

IAF Advisors/Criterion Research
Energy Market Outlook
Kyle Cooper, (713) 248-3009 Kyle.Cooper@IAFAdvisors.com
December 25, 2015

Price Action: The February contract rose 13.5 cents (5.8%) to \$2.472 on a 25.6 cent range.

Price Outlook: **Very bullish temperature adjusted storage changes drove the market higher for the 3rd consecutive week. Although the yearly and 5 year average storage comparisons remain elevated and the weather forecasts are not considered overly bullish, the implications of a tight underlying supply/demand balance have longer term bullish implications. Thus, while a return to well above average temperatures will likely restrain the recent price advance, new lows may not be achieved unless February and March are well above normal. CFTC data now has the managed money net short position at the smallest since September 15, 2015. Total open interest fell to 3.132 million and is the smallest since September 29, 2015. Aggregated CME futures open interest fell to 917,000 as of January 7 and is the lowest since September 29, 2015.**

Weekly Storage: US working gas storage for the week ending January 1 indicated a net implied withdrawal of 117 bcf to 3,643 bcf. Current inventories rise 553 bcf (17.9%) above last year while surpassing the 5 year average by 484 bcf (15.3%).

Storage Outlook: **This week's storage change was mathematically larger (smaller withdrawal) than last year's 130 bcf withdrawal and the 5 year average withdrawal of 139 bcf. This again expanded the yearly and the 5 year average inventory surpluses. A forecast cold snap in mid-January may reduce the surplus to the 5 year average, but if well above normal temperatures then return, that surplus is likely to grow again.**

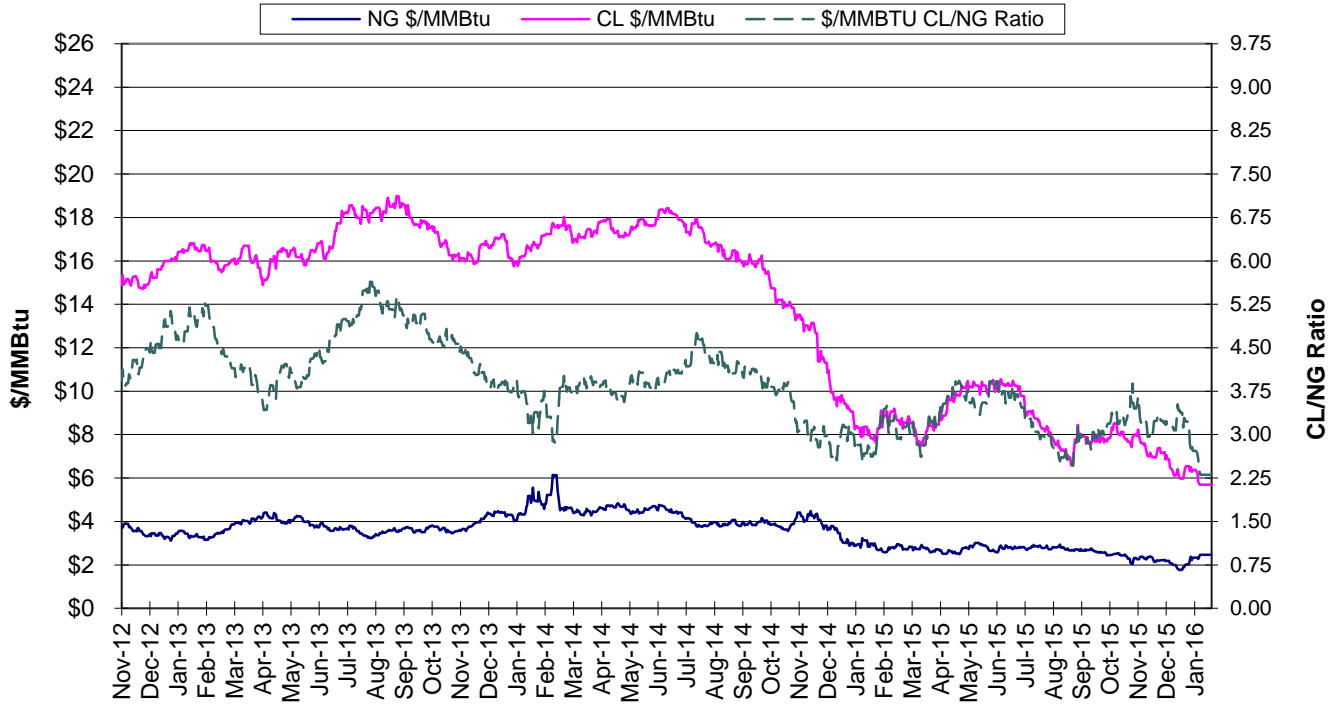
Supply Trends: Total supply fell 2.2 bcf/d to 71.9 bcf/d. US production dropped while Canadian imports rose and Mexican exports fell. LNG imports were unchanged. The US Baker Hughes rig count fell 34 with both oil and natural gas activity lower. The total US rig count now stands at 664. The Canadian rig count rose 83 and now stands at 166. Thus, the total North American rig count rose 49 to 830 and now trails last year by 1,286, which is down from the record 1,441 yearly deficit. The higher efficiency US horizontal rig count fell 30 to 519 and falls 782 below last year. **The EIA's Monthly Natural Gas Report lowered production in both September and October. Lower 48 production is now estimated to have peaked in August.**

Demand Trends: Total demand rose 3.8 bcf/d to 84.8 bcf/d. Power was slightly lower while all other sectors were higher. Electricity demand rose 4,173 gigawatt-hrs to 74,353 which trails last year by 2,993 (3.9%) while trailing the 5 year average by 3,059 (4.0%). **The EIA's Monthly Natural Gas Report indicated a 9th consecutive monthly demand level in October**

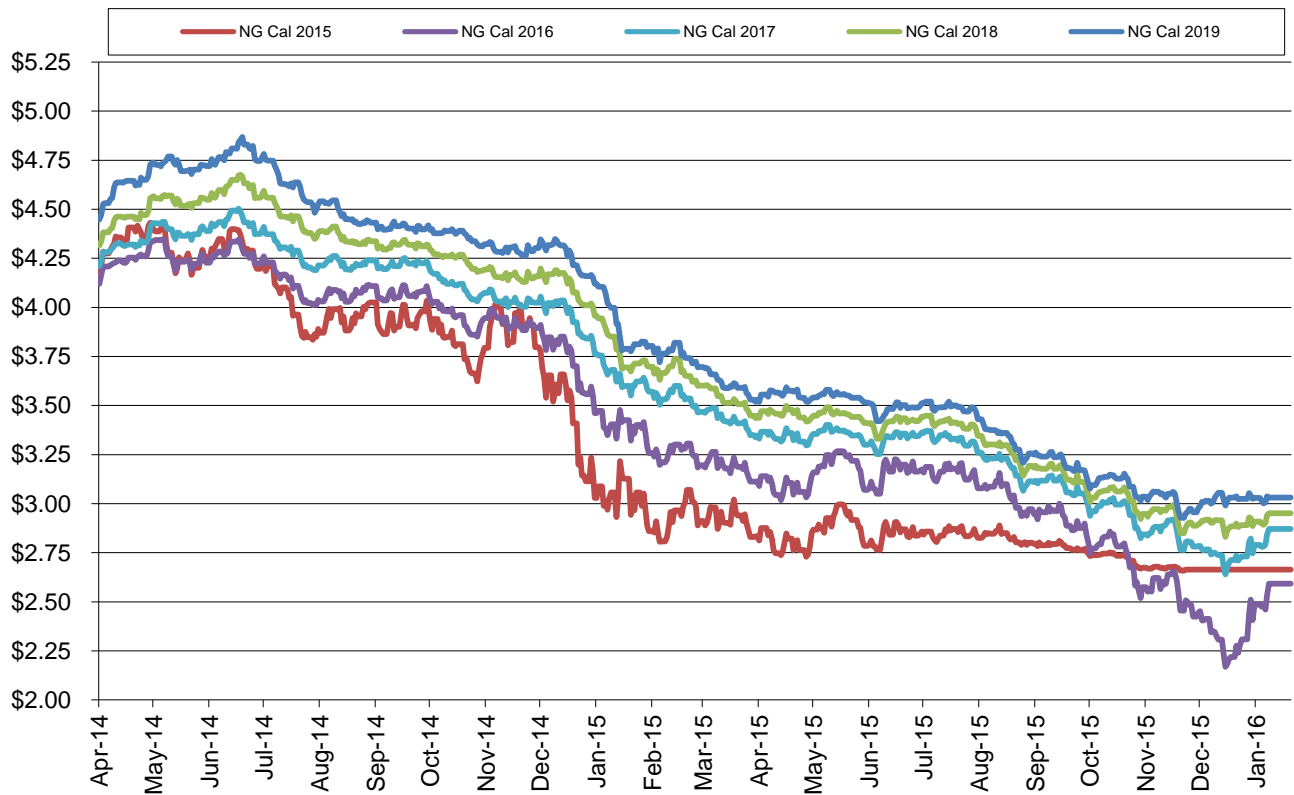
Other Factors Nuclear generation rose 1,762 MW in the reference week to 95,091 MW. This is 308 MW higher than last year and 44 MW higher than the 5 year average. Units have recovered from numerous issues and output was recently nearly 95,000 MW.

- The 2015/16 heating season is progressing at a still well below average pace. With a forecast through January 22, the 2015/16 total heating index is at 1,253 compared to 1,551 for 2014/15, 1,753 for 2013/14, 1,508 for 2012/13 and 1,501 for 2011/12.

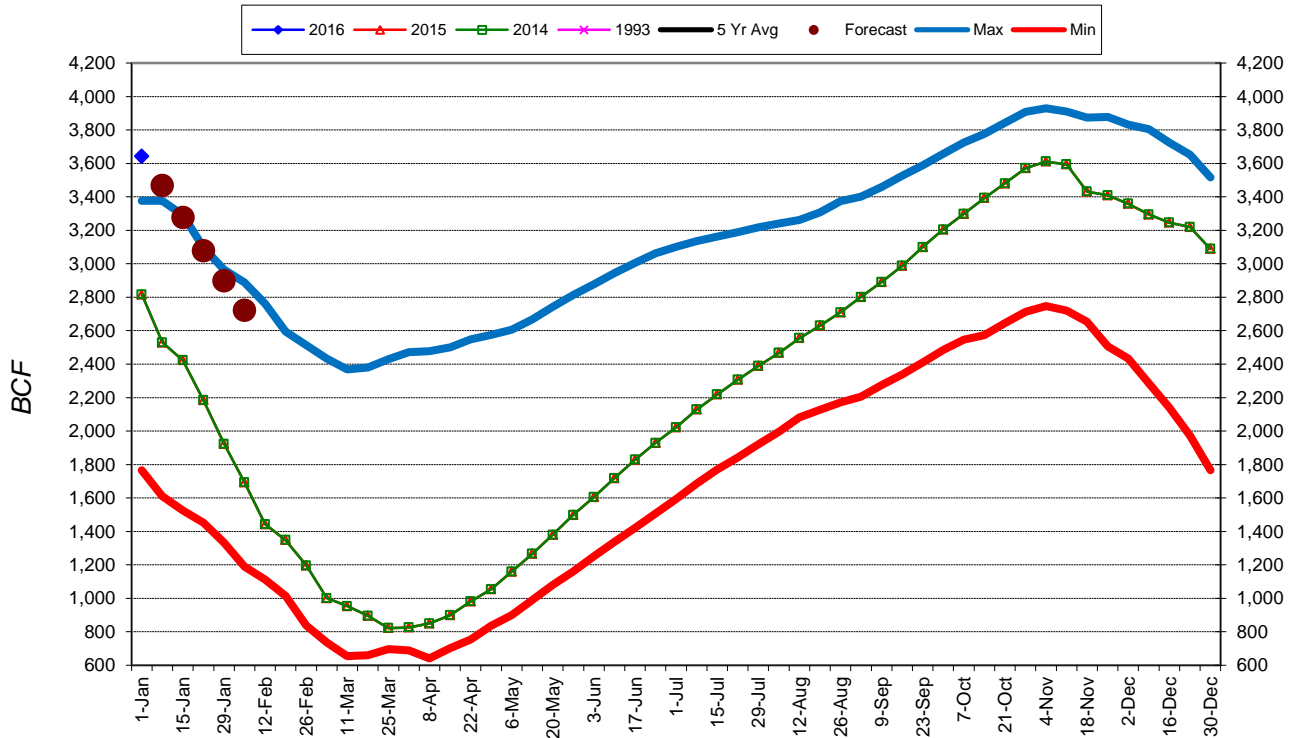
\$/MMBtu Ratio of NYMEX CL and NG



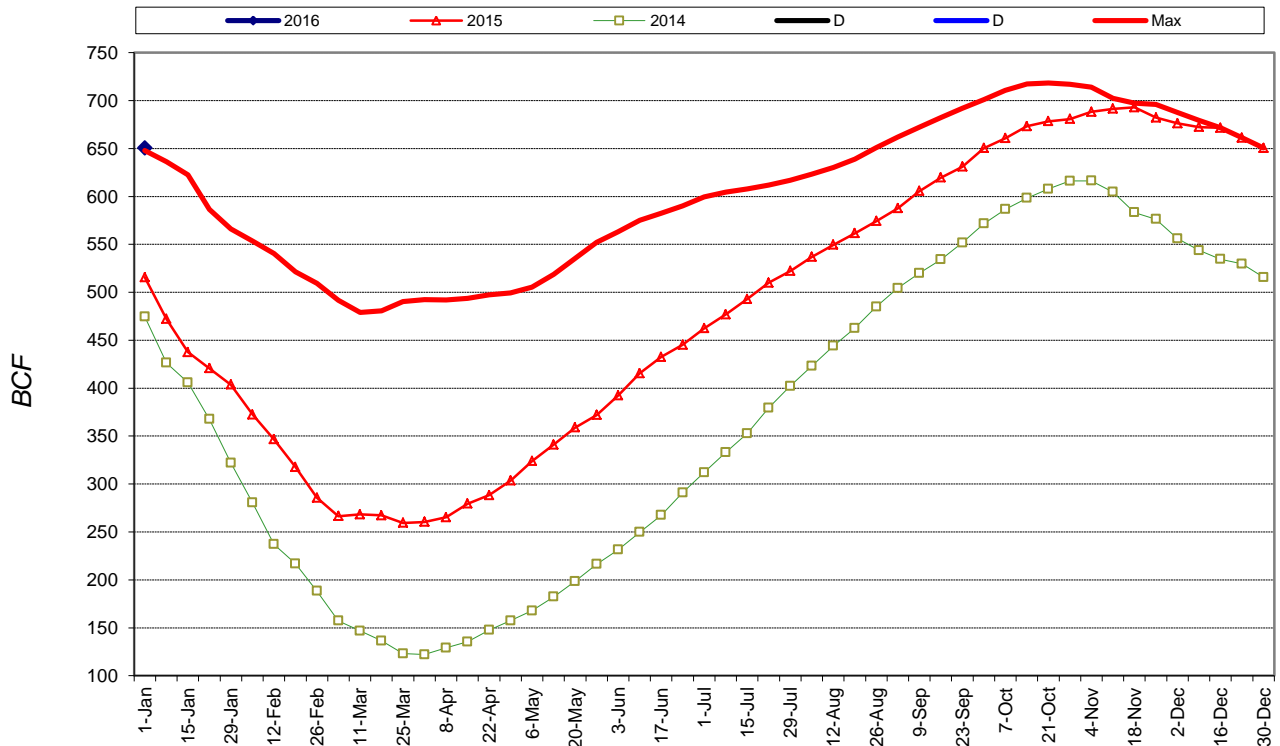
NYMEX Calendar Strips



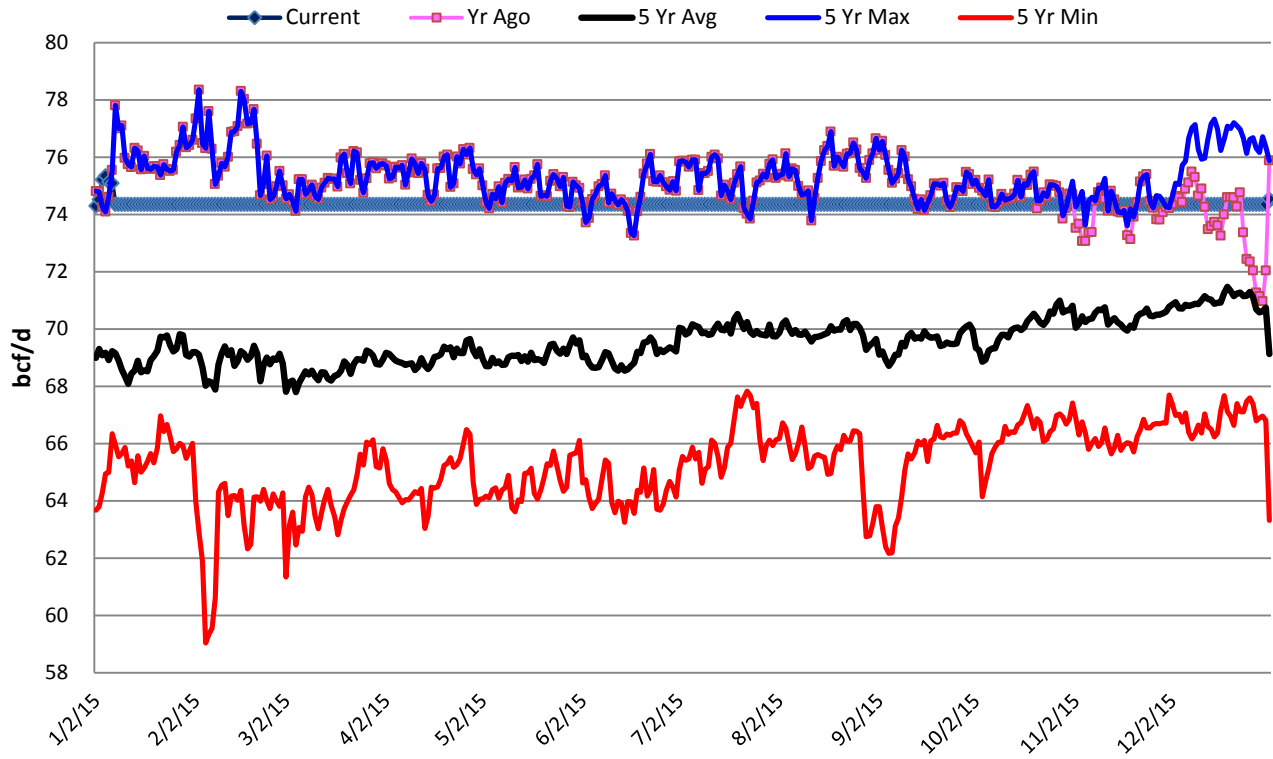
US Working Gas Storage - Source - EIA



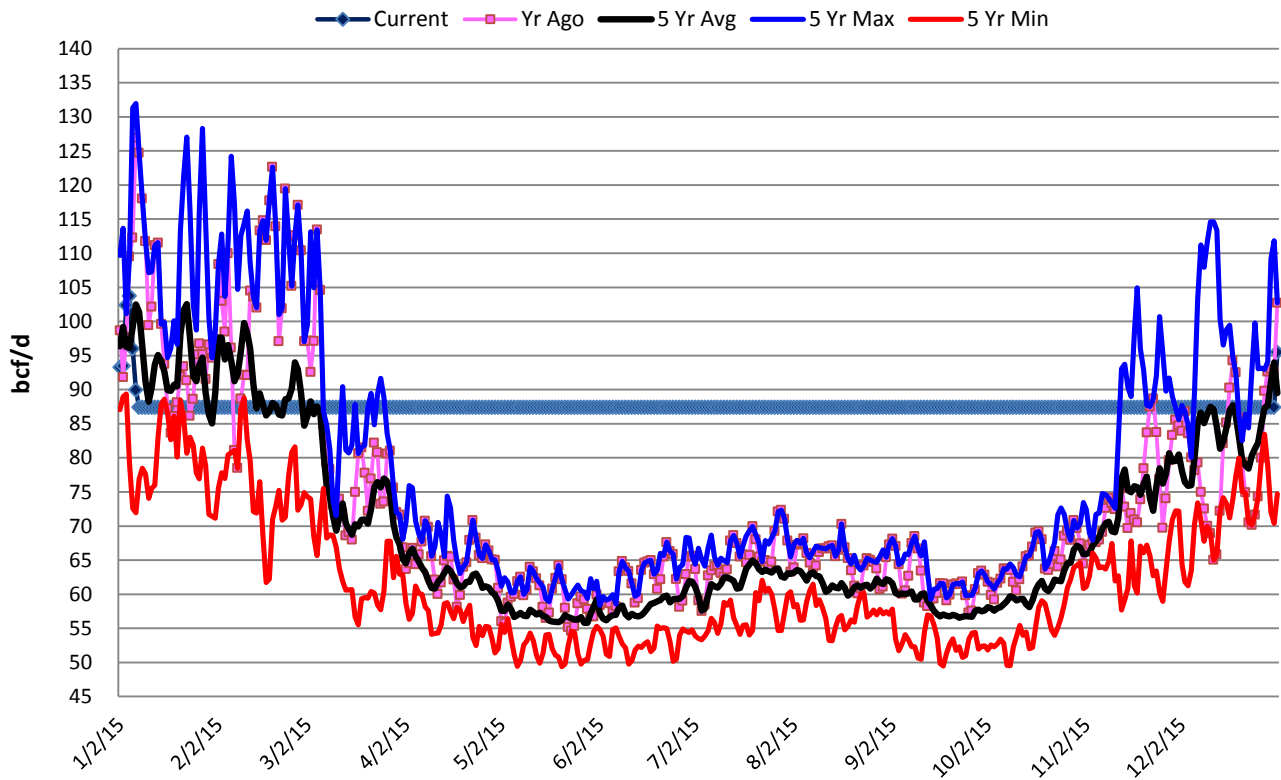
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any commodity, futures contract, or option contract. Although any statements of fact in this report have been obtained from and are based upon sources that IAF Advisors believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. IAF Advisors, its officers and/or employees, may at any time have a long and/or short position in any commodity, futures contract, or option contract mentioned in this report. All opinions and estimates included in this report constitute IAF Advisors judgment as of the date of this report and are subject to change without notice.

© 2016 IAF Advisors.