

IAF Advisors
Energy Market Outlook
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Price Action: The November contract fell 14.4 cents (5.9%) to \$2.286 on a 22.4 cent range.

Price Outlook: After last week witnessed both a new high and low, despite the increased weekly range, prices were defensive as weather forecasts remained bearish. Although it is rare for the market to sell off before the winter even officially begins, the weather forecasts remain bearish. There is a very large short position and that may precipitate a short covering rally. However, until weather forecasts become at least less bearish, prices will likely remain defensive. The managed money net short position indicated an increase in the net short position to over 158,000 as total delta adjusted open interest rose to 3.319 million as of October 20. This is the largest net short position since August 25, 2009. Aggregated CME futures open interest rose to 1,003,000 as of October 23.

Weekly Storage: US working gas storage for the week ending October 16 indicated a net injection of 81 bcf. Thus total working gas inventories rose to 3,814 bcf. Current inventories rise 421 bcf (12.4%) above last year while surpassing the 5 year average by 157 bcf (4.3%).

Storage Outlook: Our EIA weekly storage miss was a more acceptable 3 bcf with the 5 week summation error now at (10) bcf. For a 5 week period, that is within tolerance and inventories are now expected to reach almost 4,000 bcf in November. We expect inventories to fall below 1,800 bcf in April 2016. The April level is obviously hugely weather dependent with a 1 tcf range easily conceivable.

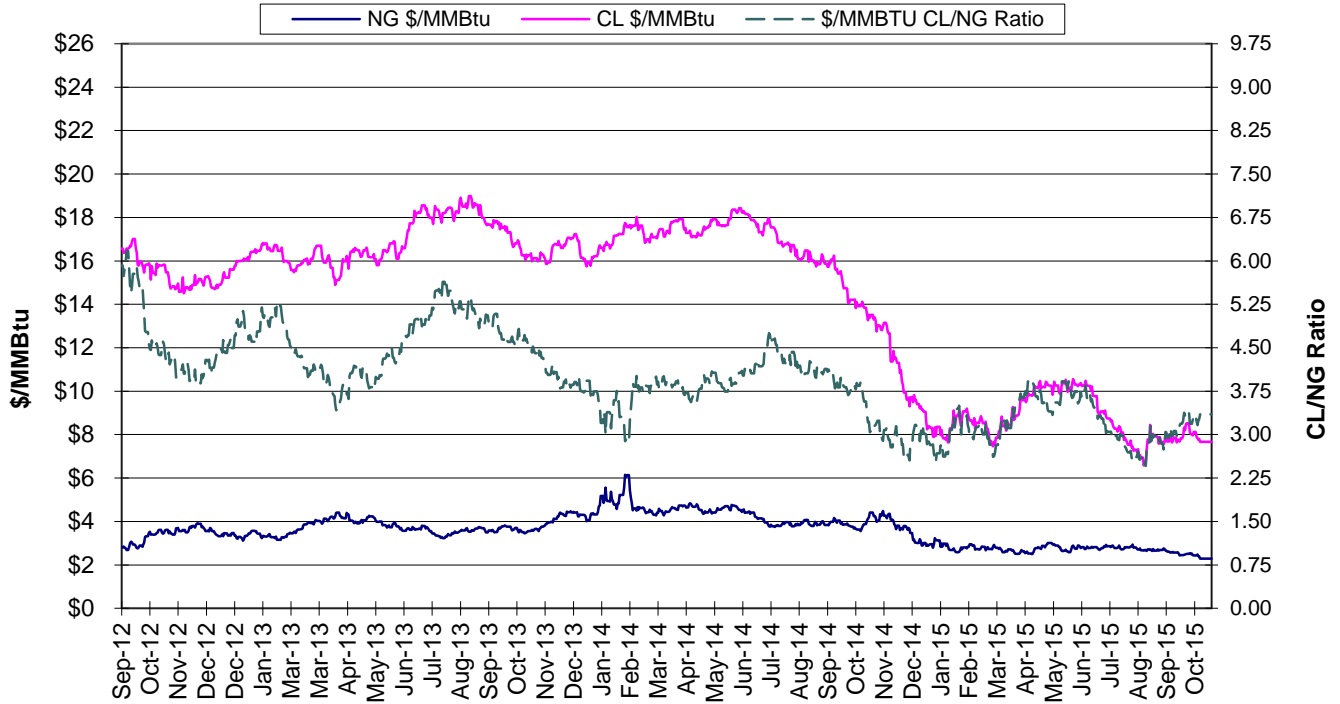
Supply Trends: Total supply fell 0.1 bcf/d to 74.2 bcf/d. Canadian imports rose. US production fell and Mexican exports rose. LNG imports were unchanged. The US Baker Hughes rig count was unchanged as oil slipped while natural gas rose. The total US rig count now stands at 787. The Canadian rig count rose 9 and now stands at 190. Thus, the total North American rig count rose 9 to 977 and now trails last year by 1,376. This is a new record weekly year on year storage deficit, surpassing the October 9 level. The higher efficiency US horizontal rig count was unchanged at 591 and falls 764 below last year. This is the lowest horizontal rig count since May 3, 2002.

Demand Trends: Total demand rose 1.4 bcf/d to 63.1 bcf/d. Higher power demand more than offset lower R&C and industrial consumption. Electricity demand rose 549 gigawatt-hrs to 71,651 which surpasses last year by 1,752 (2.5%) while exceeding the 5 year average by 1,313 (1.9%).

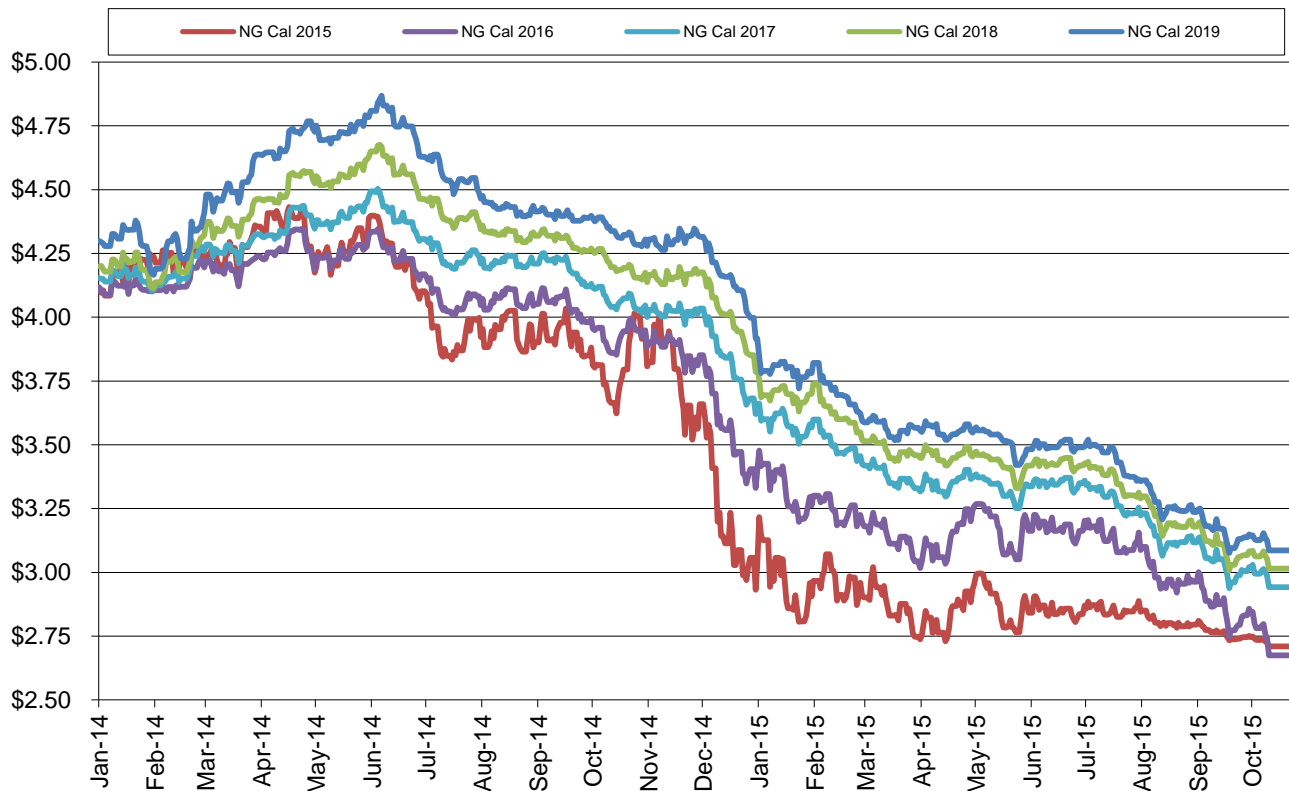
Other Factors Nuclear generation fell 1,575 MW in the reference week to 79,747 MW. This is 140 MW higher than last year and 1,339 MW lower than the 5 year average. Recent output was near 75,000 MW. However, output should be near a bottom as units have begun returning to service.

- With a forecast through November 6, the 2015 total cooling index was unchanged and we will switch to the heating index next week. The current index is at 4,402 compared to 3,451 for 2014, 4,811 for 2013, 7,212 for 2012 and 6,709 for 2011.

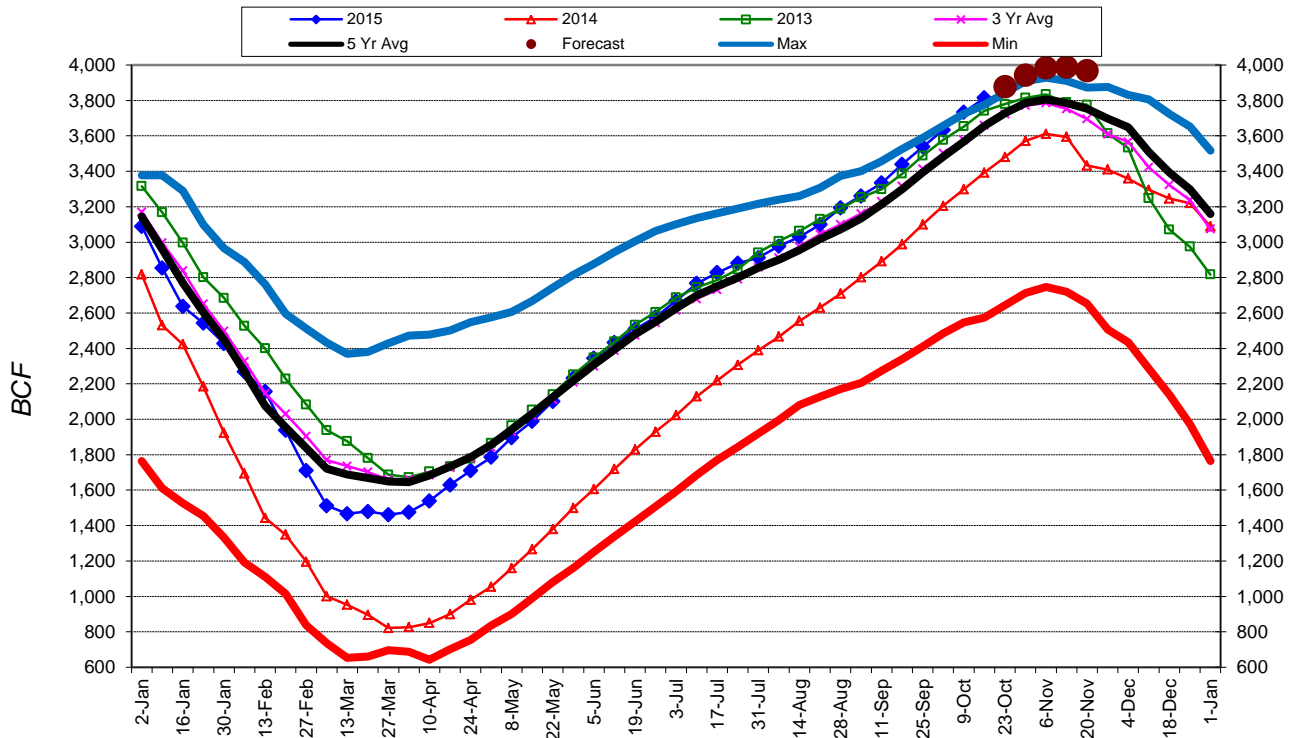
\$/MMBtu Ratio of NYMEX CL and NG



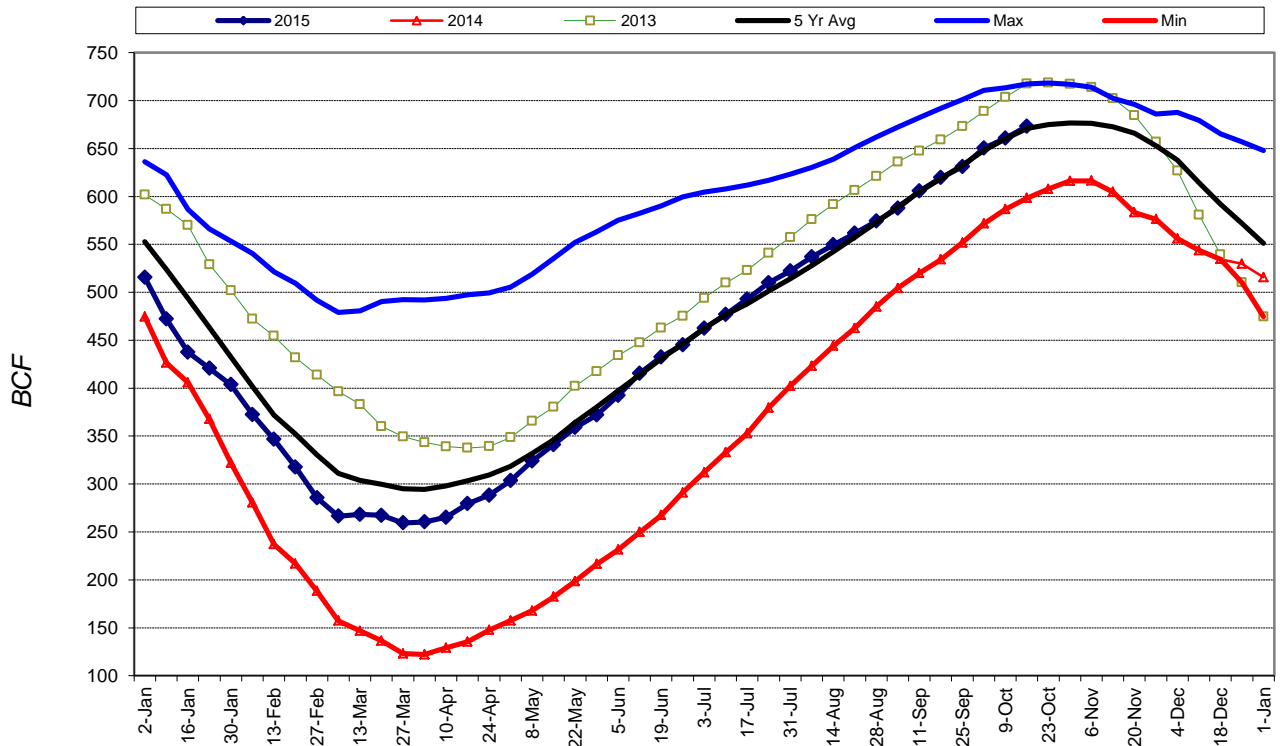
NYMEX Calendar Strips



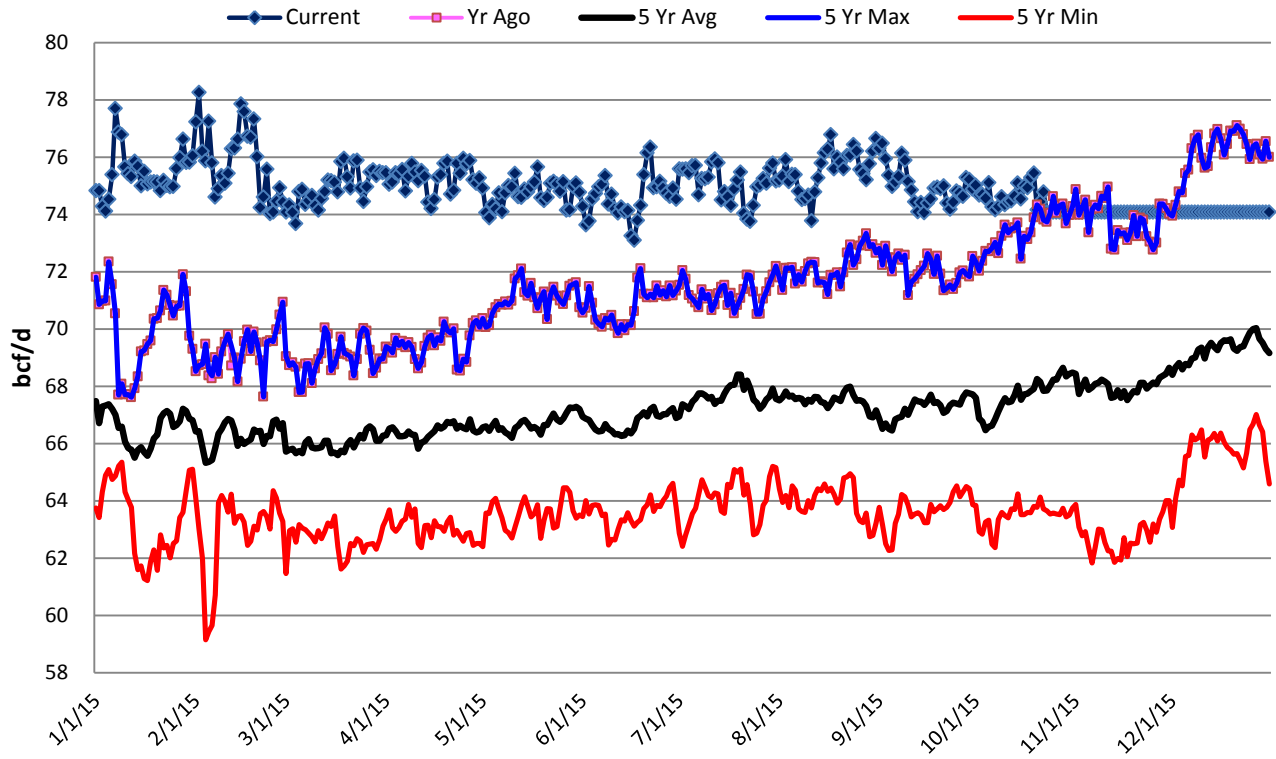
US Working Gas Storage - Source - EIA



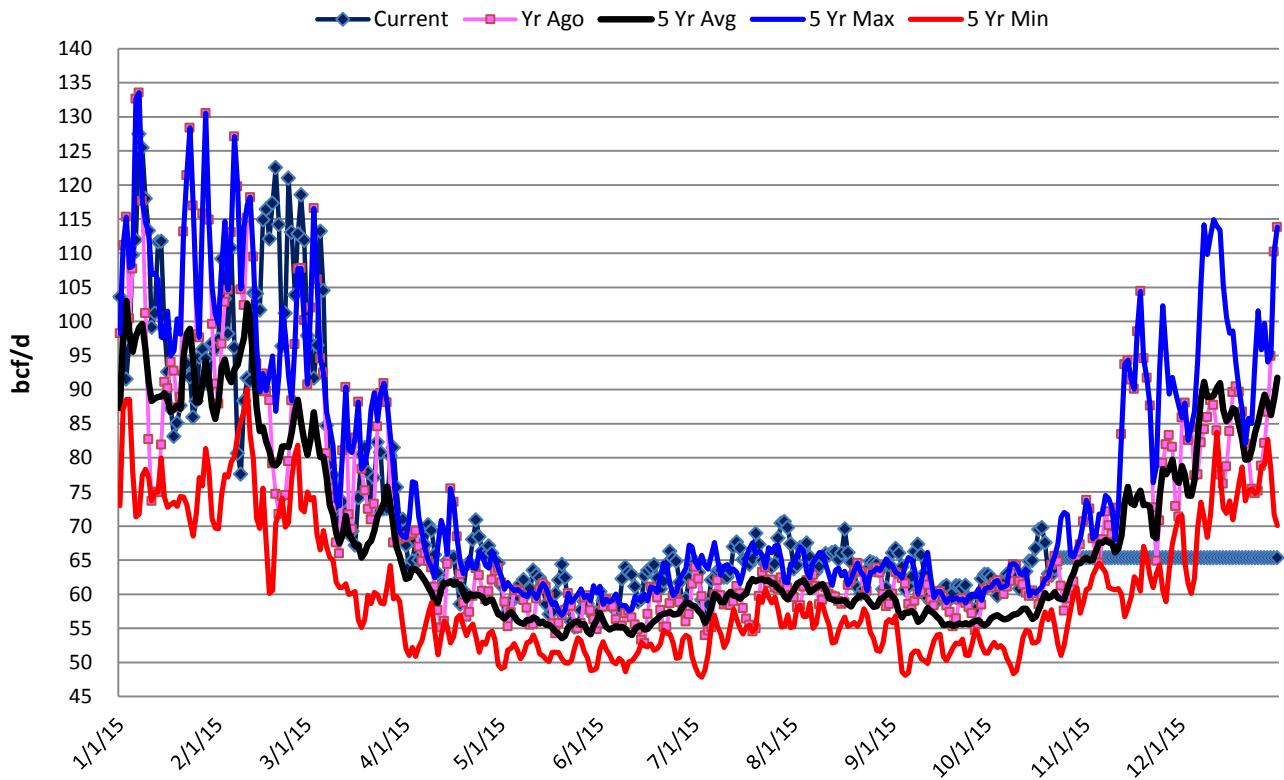
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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