

IAF Advisors/Criterion Research
Energy Market Outlook
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Price Action: The March contract rose 15.7 cents (7.3%) to \$2.298 on a 23.3 cent range.

Price Outlook: The market surged and established a new high despite continued bearish weather forecasts. However, the EIA reported a mathematically smaller (larger withdrawal) than market consensus that collapsed the yearly storage surplus and even reduced the overhang to the 5 year average. The change in the storage comparison has been an influential market factor in recent years. Although prices ended near the high of the week and the easy path seems still higher, the bearish weather forecasts may limit the price advance. CFTC data indicated a decrease in the managed money net short position as it fell from well 26,000 to 23,000. Total open interest fell to 3.103 million. Aggregated CME futures open interest rose to 926,000 as of January 29.

Weekly Storage: US working gas storage for the week ending January 22 indicated a net withdrawal of 211 bcf to 3,086 bcf. Current inventories rise 543 bcf (21.4%) above last year while surpassing the 5 year average by 452 bcf (17.2%).

Storage Outlook: This week's storage change was mathematically smaller (larger withdrawal) than both last year's 94 bcf withdrawal and the 5 year average withdrawal of 179 bcf. Considering the relatively warm temperatures this week last year, the yearly surplus will likely contract again next week. Inventories are unlikely to drop below 2,000 bcf this year.

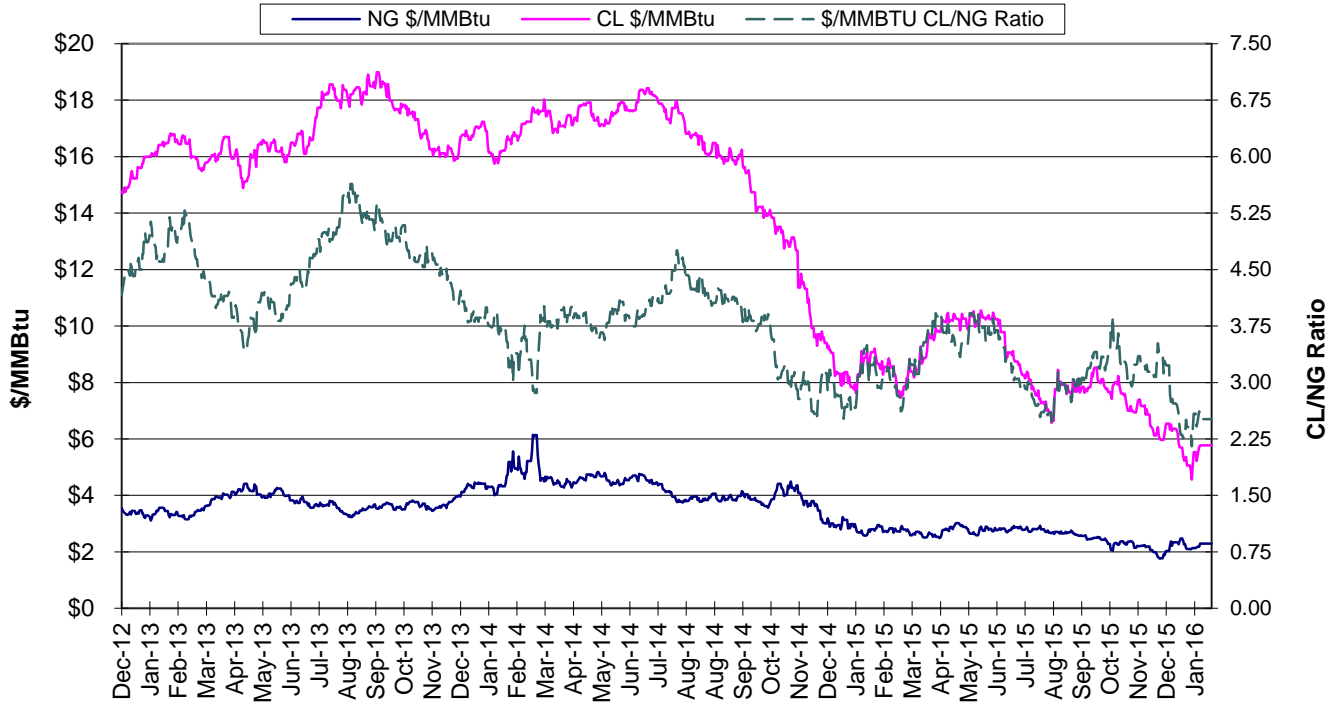
Supply Trends: Total supply rose 1.3 bcf/d to 77.0 bcf/d. US production, Canadian and LNG imports were higher. Mexican exports fell. The US Baker Hughes rig count fell 18 with both oil and natural gas activity lower. The total US rig count now stands at 619. The Canadian rig count fell 19 and now stands at 231. Thus, the total North American rig count fell 37 to 850 and now trails last year by 1,087, which is down from the record 1,441 yearly deficit. The higher efficiency US horizontal rig count fell 13 to 487 and falls 681 below last year.

Demand Trends: Total demand rose 5.0 bcf/d to 105.1 bcf/d. Power demand was actually slightly lower with all other sectors stronger. Electricity demand rose 3,841 gigawatt-hrs to 83,491 which exceeds last year by 6,810 (8.9%) and the 5 year average by 2,844 (3.5%). EIA electricity generation data reveals the combined effects of stricter environmental regulations and cheap natural gas prices as 6 of the last 8 months have witnessed natural gas generation exceed coal generation.

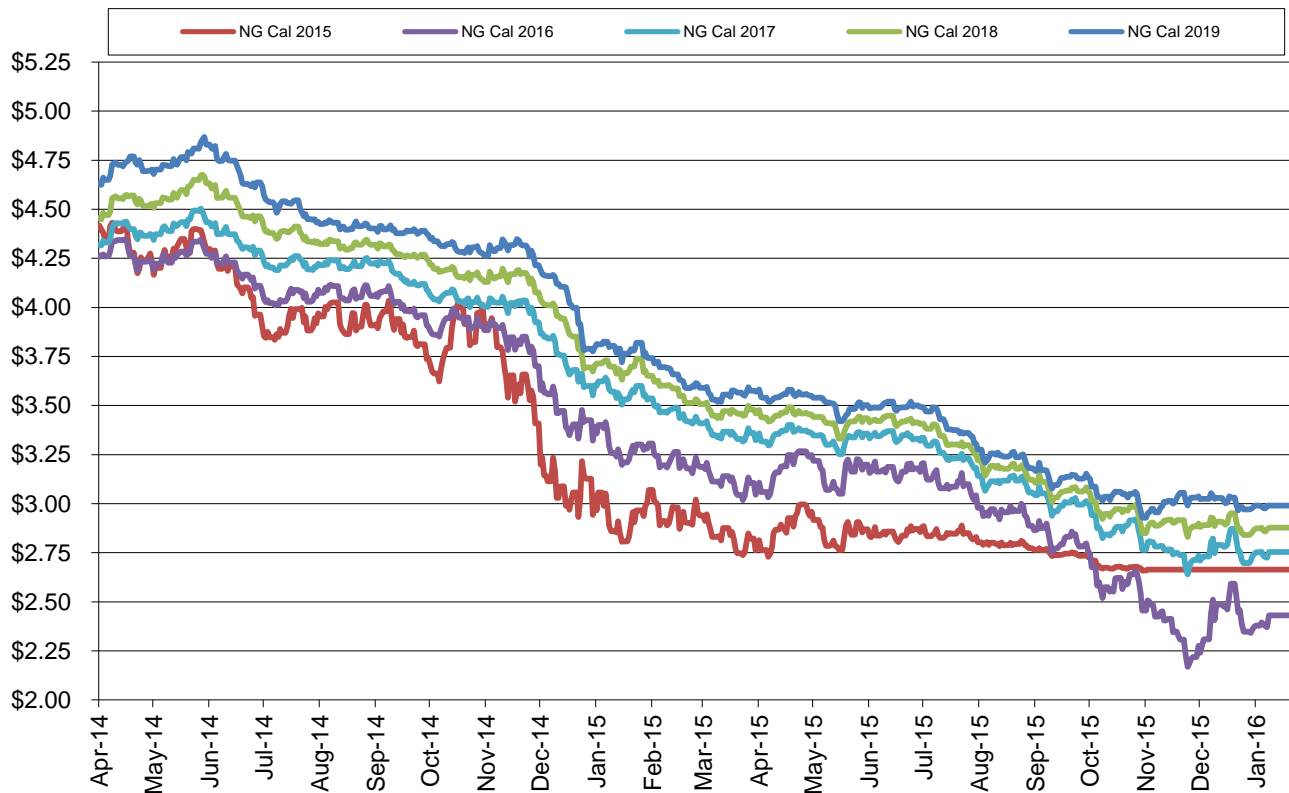
Other Factors Nuclear generation fell 344 MW in the reference week to 93,821 MW. This is 1,668 MW lower than last year and 287 MW lower than the 5 year average. Units had more issues and output is just over 89,000 MW.

- The 2015/16 heating season continues to easily be the least serve since 2011/12. With a forecast through February 12, the 2015/16 total heating index is at 1,695 compared to 1,986 for 2014/15, 2,264 for 2013/14, 1,923 for 2012/13 and 1,901 for 2011/12.

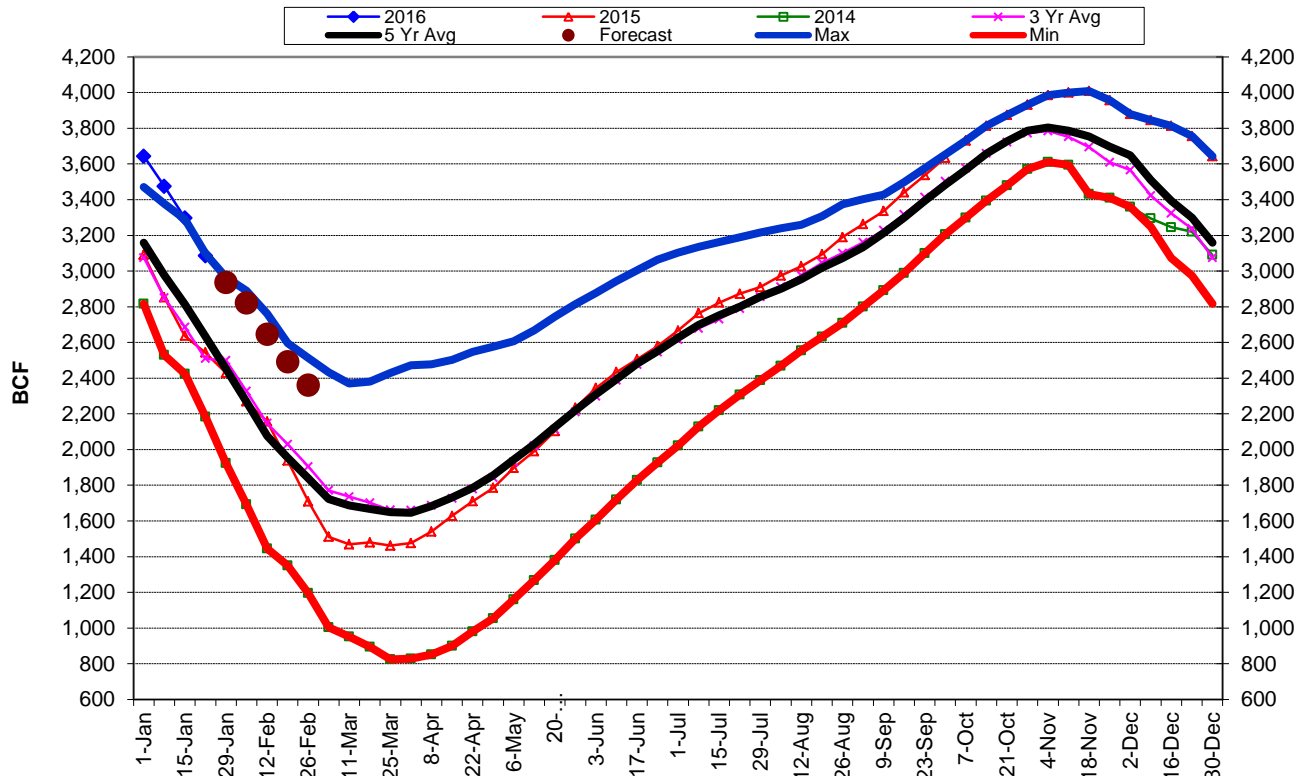
\$/MMBtu Ratio of NYMEX CL and NG



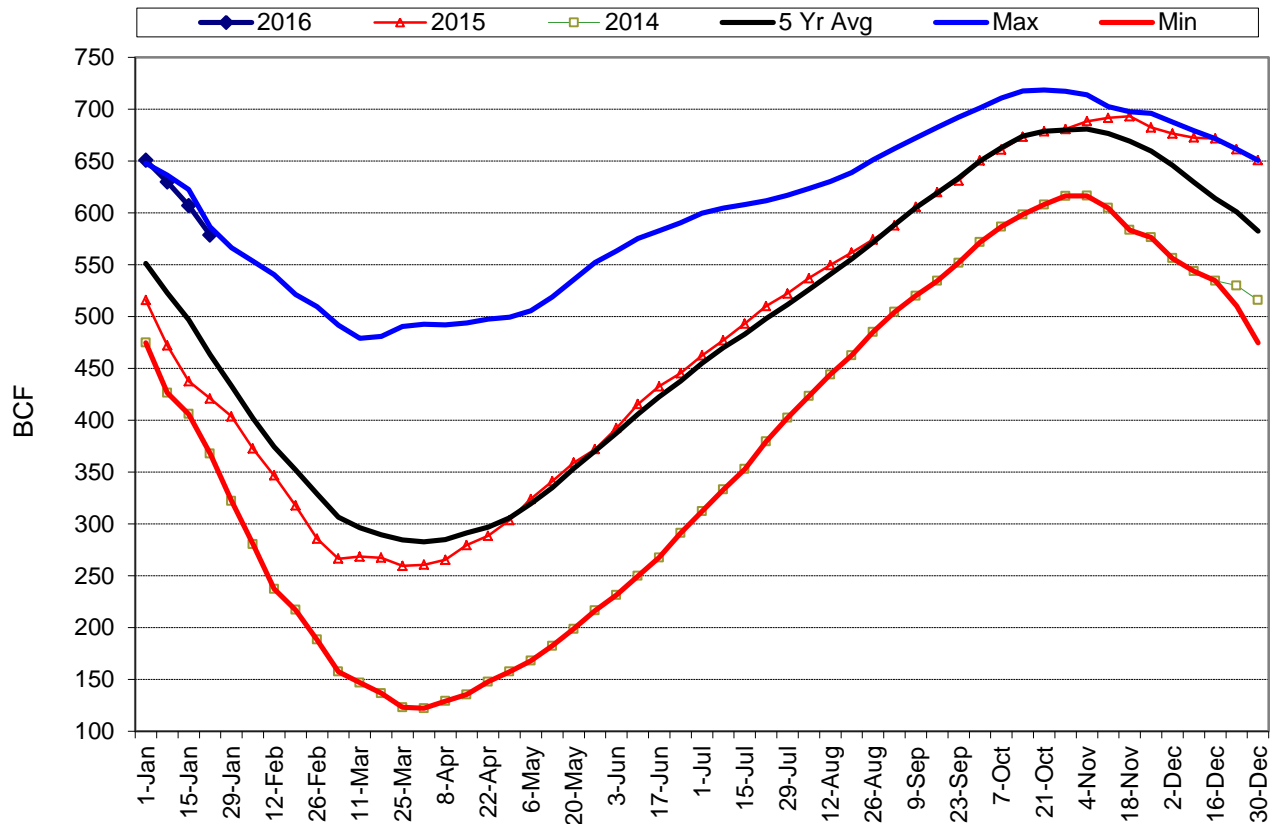
NYMEX Calendar Strips



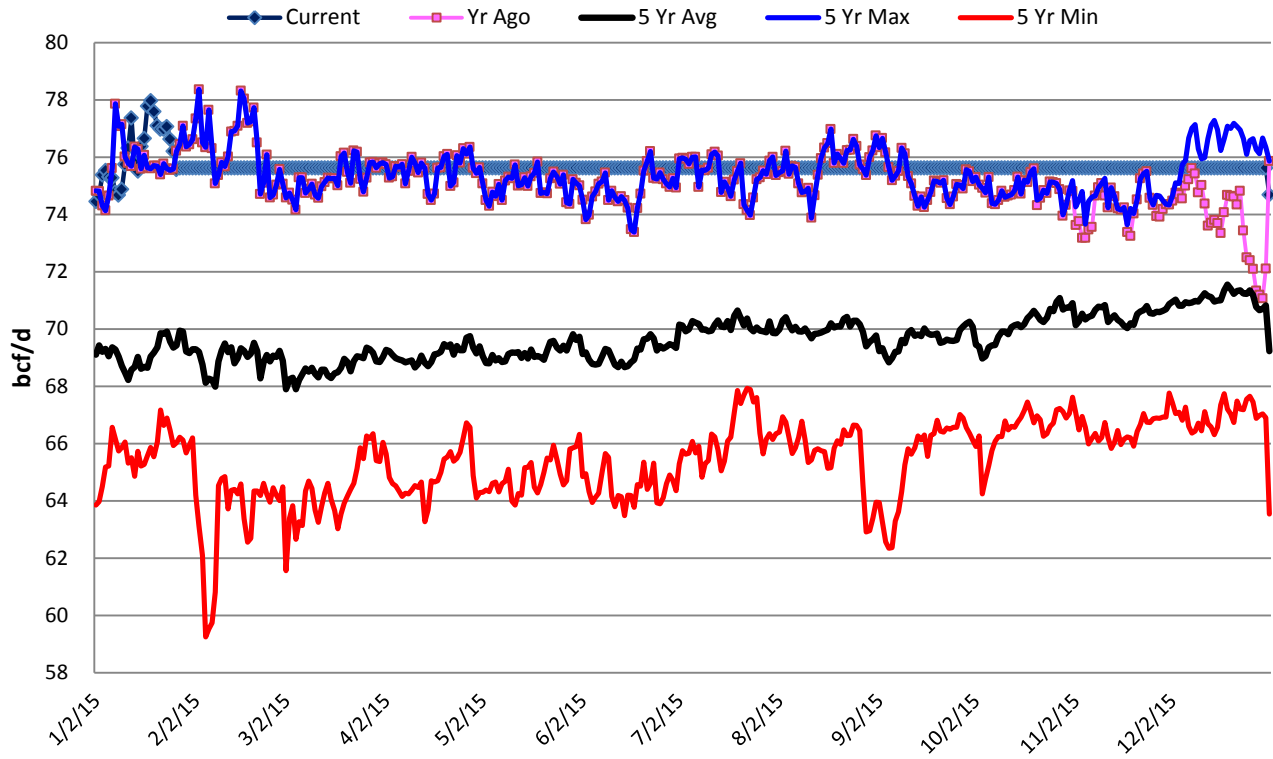
US Total Working Gas Storage - Source - EIA



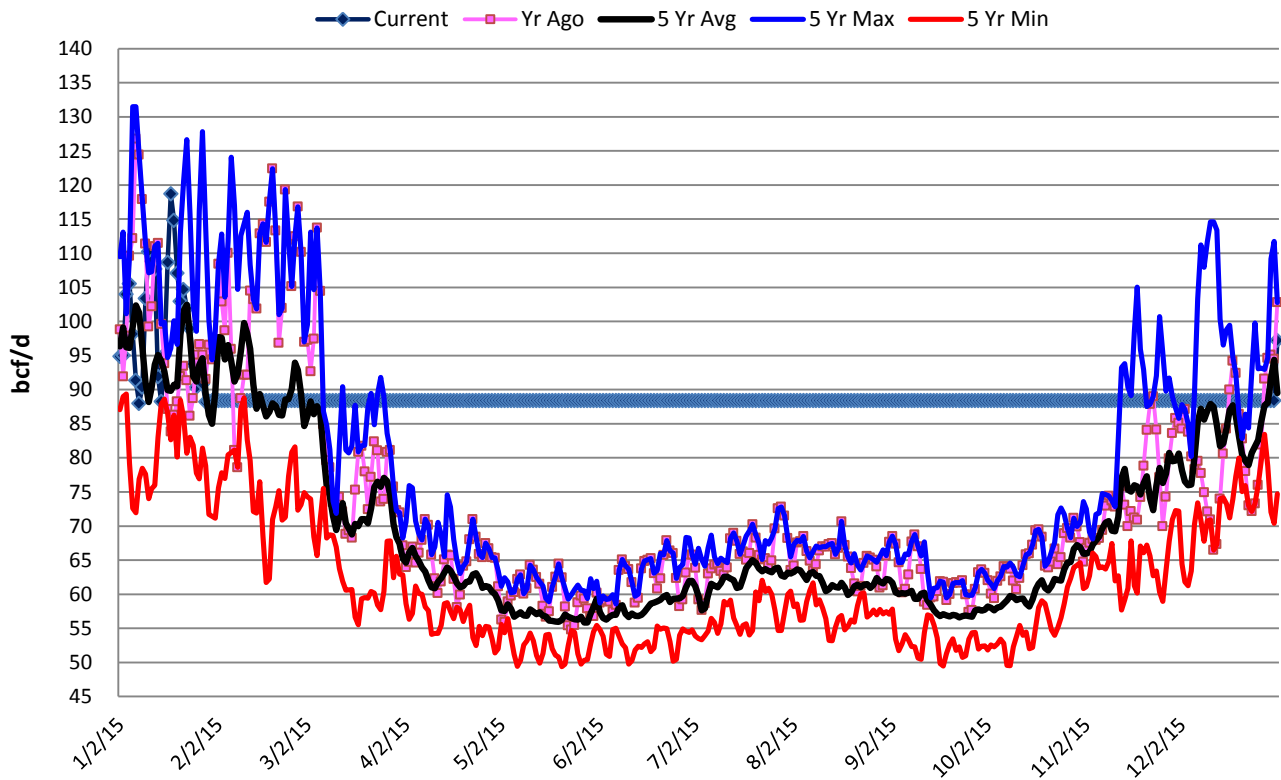
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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