

IAF Advisors
Energy Market Outlook
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July 31, 2015

Price Action: The August contract fell 5.9 cents (2.1%) to \$2.716 on a 16.4 cent range.

Price Outlook: Natural gas continued on the path established late last week and trended lower. Although prices bounced mid-week, the market fell despite an EIA storage injection below market expectations. Even though this week will likely post the smallest injection of the summer and trail the 5 year average for the first time since mid-June, the market is displaying some bearish tendencies and prices seem on a path lower. The narrow price range again introduces the possibility of establishing both a new high and low in coming weeks. After rather large moves in the combined managed money net short position, the contraction this week was rather minimal at just over 1,200 lots. This is the smallest net short position since late May. Total delta adjusted open interest fell to 3.340 million as of July 28. Aggregated CME futures open interest rose to 973,000 as of July 31. The market has room to sell if the price weakness persists or buying may continue to reduce shorts.

Weekly Storage: US working gas storage for the week ending July 24 indicated a net injection of 52 bcf. Thus total working gas inventories rose to 2,880 bcf. Current inventories rise 573 bcf (24.8%) above last year while surpassing the 5 year average by 80 bcf (2.8%).

Storage Outlook: This weeks' storage change of 52 bcf dropped the yearly storage surplus below 600 bcf for the first time since March 20. Next week's storage change is expected to be the smallest injection until the onset of heating related demand in late October or November. Inventories remain on track to easily exceed 4,000 bcf in early November, breaking the 2012 3,929 bcf record.

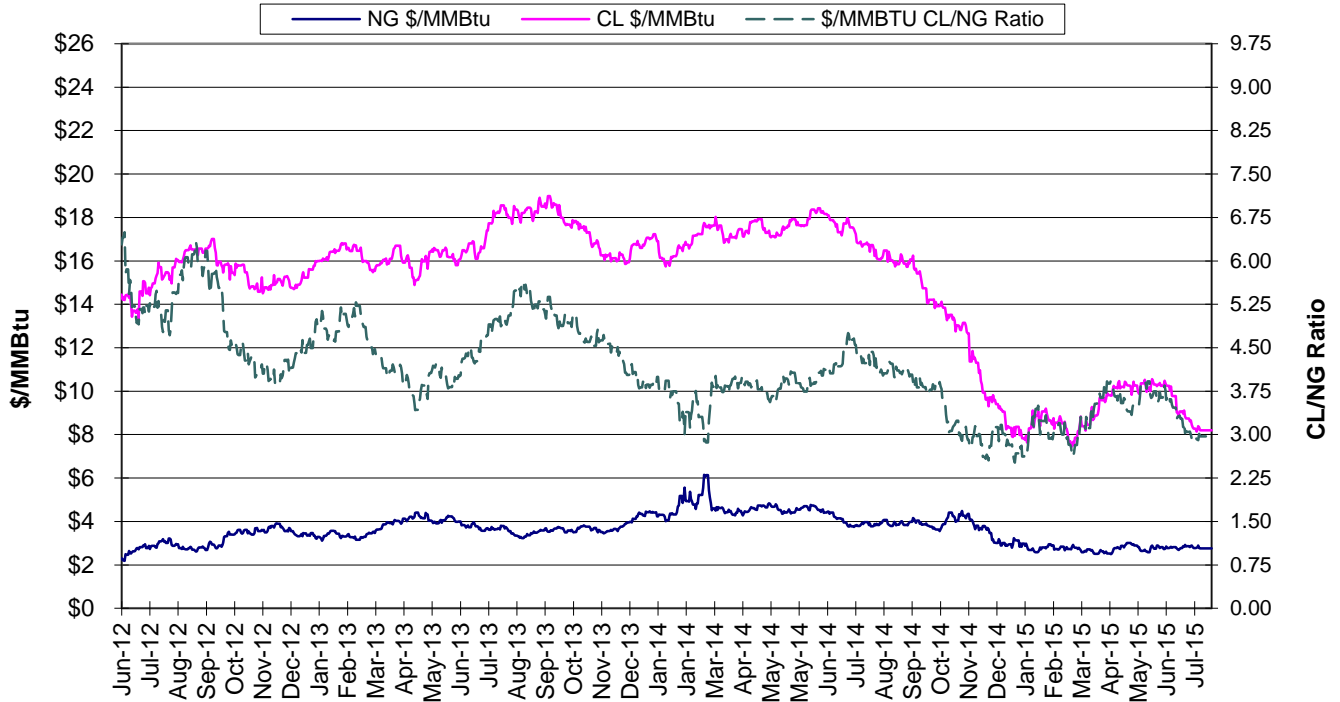
Supply Trends: Total supply fell 0.7 bcf/d to 74.6 bcf/d. US production fell with Mexican exports and LNG imports higher. Canadian imports were flat. The US Baker Hughes rig count fell 2 with oil activity higher while natural gas fell. The total US rig count now stands at 874. The Canadian rig count rose 15 and now stands at 215. Thus, the total North American rig count rose 13 to 1,089 and now trails last year by 1,192. This is a decrease in the yearly deficit compared to last week. The higher efficiency US horizontal rig count rose 2 to 664 and falls 634 below last year. The EIA Natural Gas Monthly report indicated a slightly larger than expected drop in lower 48 dry production in May.

Demand Trends: Total demand rose 0.8 bcf/d to 66.3 bcf/d. All sectors except R&C were higher. Electricity demand rose 2,584 gigawatt-hrs to 90,587 which exceeds last year by 3,683 (4.2%) while trailing the 5 year average by 1,593 (1.7%). The EIA Monthly Natural Gas report indicated May demand set another monthly record. This is the 4th consecutive monthly demand record.

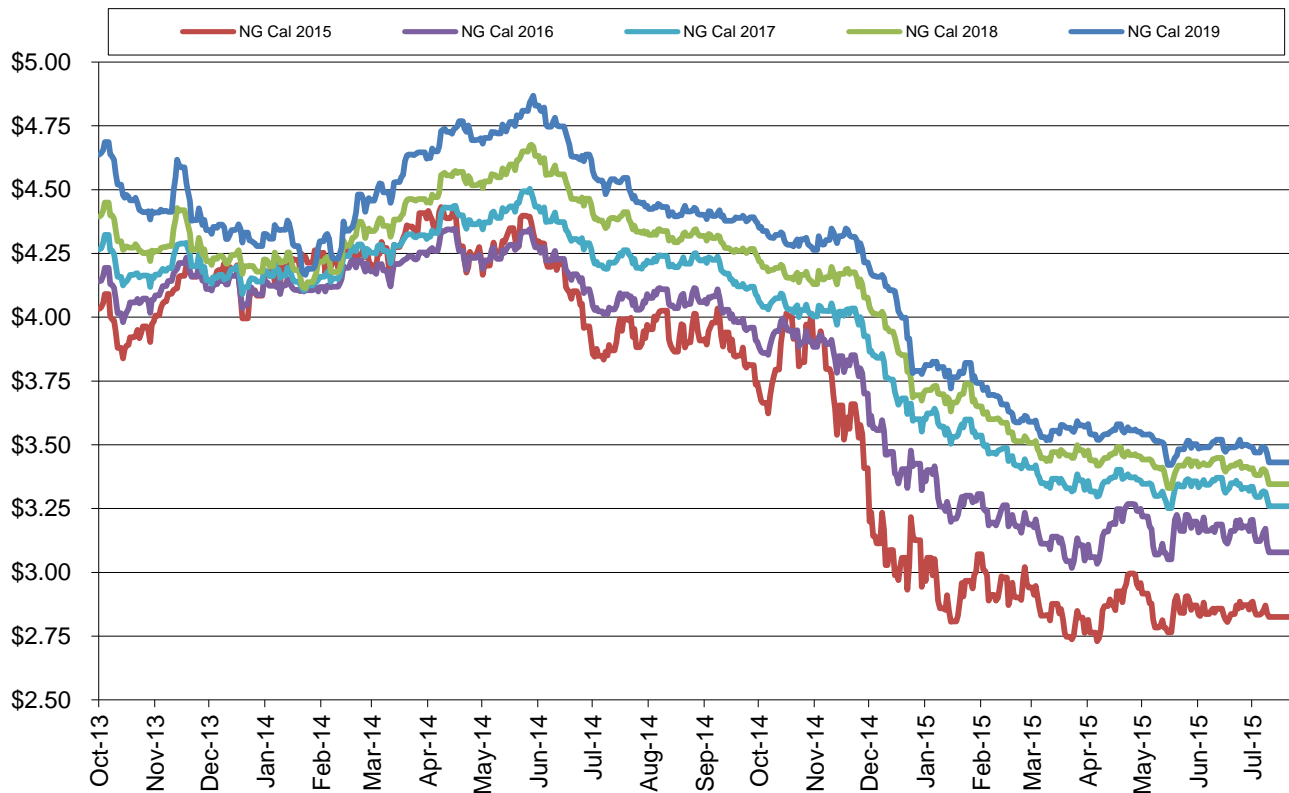
Other Factors Nuclear output was lower in the reference week but recent output returned to over 95,000 MW.

- With a forecast through August 14, the 2015 total cooling index is rising as temperatures increase. The current index is at 2,865 compared to 2,388 for 2014, 3,433 for 2013, 6,149 for 2012 and 4,683 for 2011.

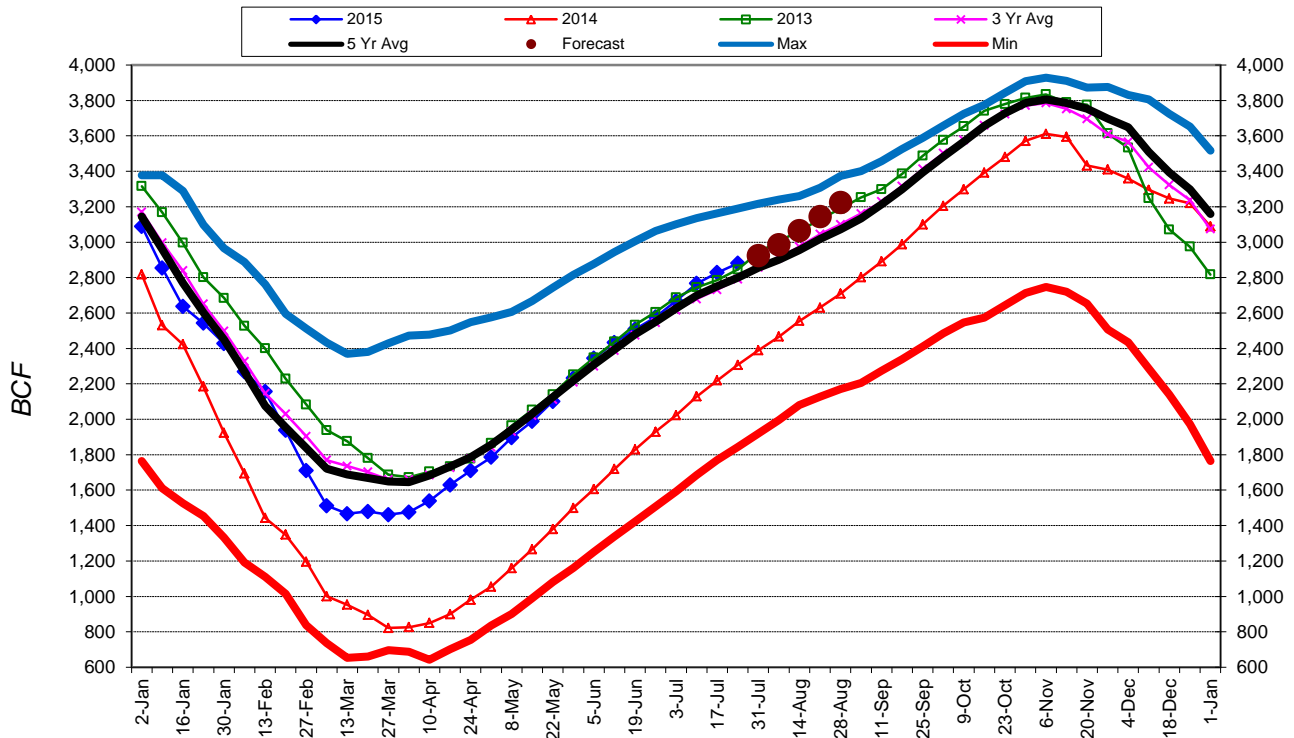
\$/MMBtu Ratio of NYMEX CL and NG



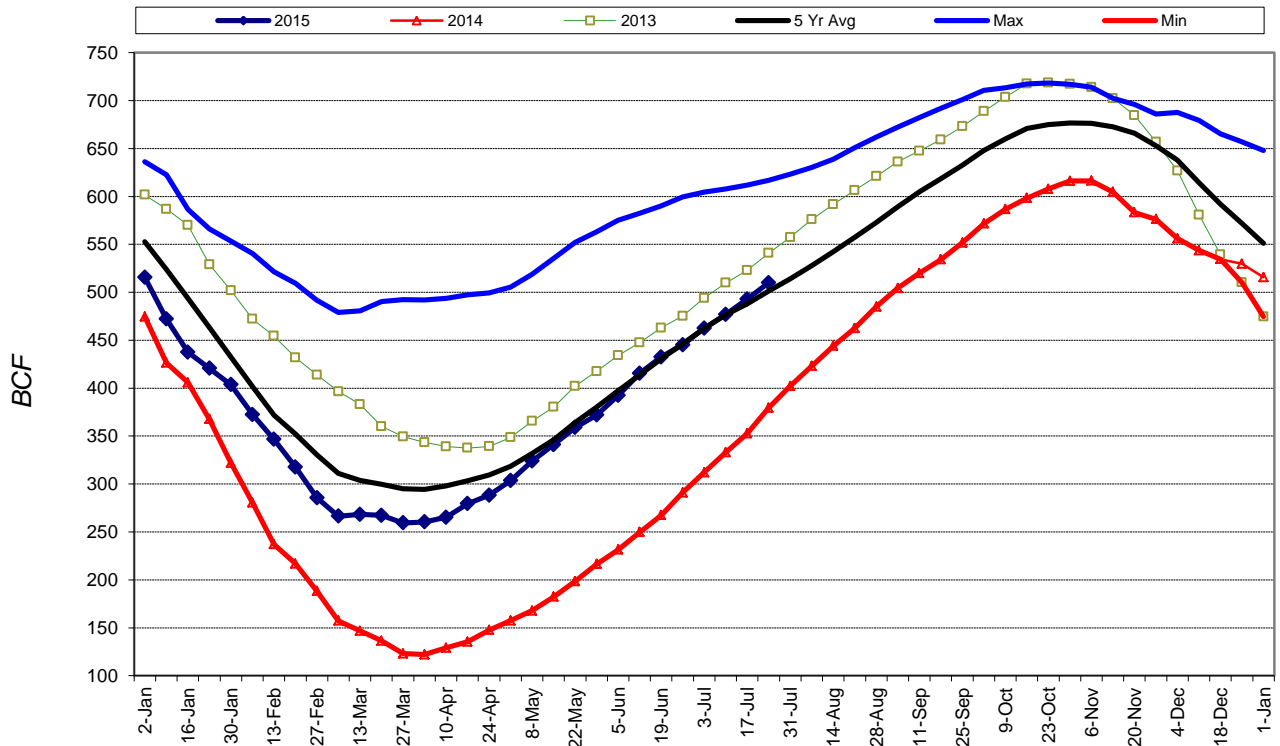
NYMEX Calendar Strips



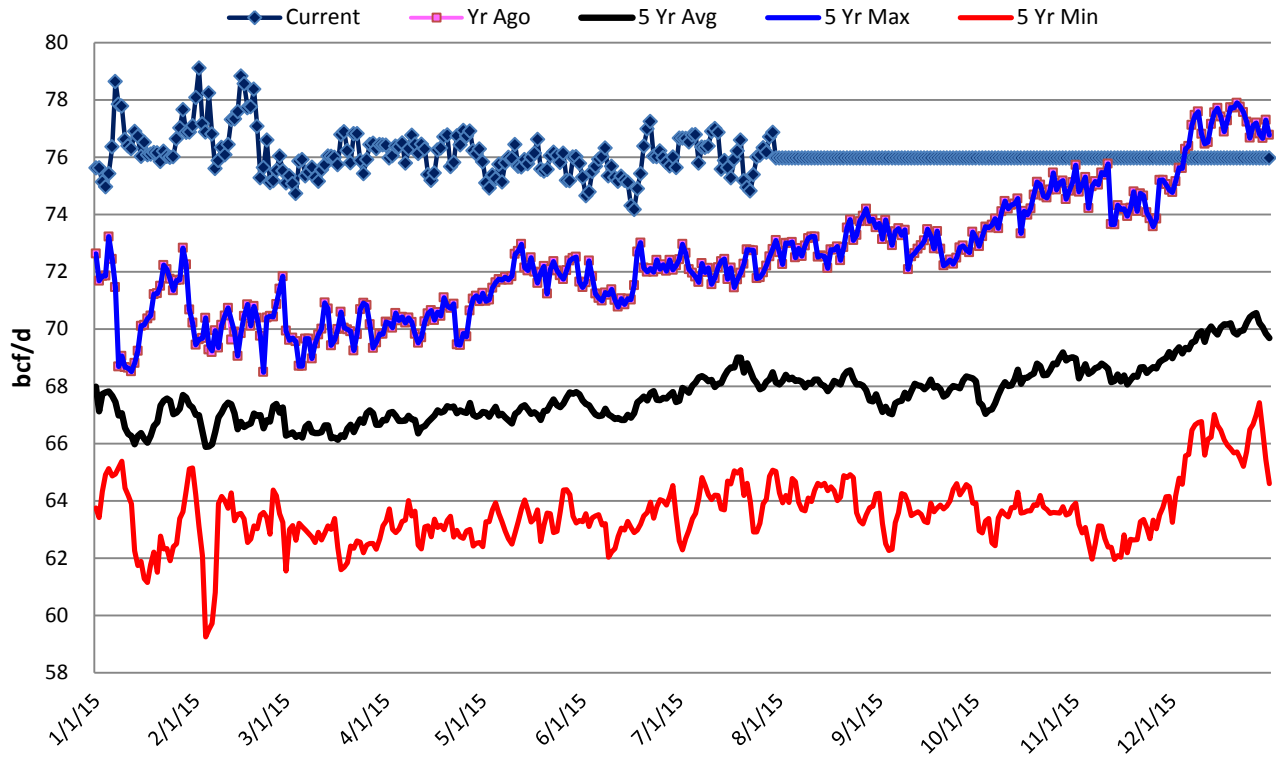
US Working Gas Storage - Source - EIA



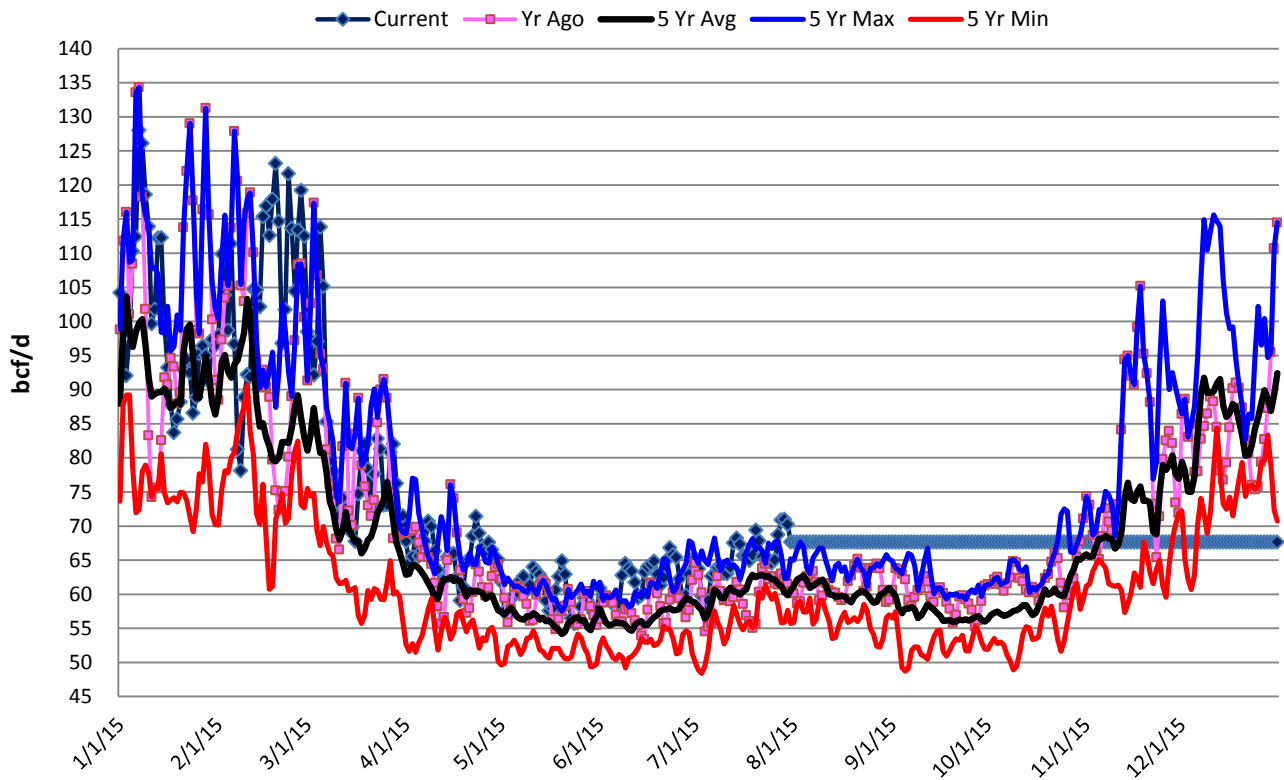
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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