

IAF Advisors
Energy Market Outlook
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Price Action: The October contract fell 4.1 cents (1.6%) to \$2.564 on an 8.6 cent range.

Price Outlook: After last week's expanded, but still well below normal, weekly range, this week witnessed the smallest weekly price range on record dating back to 2000. This certainly suggests another week where both a new high and low are posted. Despite the surprisingly large EIA injection, the market held up reasonably well which suggests it will take even more bearish data to forge substantially lower lows. The managed money net short position showed an incredible surge in the net short position to nearly 127,000 as total delta adjusted open interest rose to 3.282 million as of September 22. This is the largest managed money net short position since November 24, 2009. Aggregated CME futures open interest fell to 906,000 as of September 25.

Weekly Storage: US working gas storage for the week ending September 18 indicated a net injection of 106 bcf. Thus total working gas inventories rose to 3,440 bcf. Current inventories rise 452 bcf (15.1%) above last year while surpassing the 5 year average by 142 bcf (4.3%).

Storage Outlook: This week expanded the yearly surplus for only the 2nd time in the last 15 weeks. This injection exceeded the 5 year average change with 25 of the last 28 weeks reporting injections larger than the 5 year average. We still expect inventories to reach just below 4,000 bcf in November and fall to just under 1,800 bcf in March 2016.

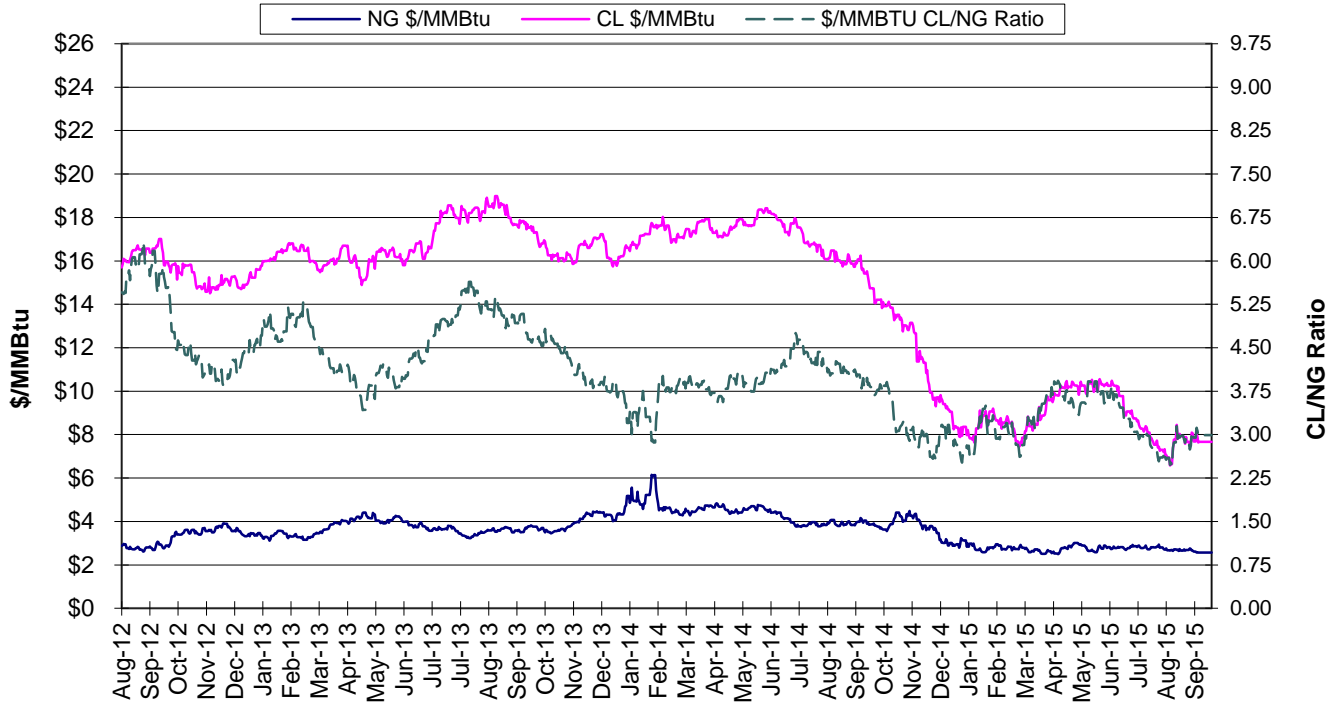
Supply Trends: Total supply fell 1.0 bcf/d to 73.8 bcf/d. All supply components were lower. The US Baker Hughes rig count fell 4 as both oil and natural gas activity slipped. The total US rig count now stands at 838. The Canadian rig count fell 6 and now stands at 176. Thus, the total North American rig count fell 10 to 1,014 and now trails last year by 1,346. This is now the largest yearly deficit on record back to 1987 based on weekly comparisons. In February 1983, the yearly deficit based on monthly data stood at 2,074. The higher efficiency US horizontal rig count fell 11 to 629 and falls 718 below last year.

Demand Trends: Total demand fell 4.0 bcf/d to 60.5 bcf/d. Much lower power demand offset higher industrial and R&C demand. Electricity demand fell 7,613 gigawatt-hrs to 77,331 which exceeds last year by 2,647 (3.5%) and the 5 year average by 1,212 (1.6%). Monthly EIA electricity data revealed natural gas generations increasing share primarily at coal's expense. Along with increasing wind and solar generation, the daily variance in natural gas demand from the power sector is likely to increase.

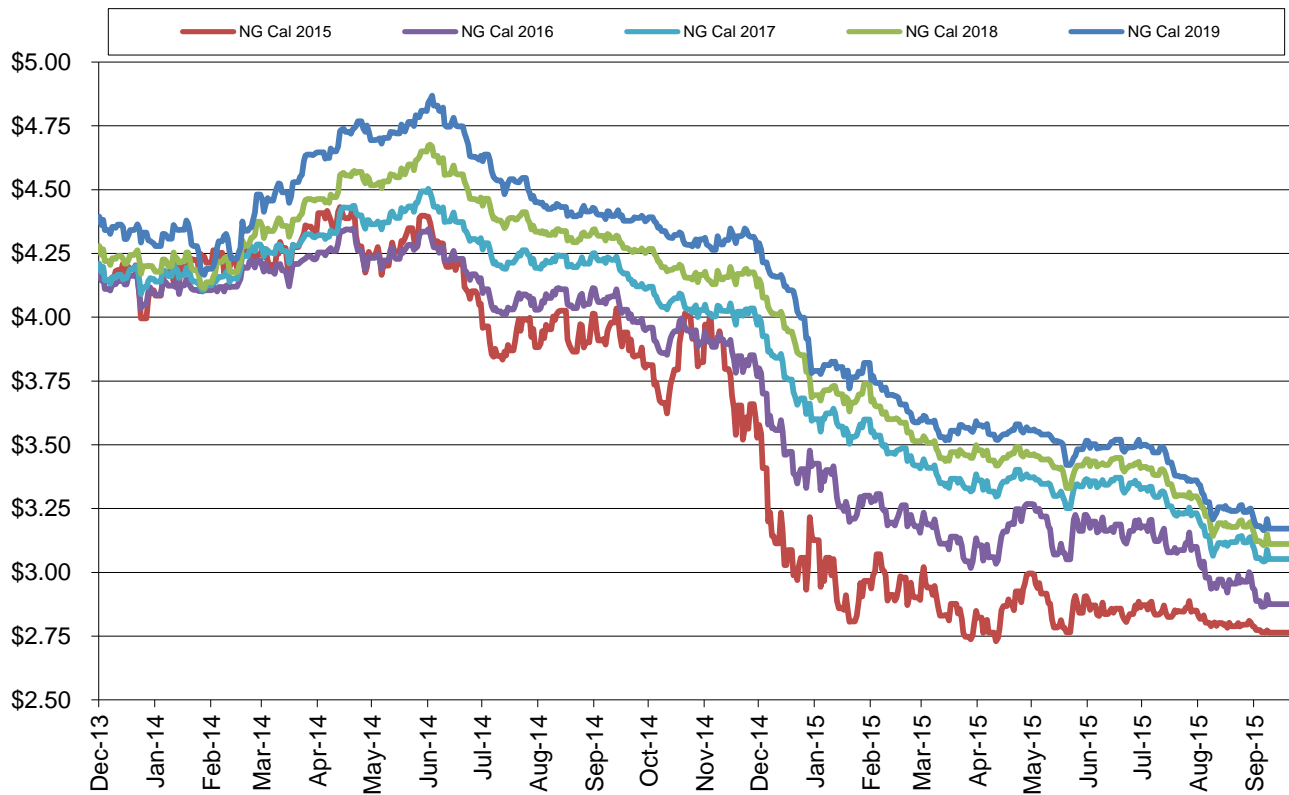
Other Factors Nuclear generation fell 4,535 MW in the reference week to 91,201 MW. This is 596 MW lower than last year and 363 MW higher than the 5 year average. Recent output slipped to near 86,000 MW.

- With a forecast through October 9, the 2015 total cooling index is increasing at a faster than seasonal pace as above normal temperatures linger. The current index is at 4,299 compared to 3,447 for 2014, 4,811 for 2013, 7,205 for 2012 and 6,706 for 2011.

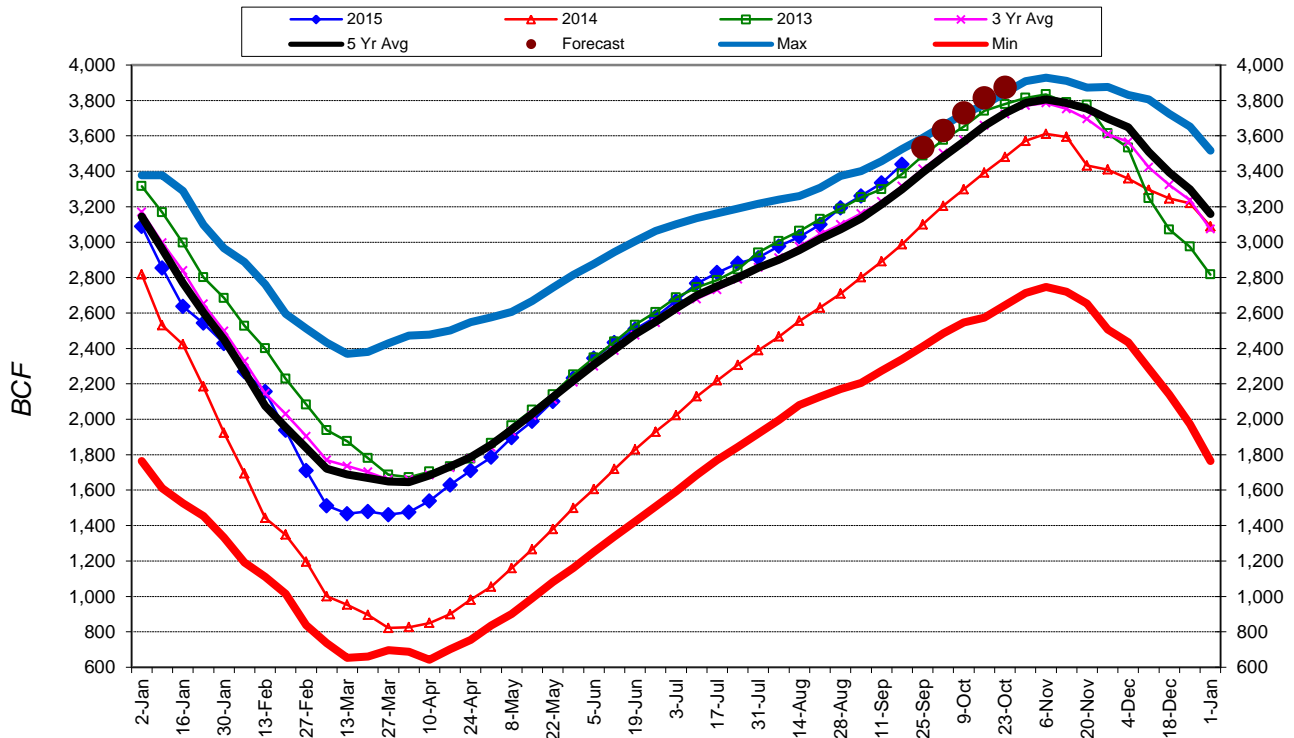
\$/MMBtu Ratio of NYMEX CL and NG



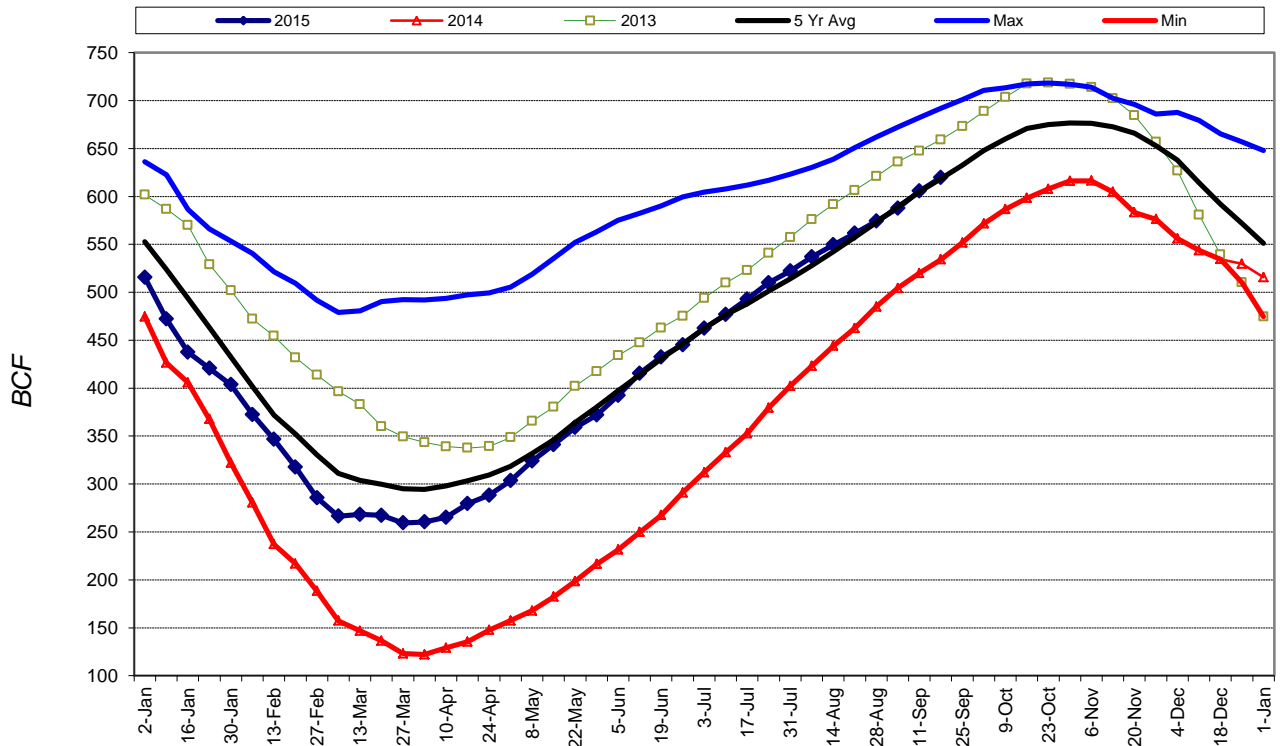
NYMEX Calendar Strips



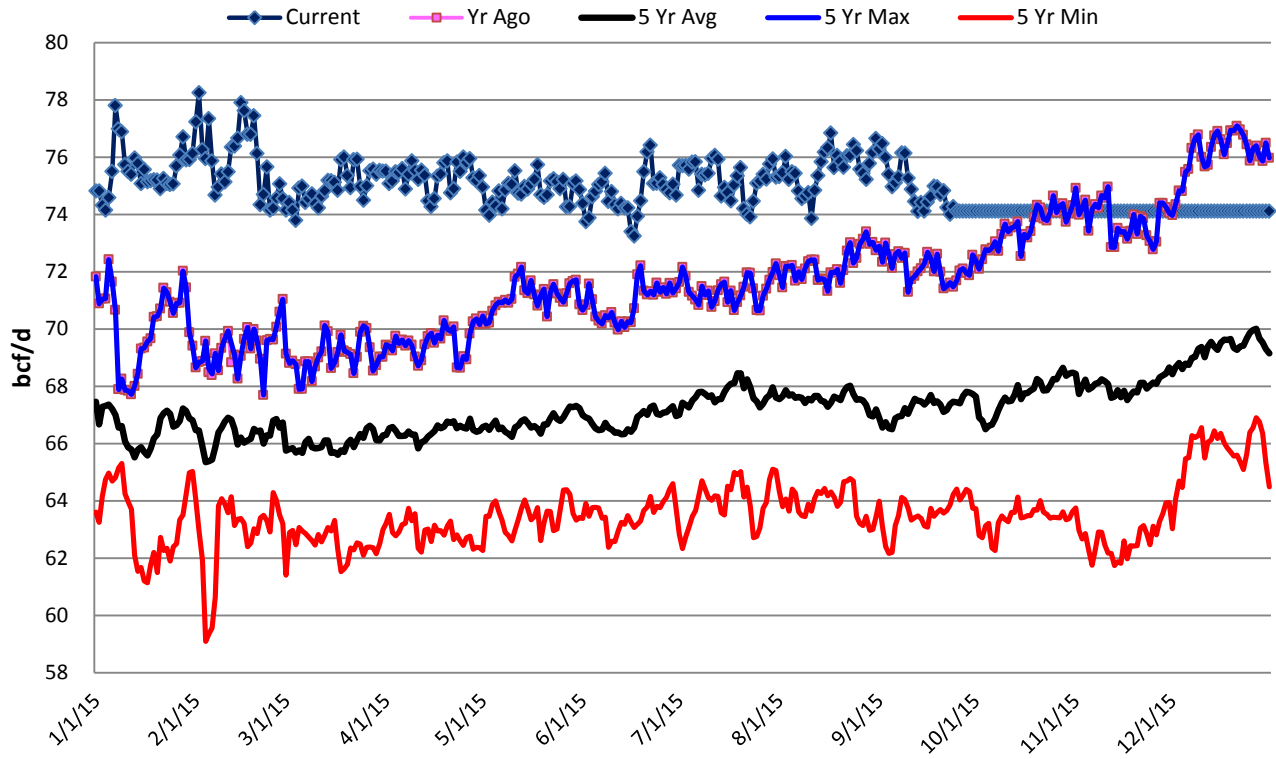
US Working Gas Storage - Source - EIA



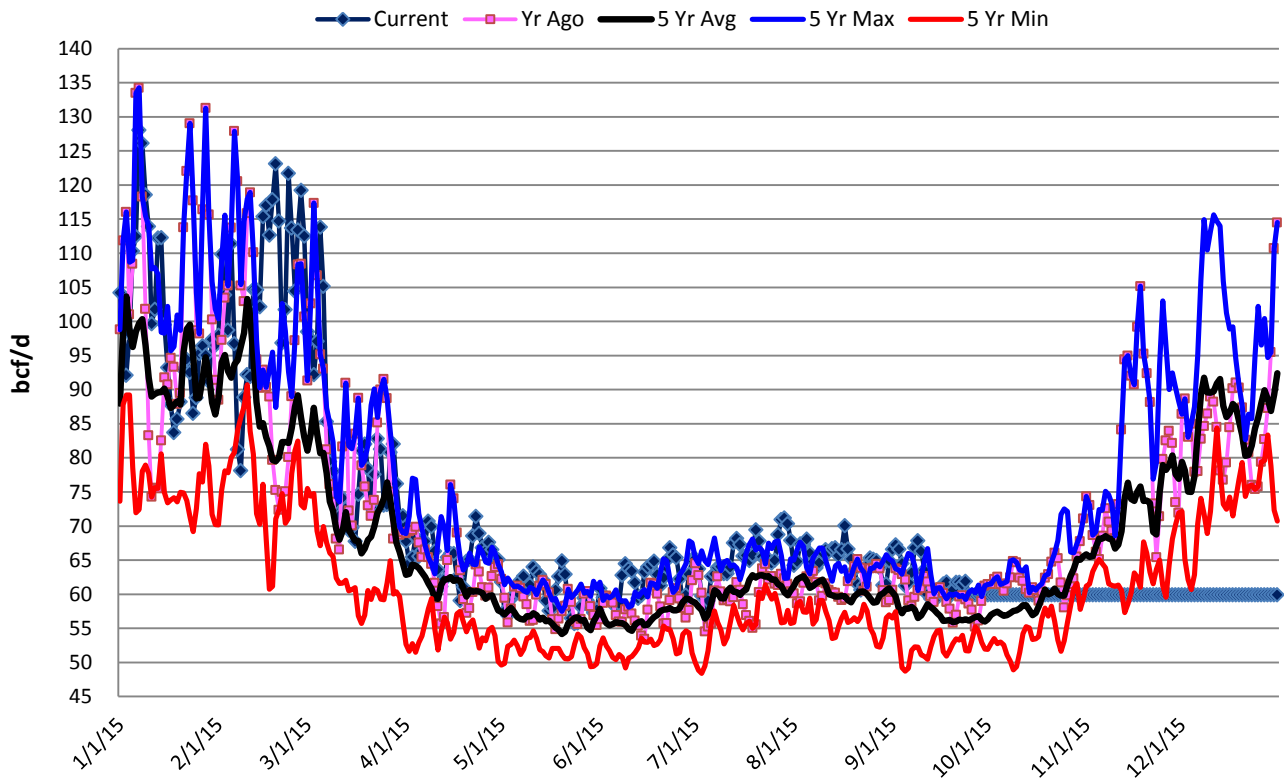
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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