

IAF Advisors/Criterion Research
Energy Market Outlook
Kyle Cooper, (713) 248-3009 Kyle.Cooper@IAFAdvisors.com
January 15, 2015

Price Action: The February contract fell 37.2 cents (15.0%) to \$2.100 on a 39.4 cent range.

Price Outlook: A continued moderation in the temperature forecasts and a mathematically larger (smaller withdrawal) EIA storage report pummeled prices. After 3 weeks higher, the market could not rise further as the end of January is now forecast to return to above normal. Despite the largest withdrawal of the winter, it still expanded the yearly and 5 year surpluses and that remains a bearish influence. Despite the price weakness, new lows may not be achieved unless February and March are well above normal. CFTC data now has the managed money net short position as the smallest since March 17, 2015 at just under 19,000. Total open interest rose to 3.150 million. Aggregated CME futures open interest fell to 908,000 as of January 15.

Weekly Storage: US working gas storage for the week ending January 8 indicated a net withdrawal of 168 bcf to 3,475 bcf. Current inventories rise 622 bcf (21.8%) above last year while surpassing the 5 year average by 497 bcf (16.7%).

Storage Outlook: Our EIA weekly storage estimate was 9 bcf smaller than reported by the EIA. This remains above our tolerance range. The 5 week summation of our error did fall to 19 bcf. For a 5 week period, that is closer to our comfort zone. Inventories have peaked at 4,009 bcf and should now continue to decline until late March or early April. Warmer weather forecasts have increased our April inventory low to approximately 2,000 bcf.

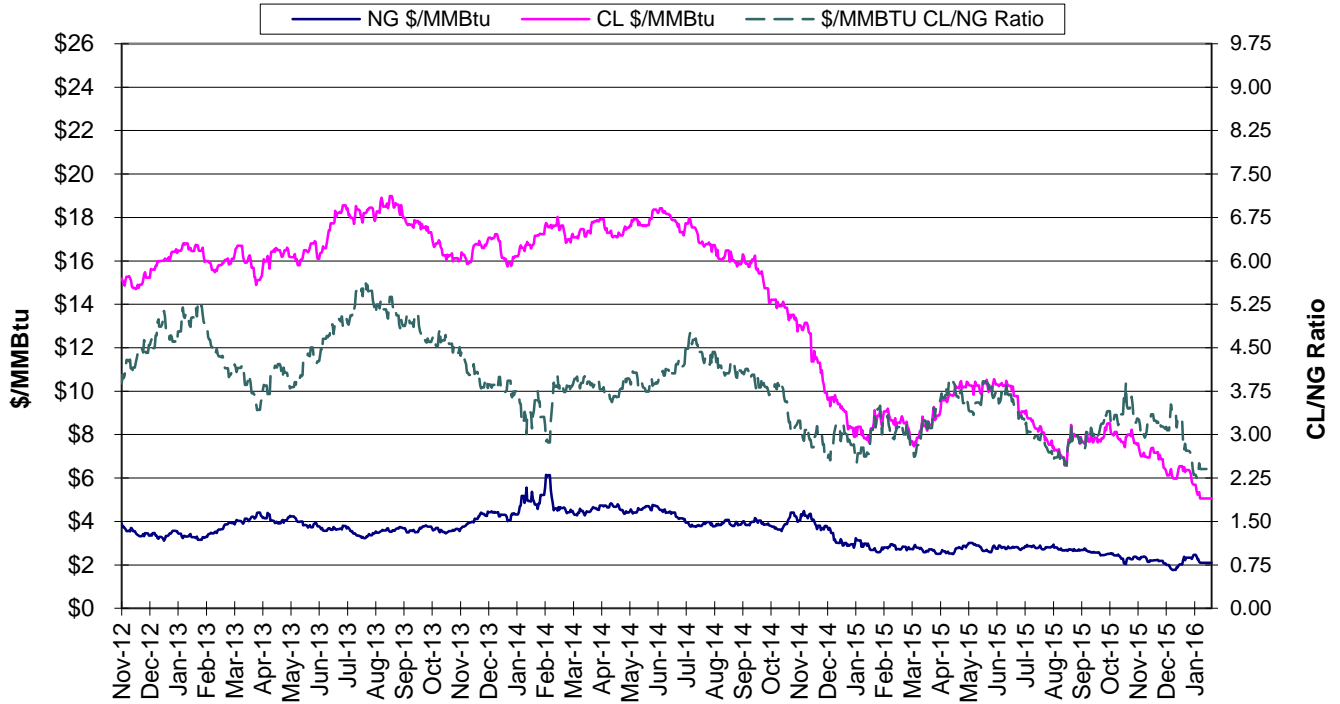
Supply Trends: Total supply rose 3.1 bcf/d to 74.9 bcf/d. US production rose along with Canadian and LNG imports. Mexican exports rose. The US Baker Hughes rig count fell 14 with both oil and natural gas activity lower. The total US rig count now stands at 650. The Canadian rig count rose 61 and now stands at 227. Thus, the total North American rig count rose 47 to 877 and now trails last year by 1,239, which is down from the record 1,441 yearly deficit. The higher efficiency US horizontal rig count fell 8 to 511 and falls 742 below last year. The EIA's Monthly Drilling Productivity Report was released and while still indicating future declines, continues to revise higher previous estimates. Decline rates also remain very flat suggesting that maintaining existing production will at least not be more difficult.

Demand Trends: Total demand rose 11.3 bcf/d to 98.0 bcf/d. Demand was higher across the board on colder temperatures. Electricity demand rose 4,866 gigawatt-hrs to 79,219 which trails last year by 8,170 (9.3%) while trailing the 5 year average by 1,983 (2.4%).

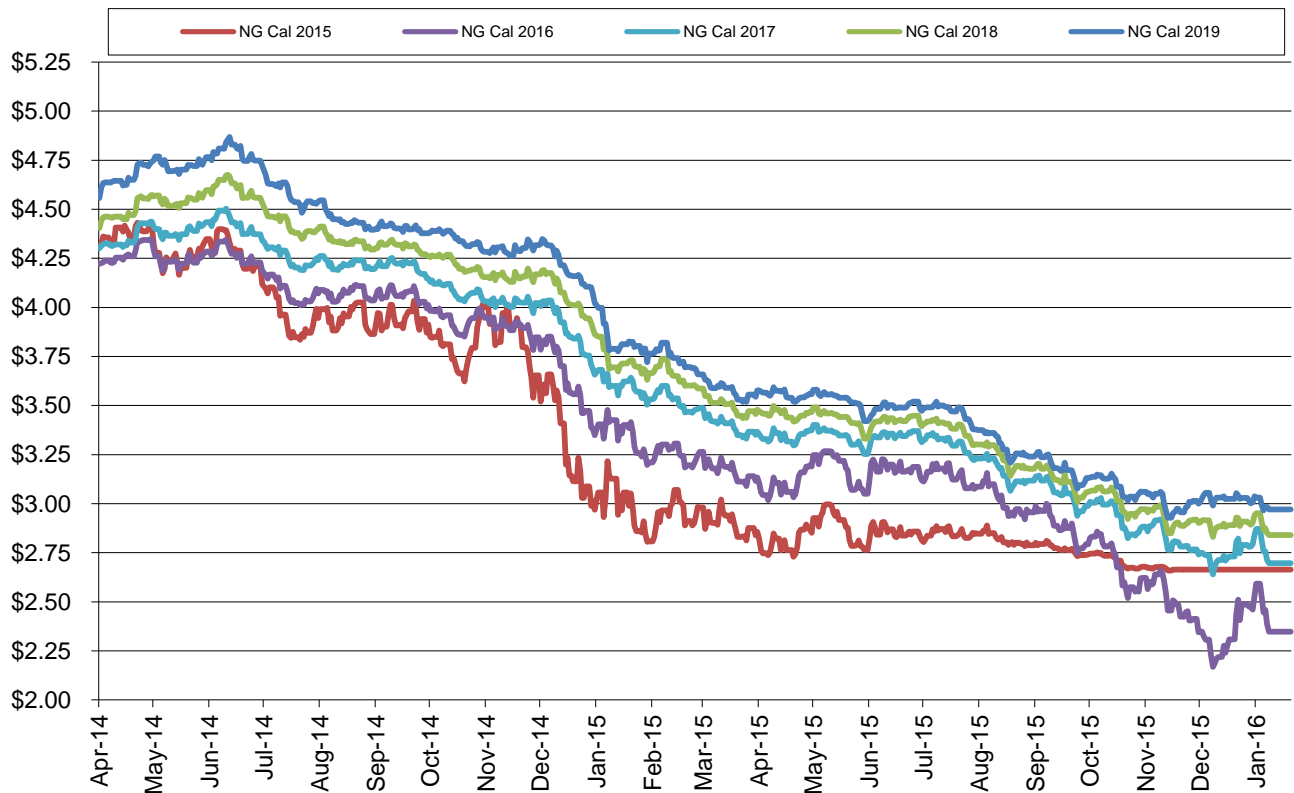
Other Factors Nuclear generation fell 4 MW in the reference week to 95,087 MW. This is 836 MW lower than last year and 513 MW lower than the 5 year average. Units have had a few issues and output is just below 95,000 MW.

- The 2015/16 heating season is progressing at a still well below average pace. With a forecast through January 29, the 2015/16 total heating index is at 1,399 compared to 1,703 for 2014/15, 1,993 for 2013/14, 1,635 for 2012/13 and 1,880 for 2011/12.

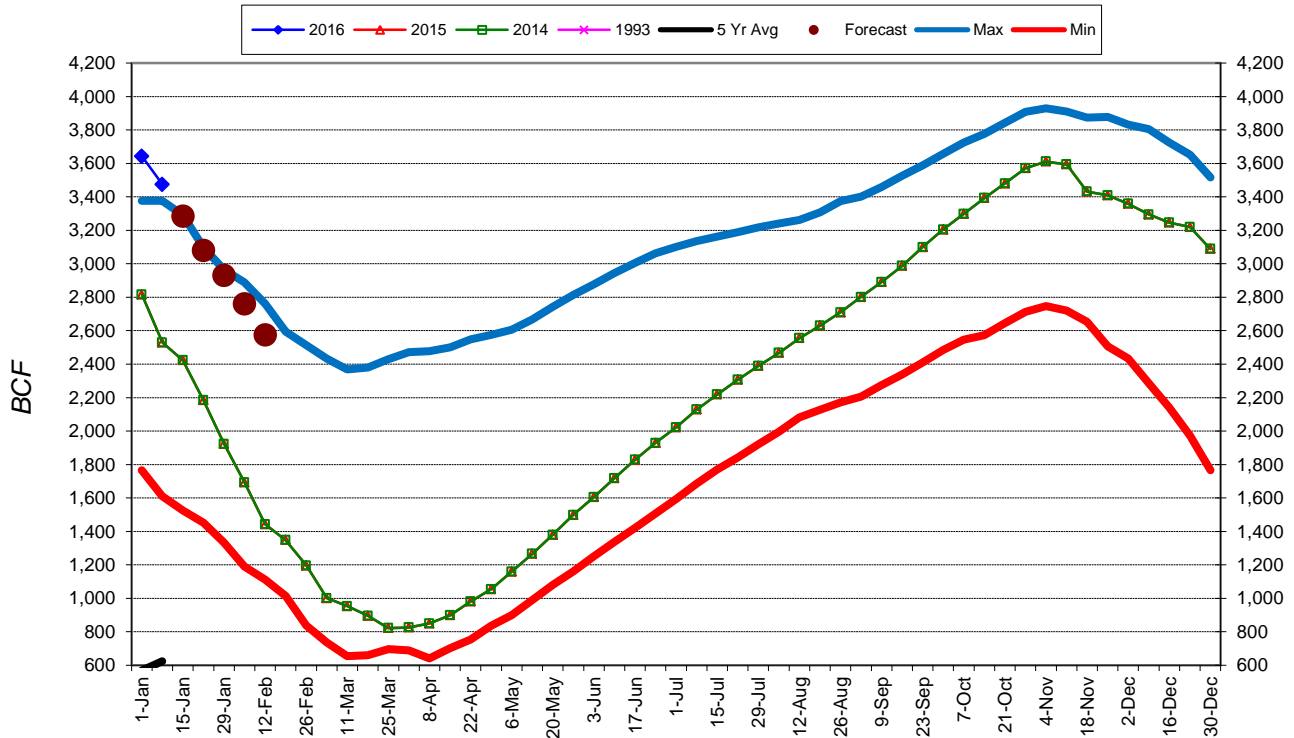
\$/MMBtu Ratio of NYMEX CL and NG



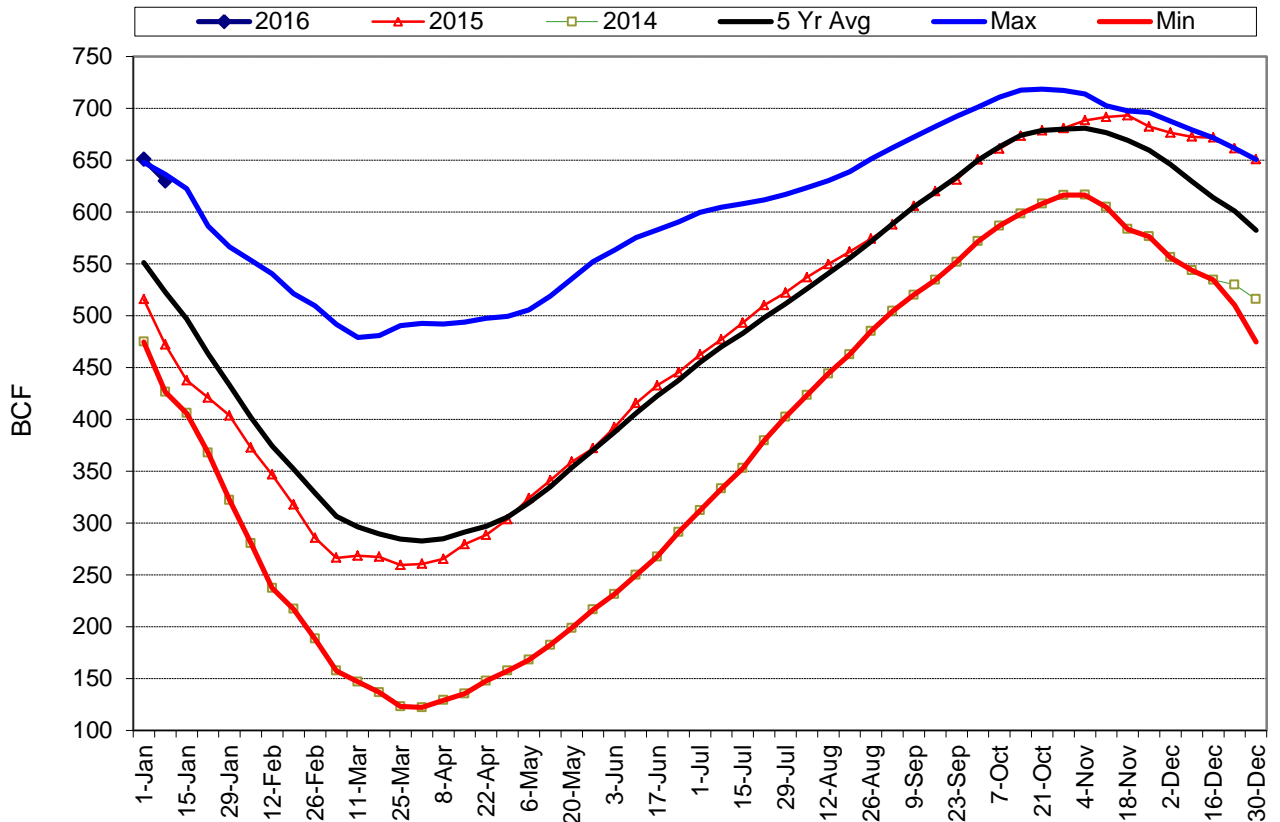
NYMEX Calendar Strips



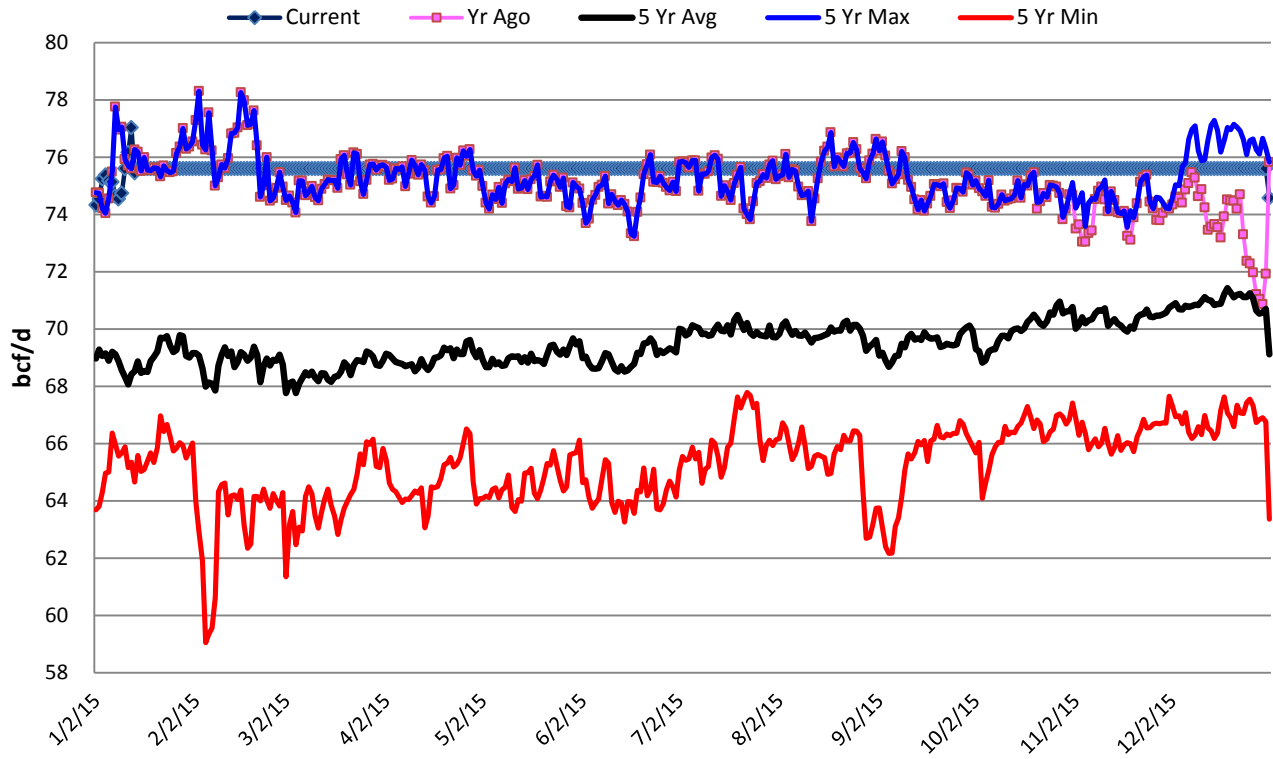
US Working Gas Storage - Source - EIA



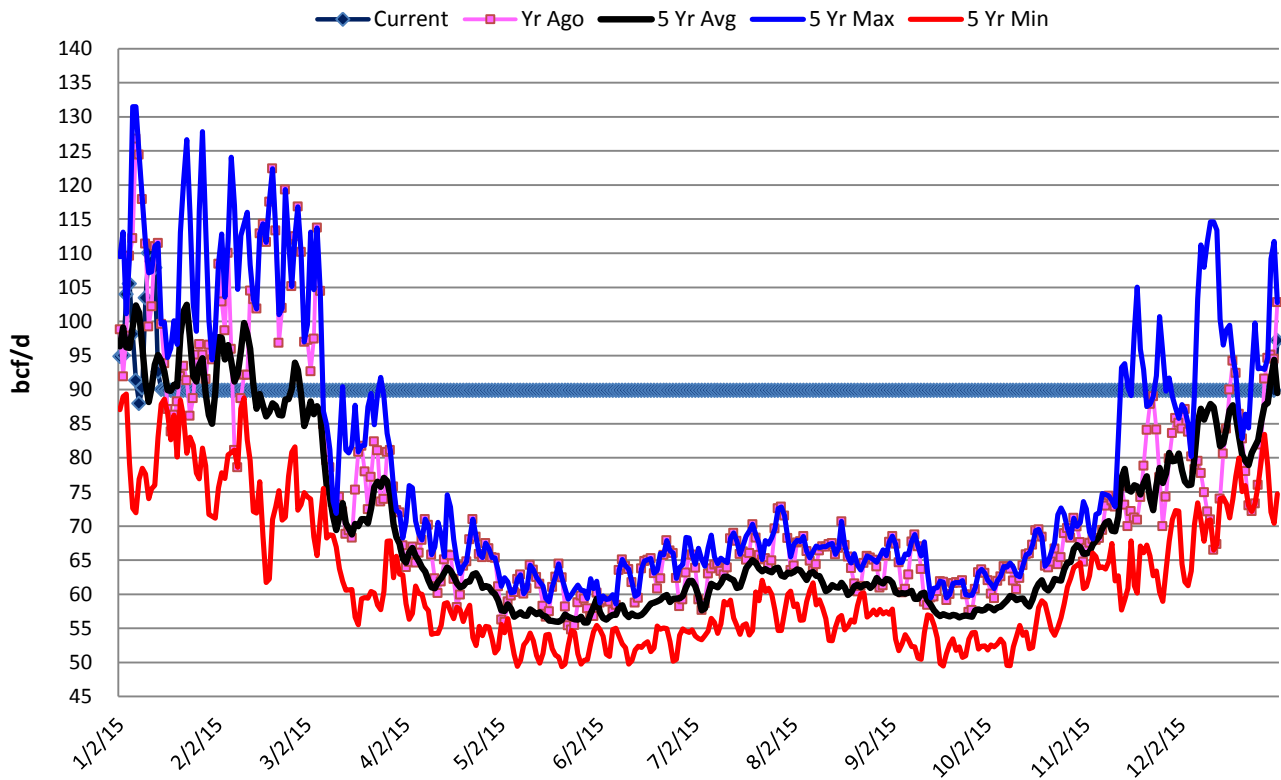
Canadian Working Gas Storage - Enerdata



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.