

IAF Advisors/Criterion Research
Energy Market Outlook
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Price Action: The January contract fell 19.6 cents (9.0%) to \$1.990 on a 20.3 cent range.

Price Outlook: The market easily posted a new low and the bias remains lower. The market has had a rather distinct pattern with 2 or 3 lower weeks followed by either an increase or inside week. Then, the market continues lower. Although prices are reaching historically low levels, the incredibly bearish weather forecasts give no indication that the price slide is reaching an end. Until the weather forecasts begin to become less bearish or the storage changes begin to indicate a very tight temperature adjusted supply/demand balance, new lows remain more likely than new highs. CFTC data continued to reflect a reduction in the managed money net short position from almost 128,000 to 113,000. Total open interest now stands at 3.323 million as of December 8. Aggregated CME futures open interest rose to 1.044 million as of December 11.

Weekly Storage: US working gas storage for the week ending December 4 indicated a net withdrawal of 76 bcf. Current inventories rise 521 bcf (15.5%) above last year while surpassing the 5 year average by 231 bcf (6.3%).

Storage Outlook: This week's storage change was mathematically smaller than last year's 50 bcf withdrawal and the 5 year average withdrawal of 48 bcf. This reduced the yearly and the 5 year average inventory surpluses. However, forecasts for warm weather should return withdrawals to mathematically larger than the 5 year average in coming weeks. Due to warm weather forecasts, inventories are now expected to reach almost 1,900 bcf in April.

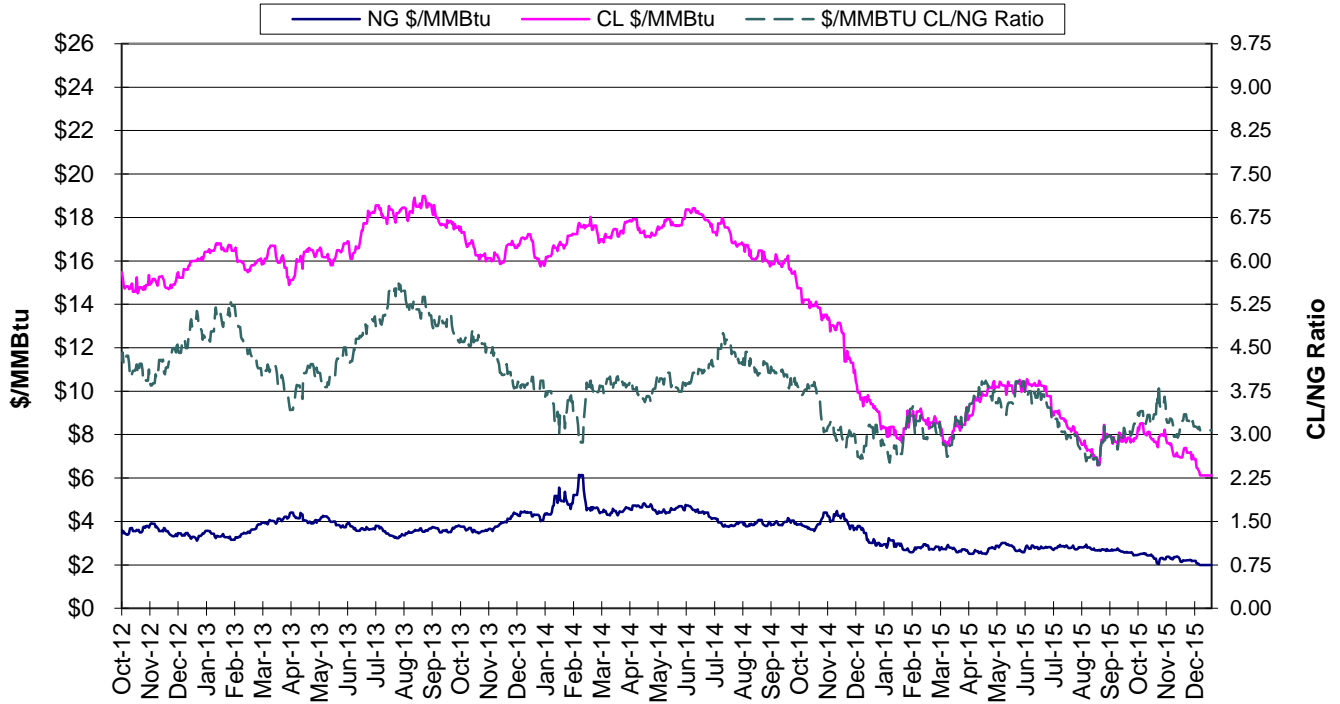
Supply Trends: Total supply fell 0.3 bcf/d to 74.0 bcf/d. US production and Canadian imports fell while Mexican exports rose. LNG imports were unchanged. The US Baker Hughes rig count slipped 28 as both oil and natural gas activity fell. The total US rig count now stands at 709. The Canadian rig count fell 3 and now stands at 174. Thus, the total North American rig count fell 31 to 883 and now trails last year by 1,441 and is a new record year on year rig count deficit. The higher efficiency US horizontal rig count fell 15 at 554 and falls 813 below last year. This is the lowest US horizontal rig count since December 4, 2009. The EIA Drilling Productivity Report indicated a slight upward revision to December production with still an overall decline. January production was also expected to decline. This is in contrast to the Monthly Natural Gas report which indicated yet another record for US natural gas production in September. Declines rates have remained steady.

Demand Trends: Total demand rose 1.4 bcf/d to 82.7 bcf/d. R&C demand rose while industrial demand was unchanged. Power demand fell. Electricity demand rose 4,342 gigawatt-hrs to 74,791 which trails last year by 526 (0.7%) while trailing the 5 year average by 107 (0.1%).

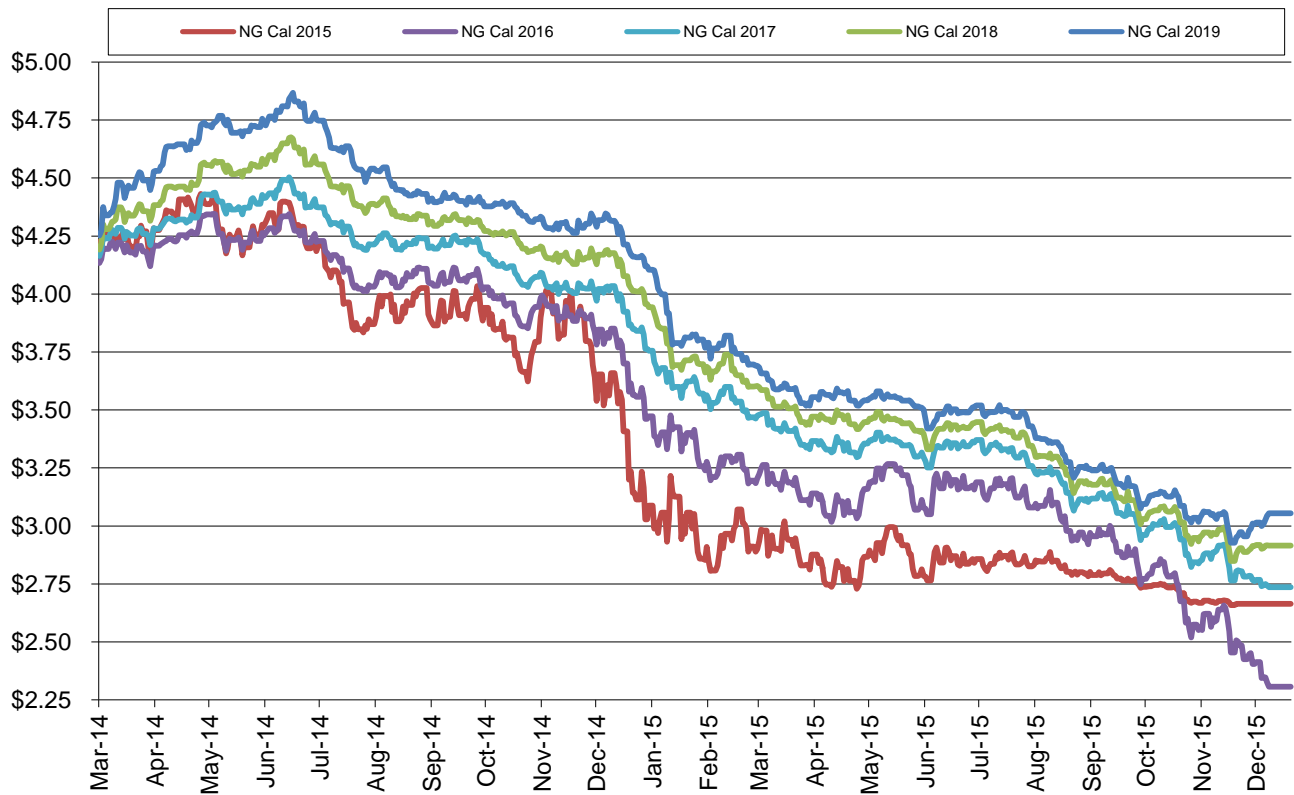
Other Factors Nuclear generation rose 966 MW in the reference week to 85,306 MW. This is 9,056 MW lower than last year and 5,956 MW lower than the 5 year average. Units have recovered from unplanned issues and output was recently over 90,000 MW.

- The 2015/16 heating season is still off to the slowest start since 2011. With a forecast through December 25, the 2015/16 total heating index is at 714 compared to 913 for 2014/15, 1,114 for 2013/14, 857 for 2012/13 and 869 for 2011/12.

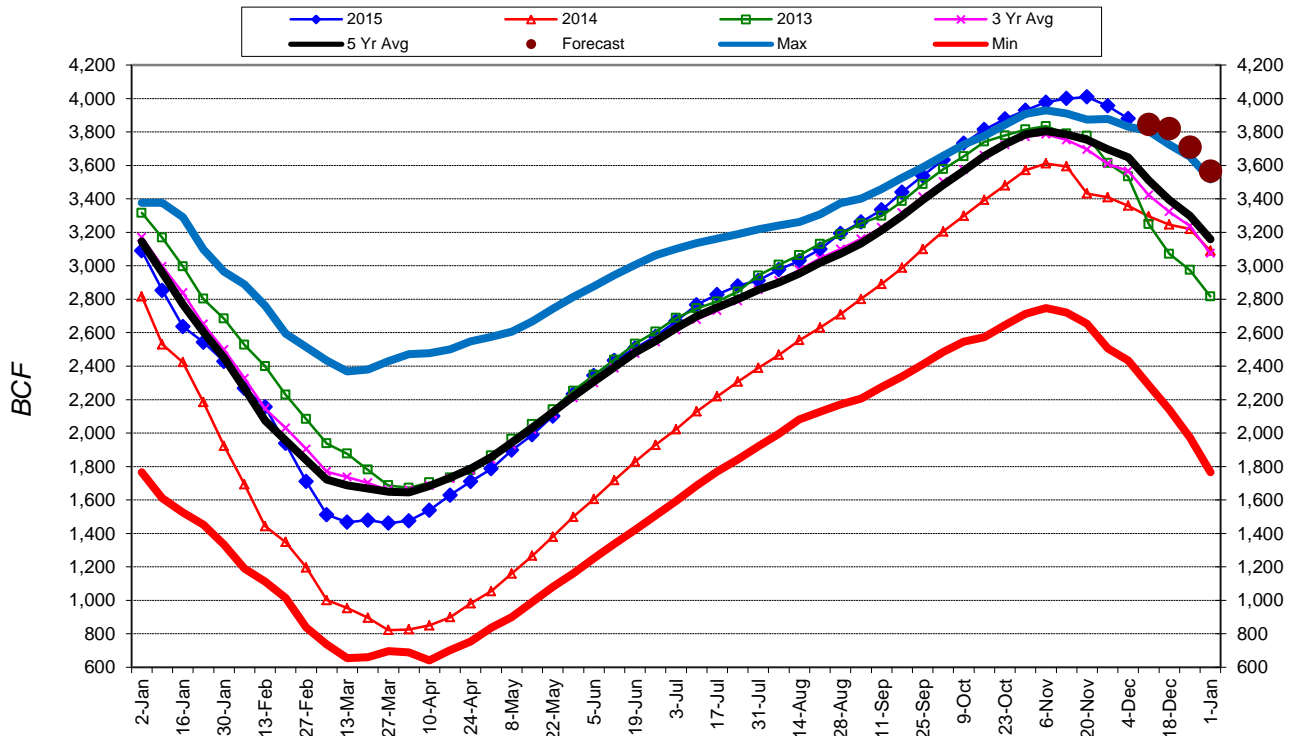
\$/MMBtu Ratio of NYMEX CL and NG



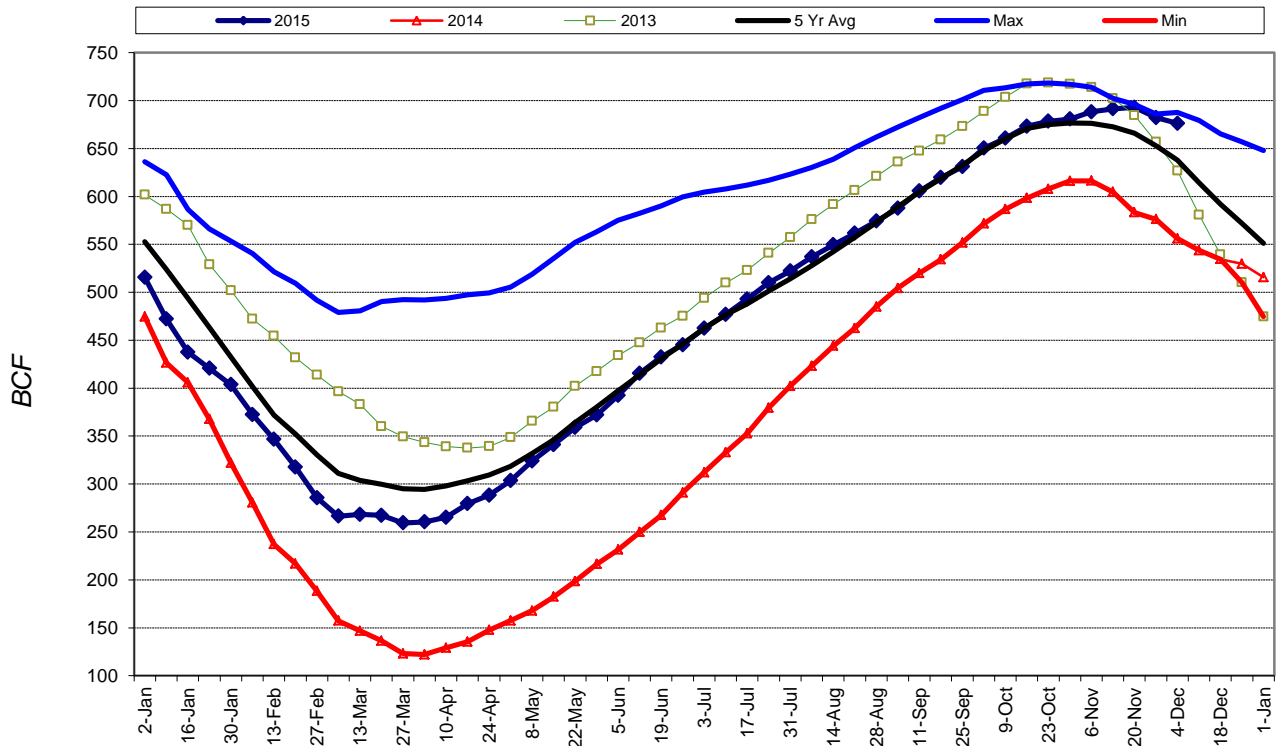
NYMEX Calendar Strips



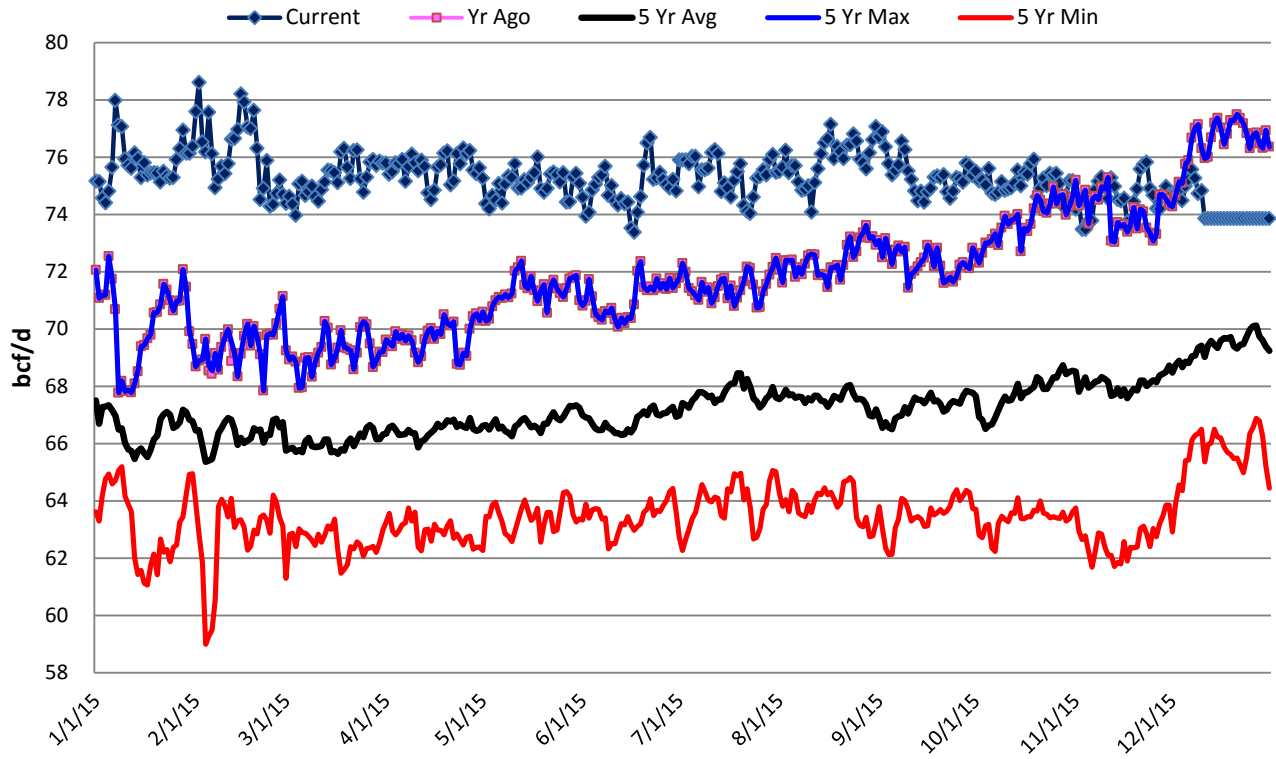
US Working Gas Storage - Source - EIA



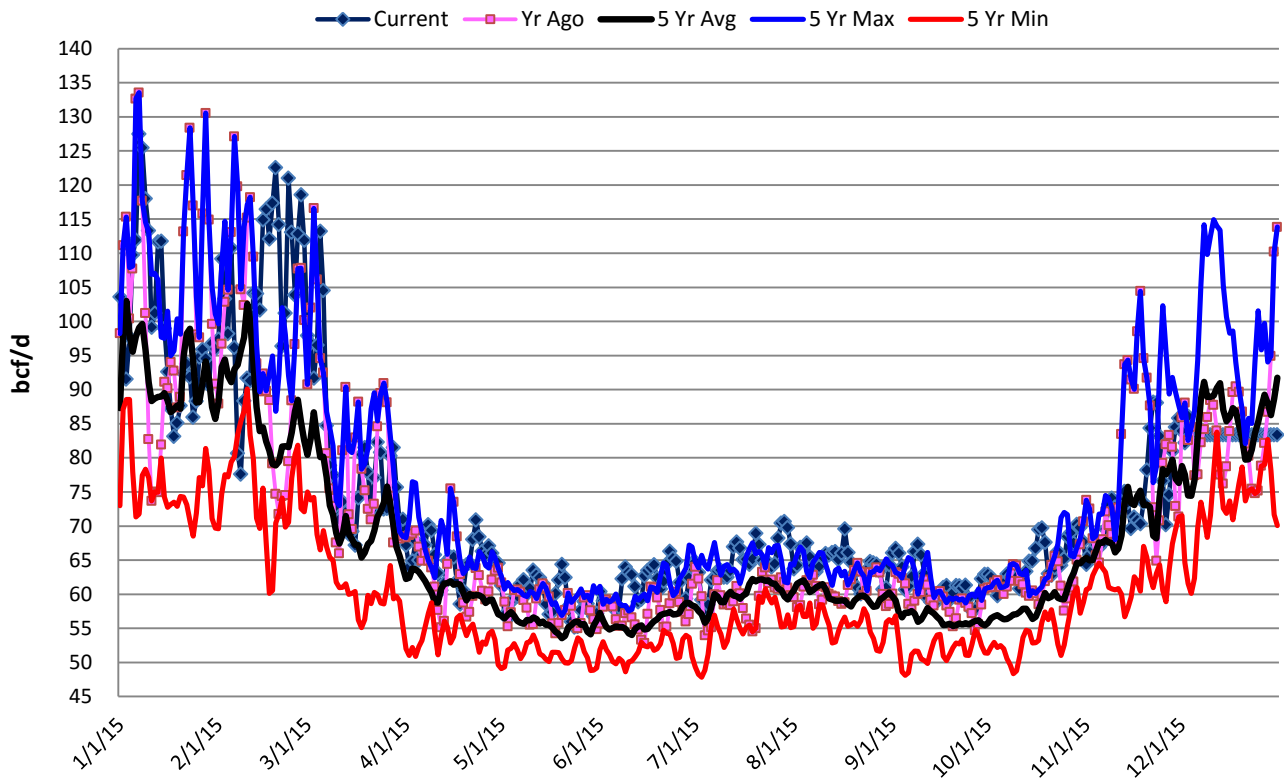
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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