

IAF Advisors/Criterion Research
Energy Market Outlook
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Price Action: The February contract rose 3.9 cents (1.9%) to \$2.139 on a 14.5 cent range.

Price Outlook: In contrast to last week, despite a continued moderation in the temperature forecasts and a mathematically larger (smaller withdrawal) EIA storage report, the market ended higher on the week. However, true to historical form, price did forge a new low before rebounding at the end of the week. Our bias is for prices to move slightly lower due to the above normal weather forecasts. Still, market action must be respected and the market has held up very well in light of a bearish storage report and above normal temperature forecast, both bearish factors. CFTC data indicated an increase in the managed money net short position as it increased from roughly 19,000 to over well 26,000. Total open interest rose to 3.229 million. Aggregated CME futures open interest fell to 900,000 as of January 22.

Weekly Storage: US working gas storage for the week ending January 15 indicated a net withdrawal of 178 bcf to 3,297 bcf. Current inventories rise 660 bcf (25.0%) above last year while surpassing the 5 year average by 485 bcf (17.2%).

Storage Outlook: Our EIA weekly storage estimate was 13 bcf smaller than reported by the EIA. This remains above our tolerance range. The 5 week summation of our error however did fall to only 5 bcf. For a 5 week period, that is well within 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 just over 2,000 bcf. It is noteworthy just how bearish the weather has been thus far. November through January temperatures are the warmest on record in our proprietary index dating back to 1970. The impact of the temperature on storage is 600 bcf compared to the average since 1995.

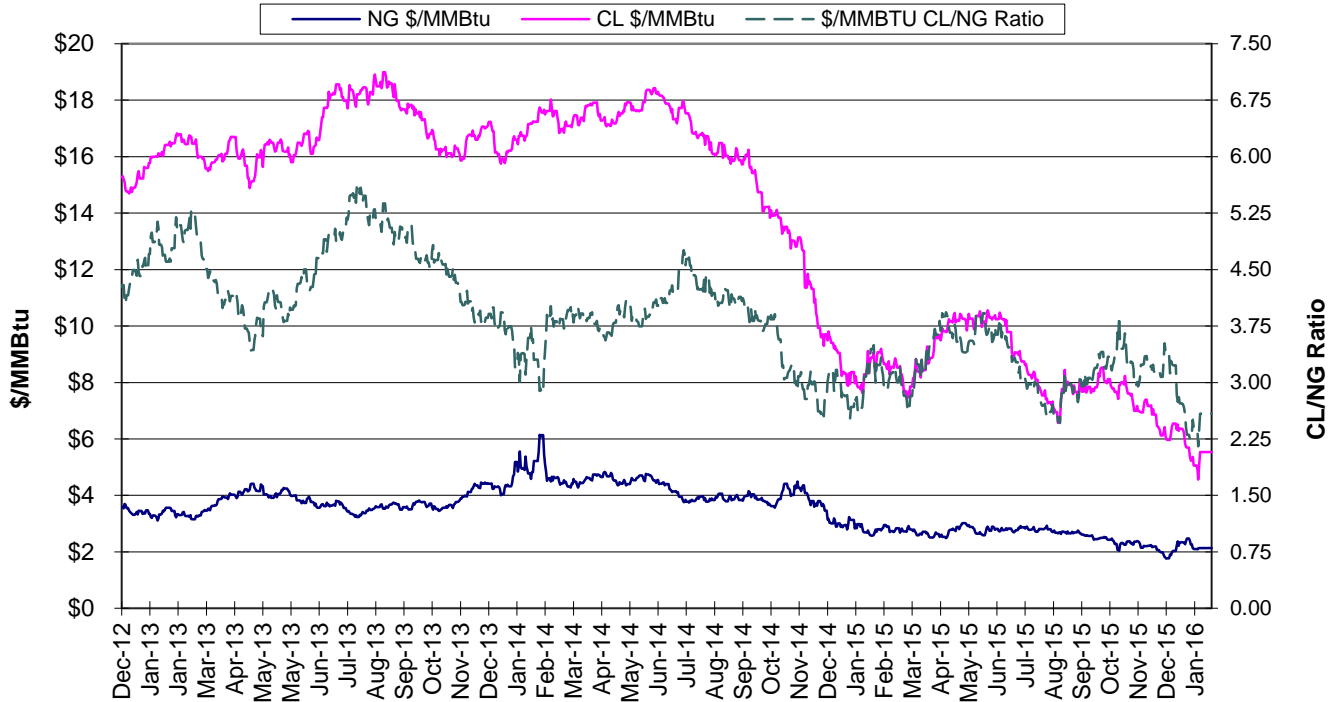
Supply Trends: Total supply rose 0.6 bcf/d to 75.8 bcf/d. All supply components were higher. The US Baker Hughes rig count fell 13 with both oil and natural gas activity lower. The total US rig count now stands at 637. The Canadian rig count rose 23 and now stands at 250. Thus, the total North American rig count rose 10 to 887 and now trails last year by 1,178, which is down from the record 1,441 yearly deficit. The higher efficiency US horizontal rig count fell 11 to 500 and falls 729 below last year.

Demand Trends: Total demand rose 2.0 bcf/d to 100.0 bcf/d. Demand was higher across the board on colder temperatures. Electricity demand rose 431 gigawatt-hrs to 79,650 which trails last year by 3,228 (3.9%) while trailing the 5 year average by 1,473 (1.8%).

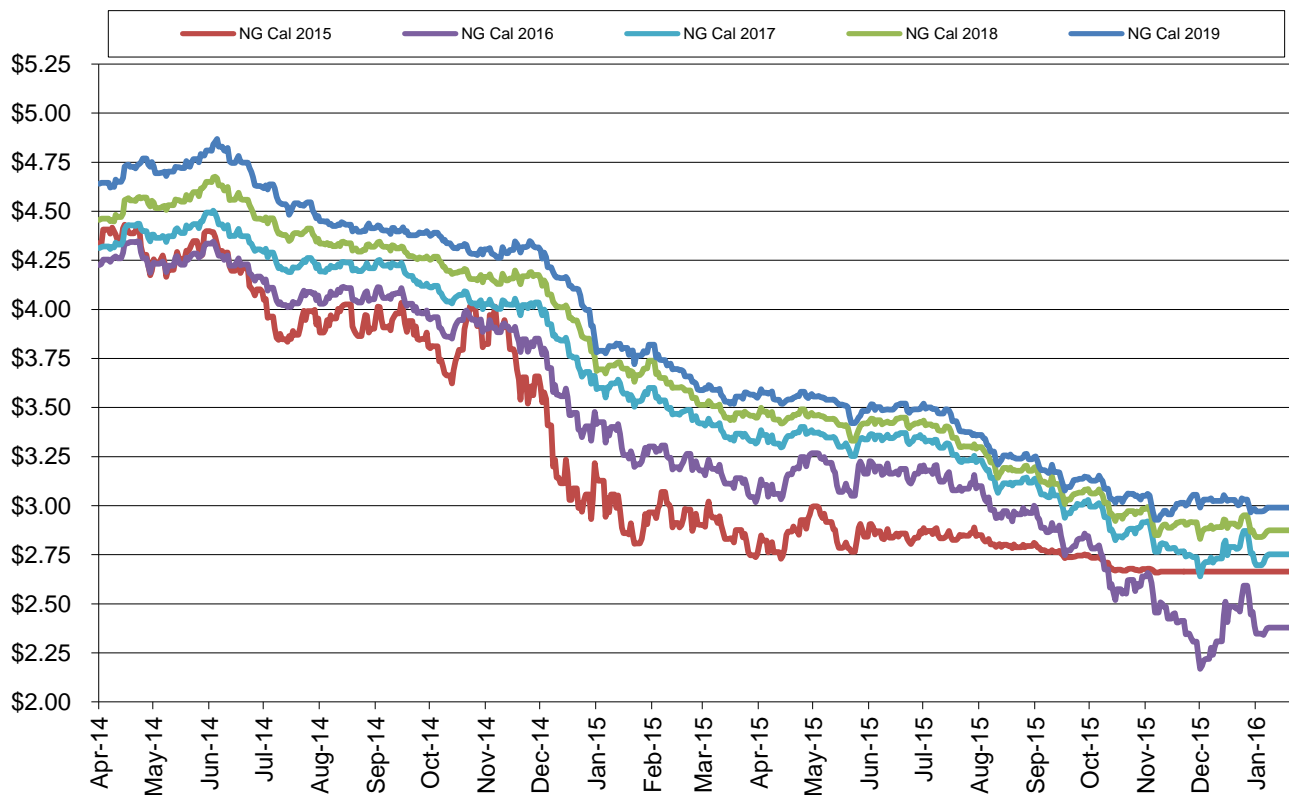
Other Factors Nuclear generation fell 922MW in the reference week to 94,165 MW. This is 2,355 MW lower than last year and 914 MW lower than the 5 year average. Units had a few issues and output is just below 94,000 MW.

- The 2015/16 heating season continues progressing at a well below average pace. With a forecast through February 5, the 2015/16 total heating index is at 1,557 compared to 1,855 for 2014/15, 2,101 for 2013/14, 1,791 for 2012/13 and 1,755 for 2011/12.

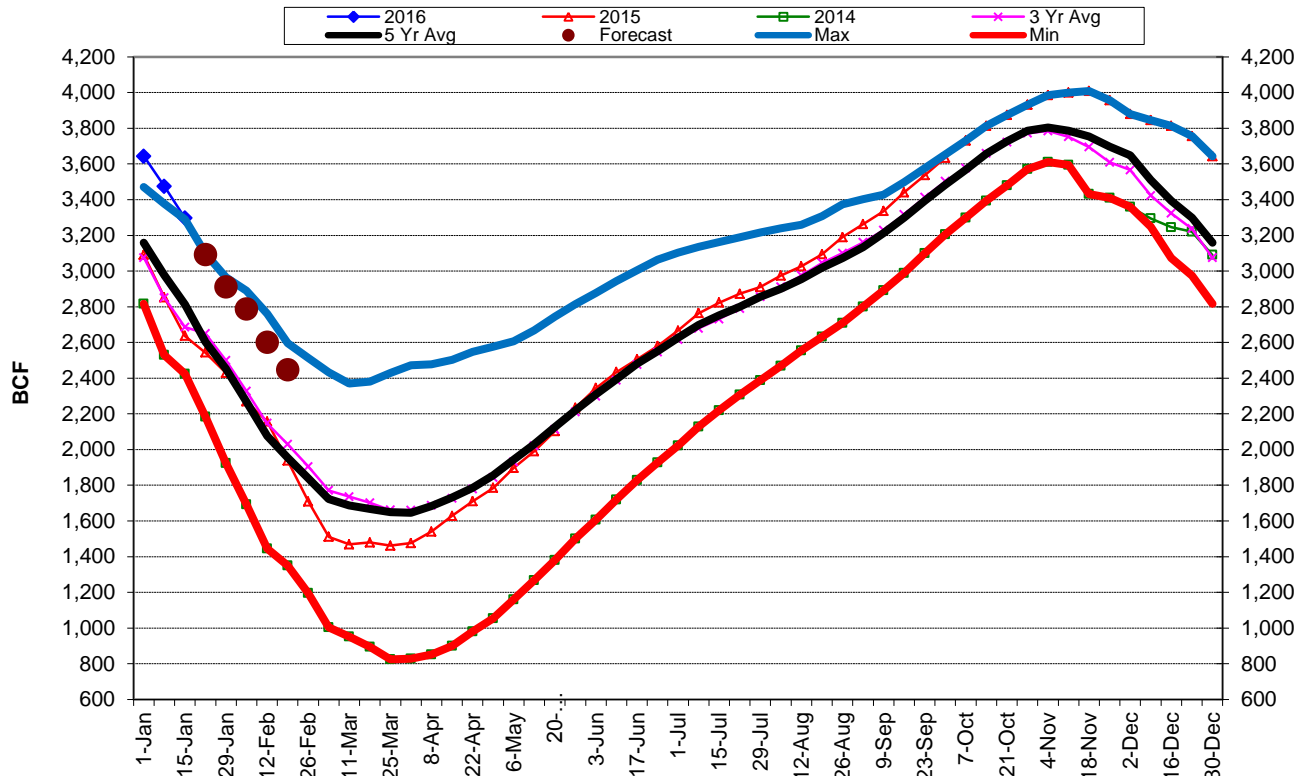
\$/MMBtu Ratio of NYMEX CL and NG



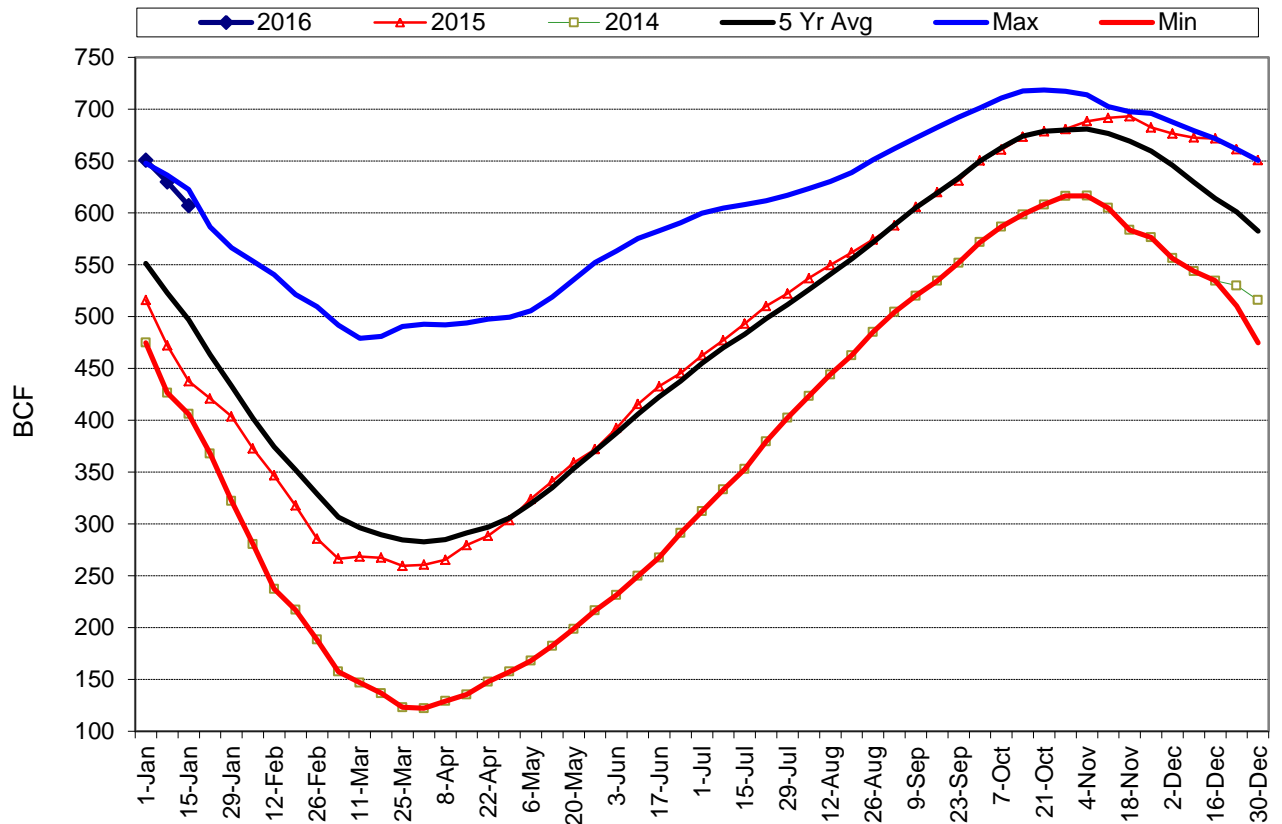
NYMEX Calendar Strips



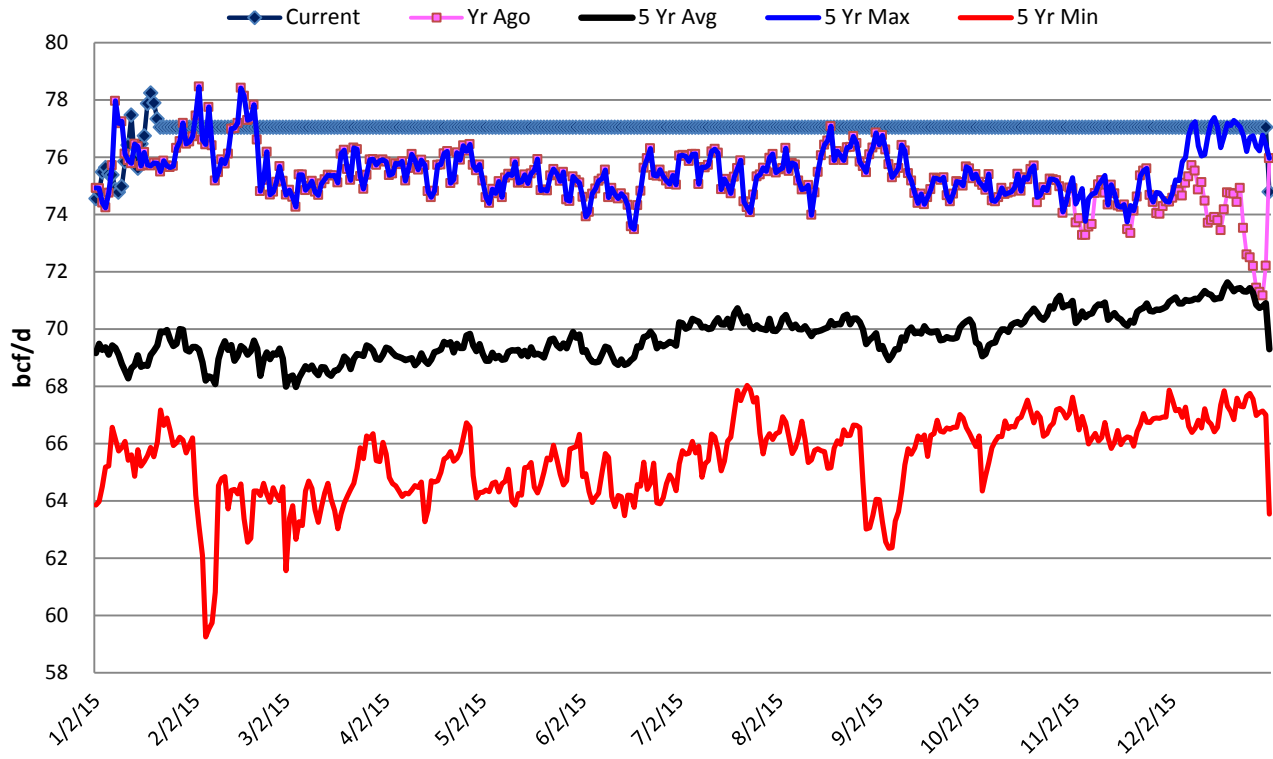
US Total Working Gas Storage - Source - EIA



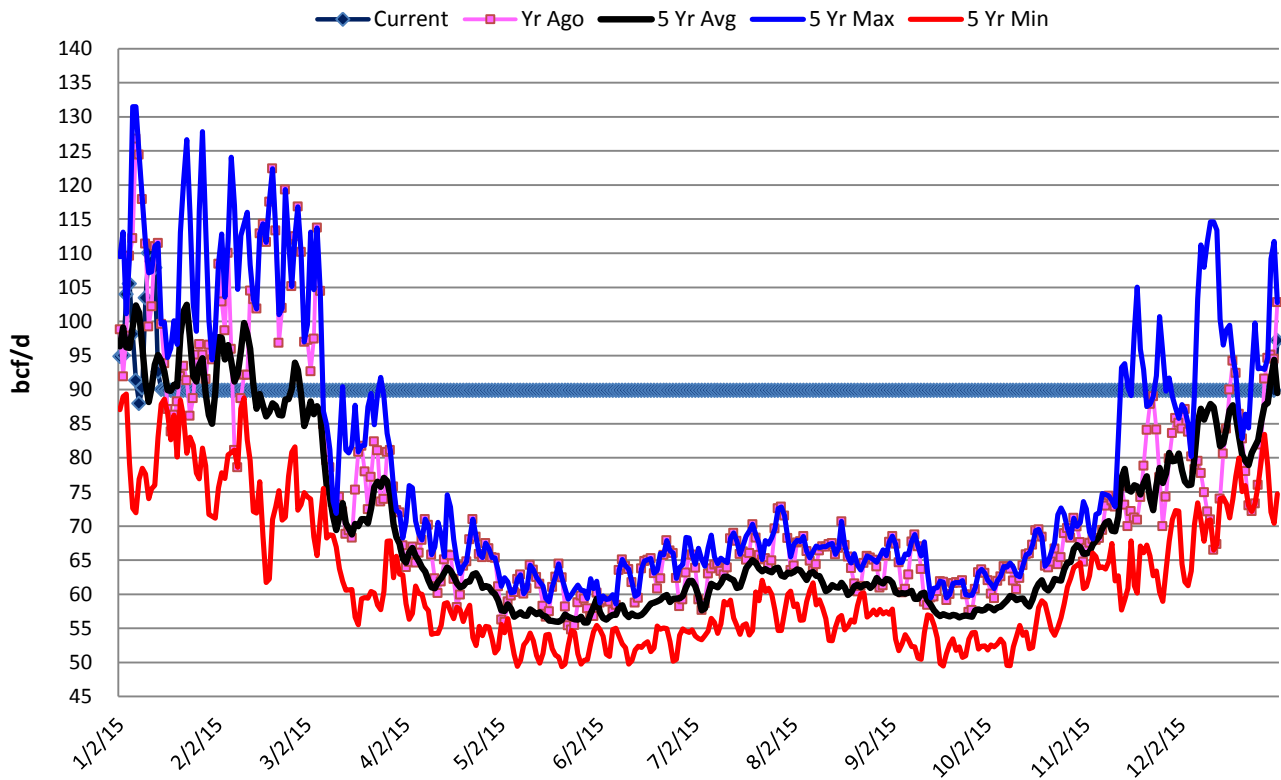
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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