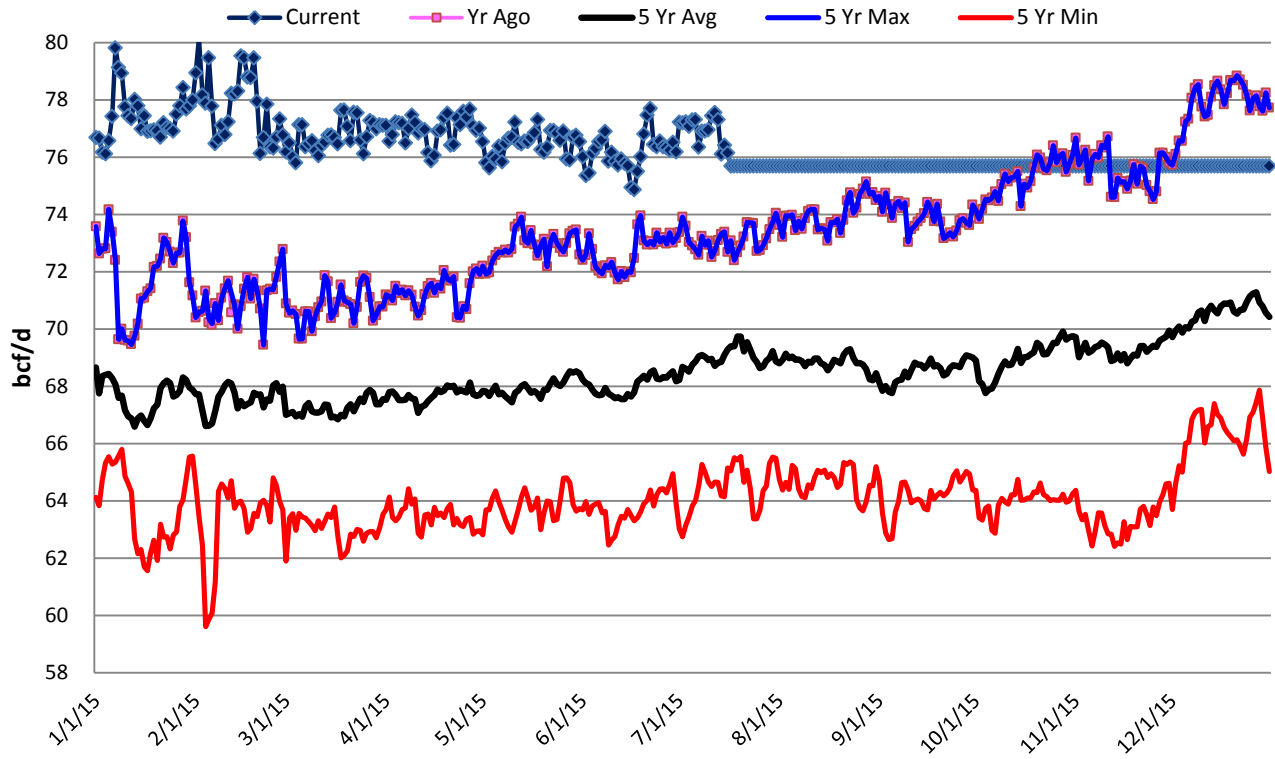
## US Working Gas Storage - Source - EIA



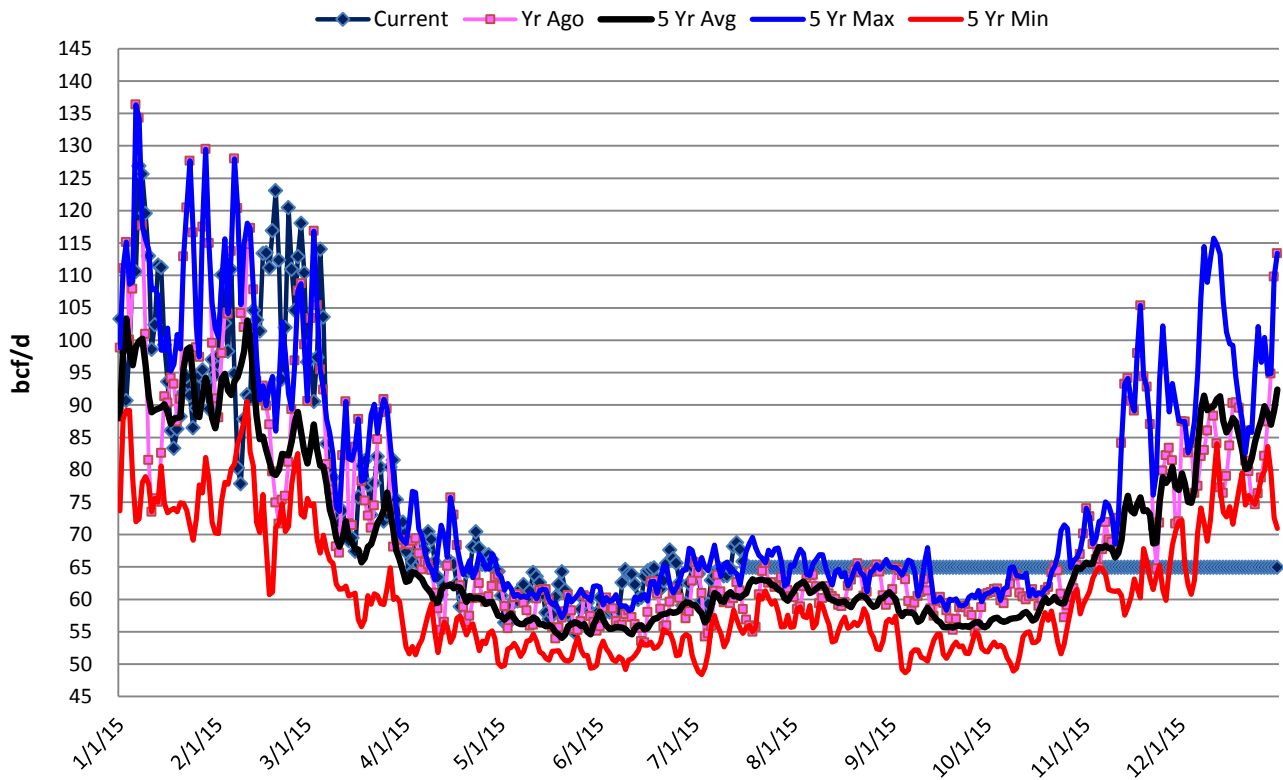
## Canadian Working Gas Storage - Enerdata



## US Total Supply



## US Total Demand



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

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