

IAF Advisors/Criterion Research
Energy Market Outlook
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Price Action: The March contract fell 23.5 cents (10.2%) to \$2.063 on a 27.4 cent range.

Price Outlook: Although the market ended the prior week near the weekly high and with momentum, bearish weather forecasts and physical data prevented a new weekly high. However, true to form, the market collapsed and established a new weekly low instead. After a relatively wide price range and late week strength, the outlook is somewhat mixed with a decent probability to post a rare inside week. However, overall weather forecasts are still bearish and that may exert some more downward pressure in the waning weeks of winter. We do feel the mid-December lows will hold unless late February and March actualize well above normal. CFTC data indicated a slight increase in the managed money net short position as it rose from just over 23,000 to 25,000. Total open interest rose to 3.175 million. Aggregated CME futures open interest rose to 969,000 as of February 5.

Weekly Storage: US working gas storage for the week ending January 29 indicated a net withdrawal of 152 bcf to 2,934 bcf. Current inventories rise 505 bcf (20.8%) above last year while surpassing the 5 year average by 463 bcf (18.7%).

Storage Outlook: This week's storage change was mathematically smaller (larger withdrawal) than last year's 114 bcf withdrawal while mathematically larger (smaller withdrawal) than the 5 year average withdrawal of 162 bcf. This last week witnessed incredibly warm temperatures and thus the storage surplus to last year and the 5 year average should soar next week. Based on updated weather forecasts, inventories may remain above 2,100 bcf. EIA monthly storage data is still slightly higher (more bearish) than the weekly data.

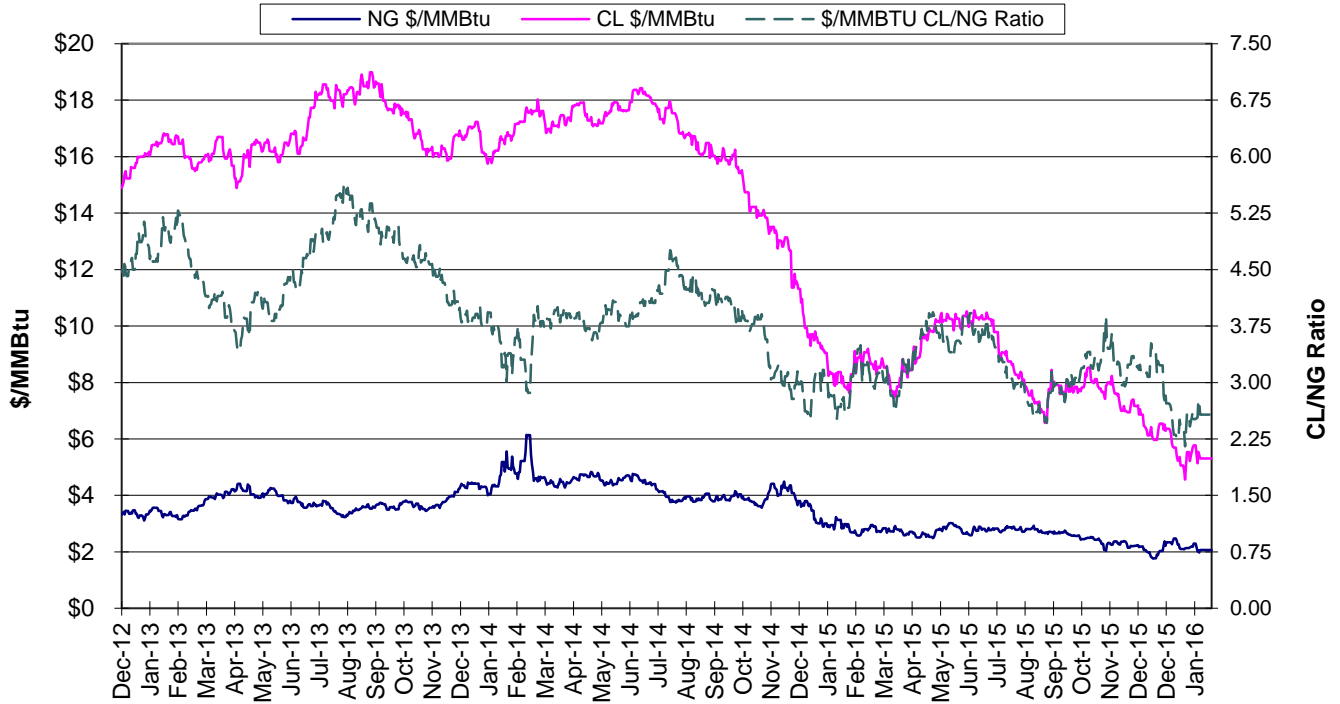
Supply Trends: Total supply fell 0.5 bcf/d to 76.7 bcf/d. US production rose while Canadian and LNG imports fell. Mexican exports were unchanged. The US Baker Hughes rig count fell 48 with both oil and natural gas activity lower. The total US rig count now stands at 571. The Canadian rig count rose 11 and now stands at 242. Thus, the total North American rig count fell 37 to 813 and now trails last year by 1,024, which is down from the record 1,441 yearly deficit. The higher efficiency US horizontal rig count fell 29 to 458 and falls 630 below last year. EIA monthly data indicated US production was only slightly lower.

Demand Trends: Total demand fell 8.5 bcf/d to 96.7 bcf/d. All sectors were lower. Electricity demand fell 5,578 gigawatt-hrs to 77,913 which exceeds last year by 46 (0.1%) while trailing the 5 year average by 1,524 (1.9%). EIA monthly data indicated that monthly demand did not set a new monthly record as extremely warm November temperatures overcame a still bullish temperature adjusted supply/demand balance.

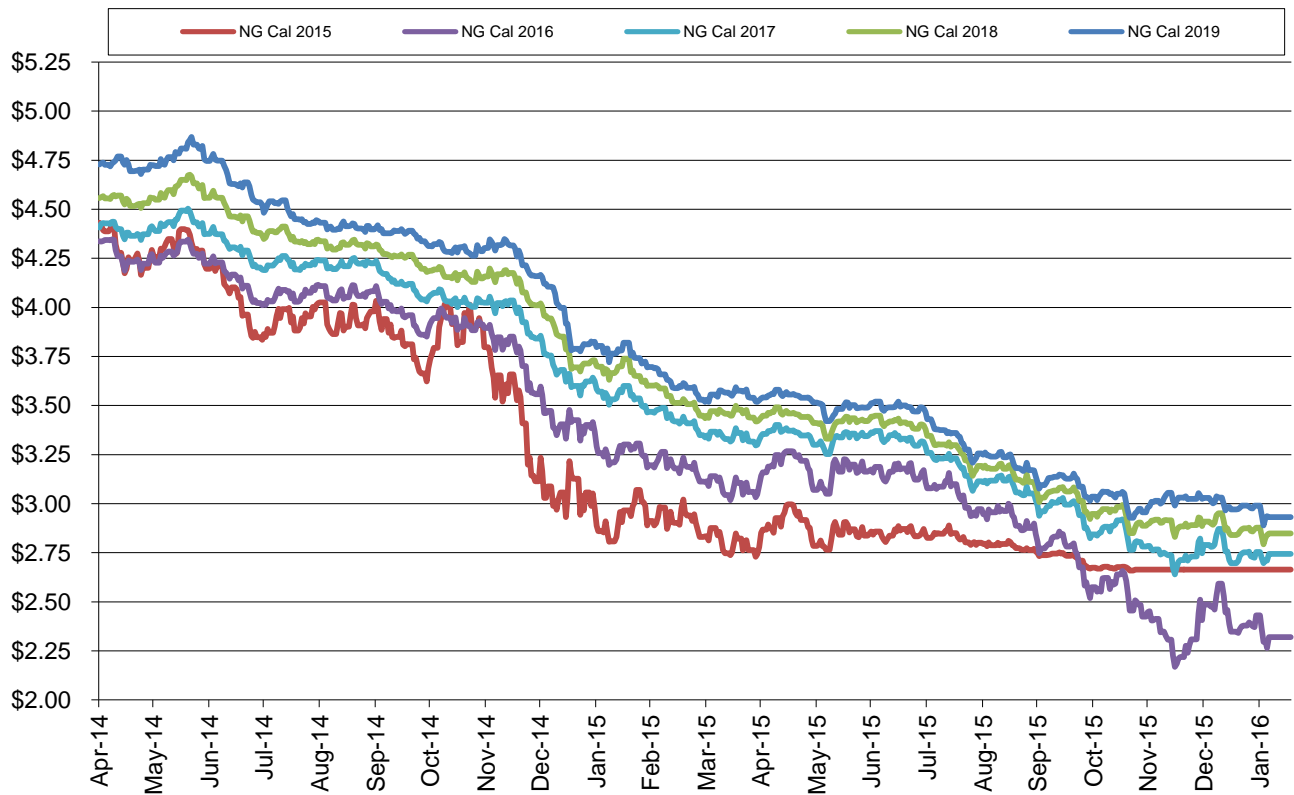
Other Factors Nuclear generation fell 2,712 MW in the reference week to 91,109 MW. This is 3,987 MW lower than last year and 2,968 MW lower than the 5 year average. Output stabilized and was recently just under 92,000 MW.

- The 2015/16 heating season continues to easily be the least severe since 2011/12. With a forecast through February 19, the 2015/16 total heating index is at 1,832 compared to 2,148 for 2014/15, 2,406 for 2013/14, 2,084 for 2012/13 and 2,040 for 2011/12.

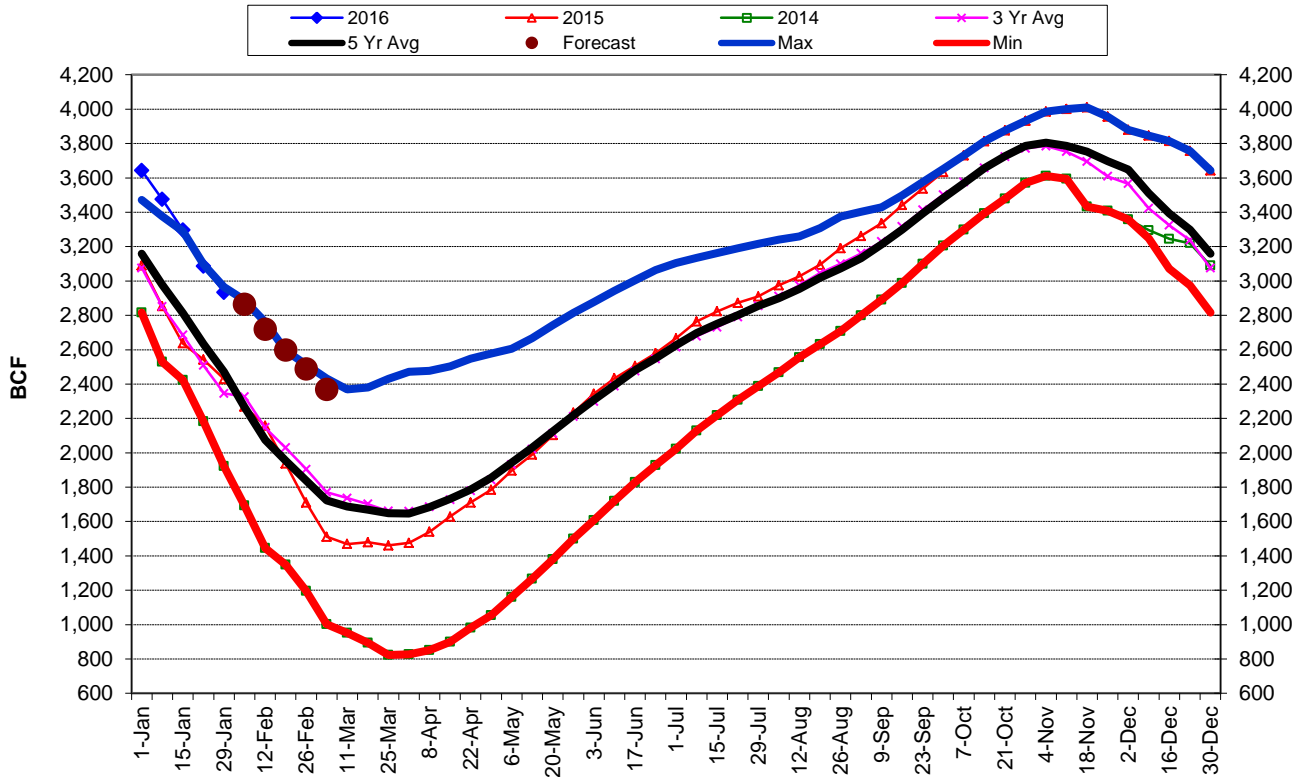
\$/MMBtu Ratio of NYMEX CL and NG



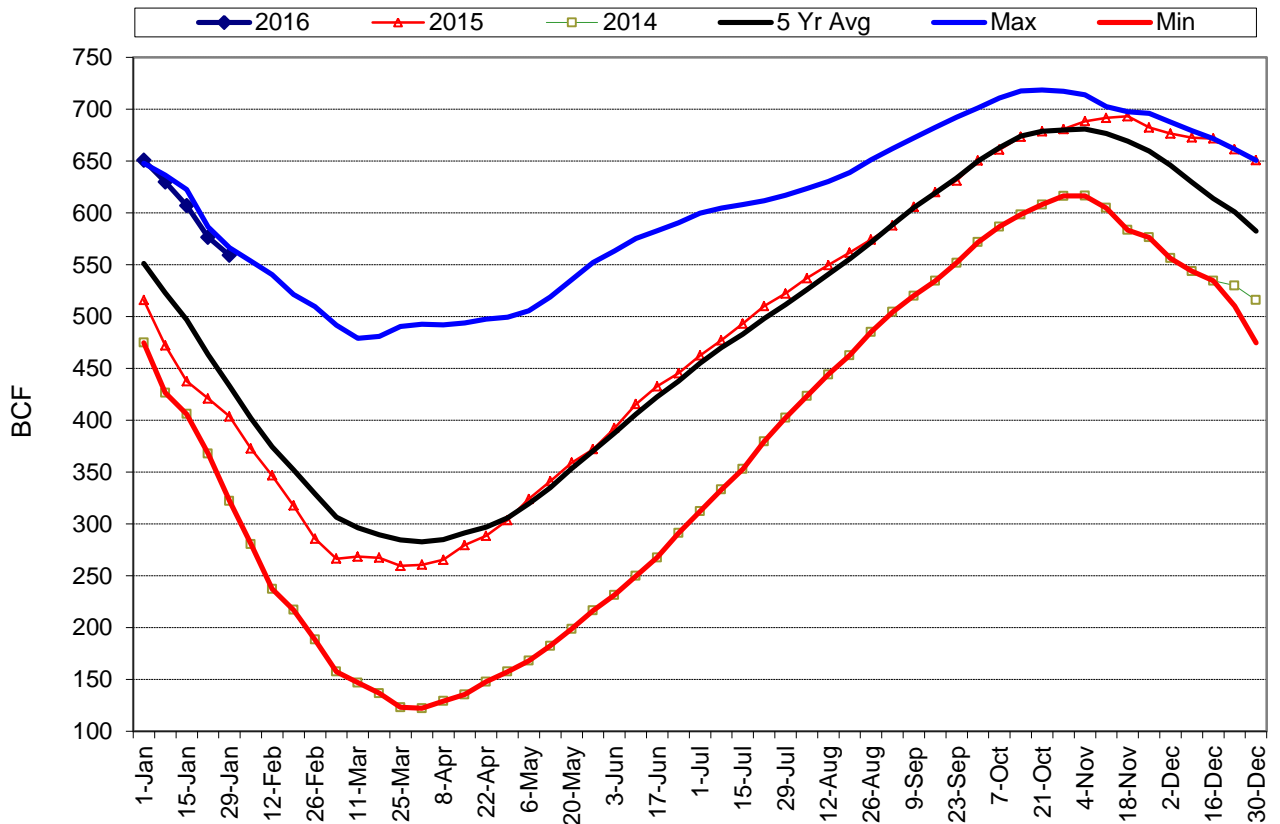
NYMEX Calendar Strips



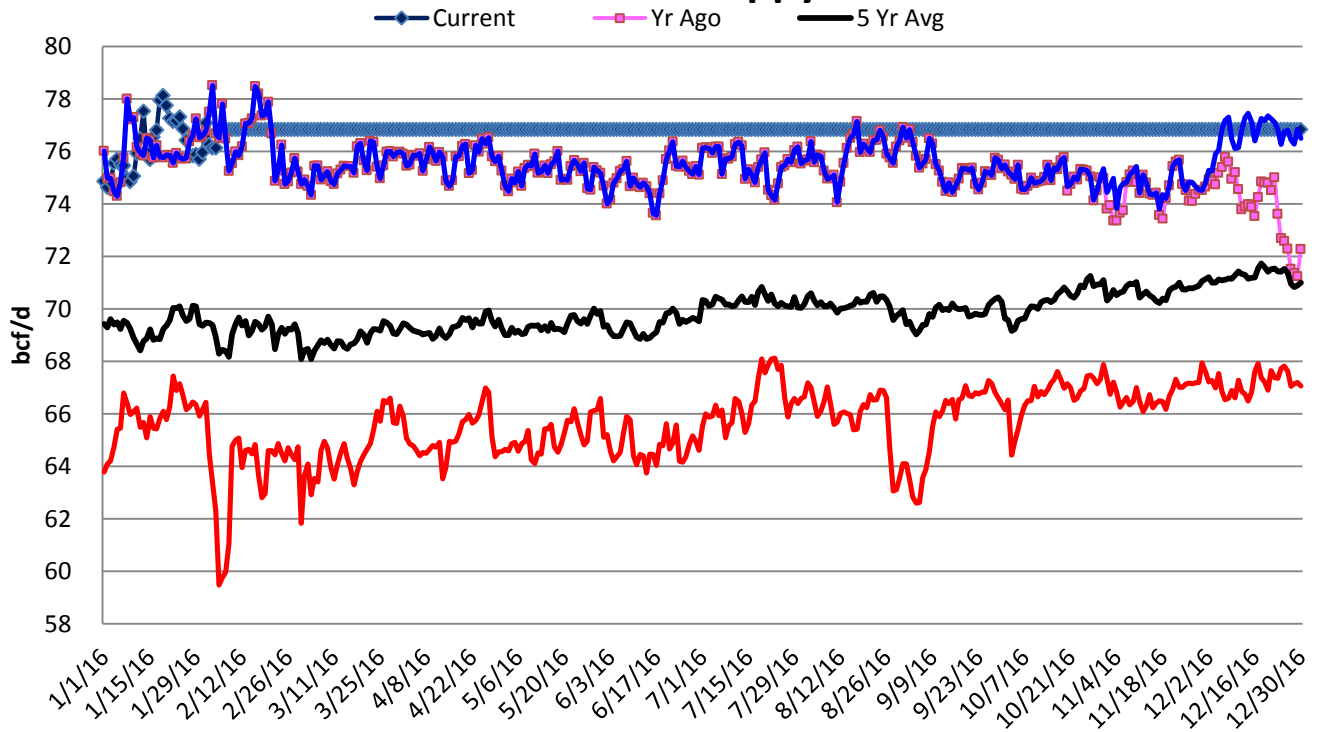
US Total Working Gas Storage - Source - EIA



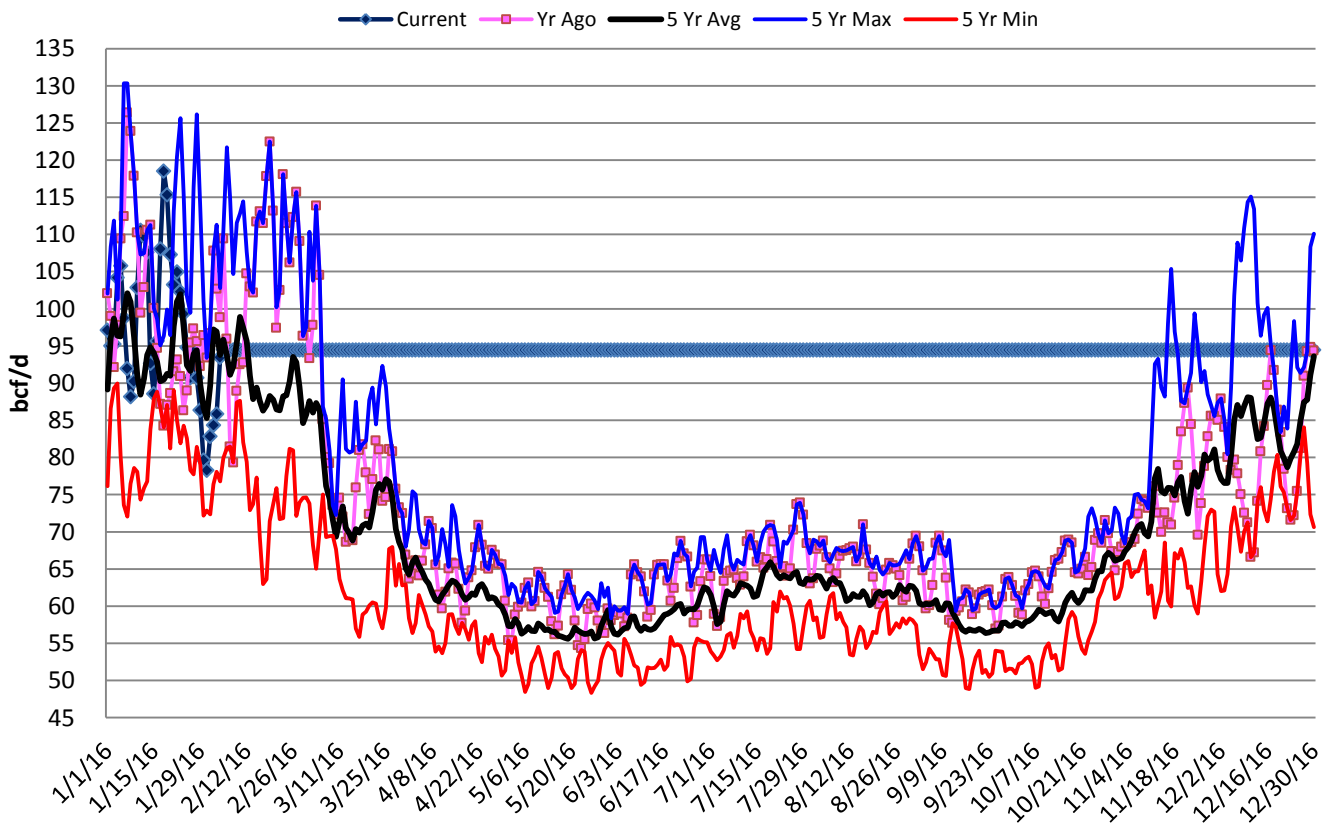
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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