

IAF Advisors/Criterion Research
Energy Market Outlook
Kyle Cooper, (713) 248-3009 Kyle.Cooper@IAFAdvisors.com
February 19, 2016

Price Action: The March contract fell 16.2 cents (8.2%) to \$1.804 on a 16.9 cent range.

Price Outlook: The market continued lower as weather forecasts remained very bearish and production rose to a new record level. With bearish yearly and 5 year average storage comparisons likely in coming weeks, news lows seem the most probably path. Until weather impacts diminish, the market will remain defensive as storage levels do not fall at the historical pace. The market has been lower for three weeks in a row, but that is hardly extended and further weakness is possible. CFTC data indicated a significant increase in the managed money net short position that returned the position to 25,000 from just 5,000. Total open interest rose to 3.426 million. Aggregated CME futures open interest rose to 1.031 million as of February 19.

Weekly Storage: US working gas storage for the week ending February 12 indicated a net withdrawal of 158 bcf to 2,706 bcf. Current inventories rise 549 bcf (25.5%) above last year while surpassing the 5 year average by 571 bcf (26.8%).

Storage Outlook: Inventories are currently projected to begin the 2016 injection season with a 677 bcf yearly storage surplus and a 581 bcf surplus to the 5 year average. Our initial projection for early November storage levels is 4,200 bcf using a 30 year normal temperature profile. A warmer summer could easily lower this projection by 200 bcf or more.

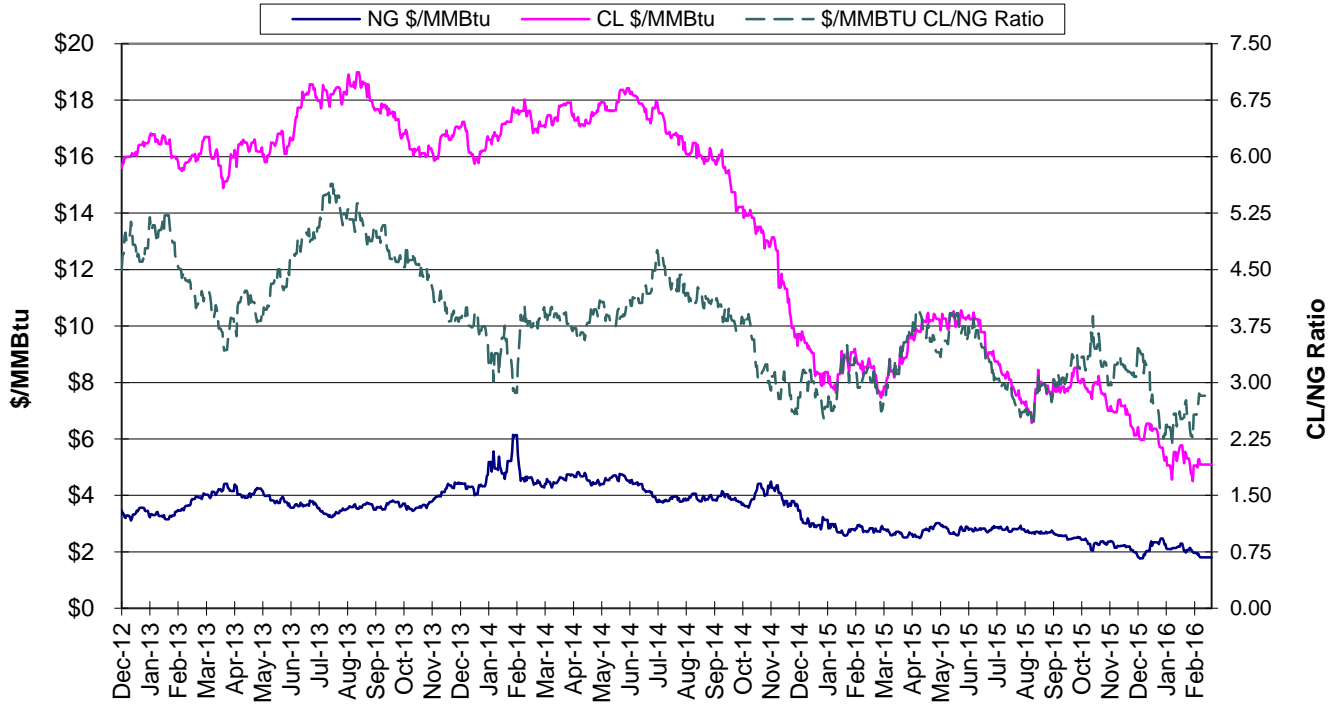
Supply Trends: Total supply rose 1.7 bcf/d to 77.3 bcf/d. US production and Canadian and LNG imports rose. Mexican exports were lower. The US Baker Hughes rig count fell 27 with both oil and natural gas activity lower. The total US rig count now stands at 514. The Canadian rig count fell 16 and now stands at 206. Thus, the total North American rig count fell 43 to 720 and now trails last year by 950, which is down from the record 1,441 yearly deficit recorded on December 11, 2015. The higher efficiency US horizontal rig count fell 17 to 416 and falls 563 below last year.

Demand Trends: Total demand rose 13.2 bcf/d to 97.8 bcf/d. All sectors were higher. Electricity demand rose 5,335 gigawatt-hrs to 79,816 which exceeds last year by 2,181 (2.8 %) while surpassing the 5 year average by 740 (0.9%).

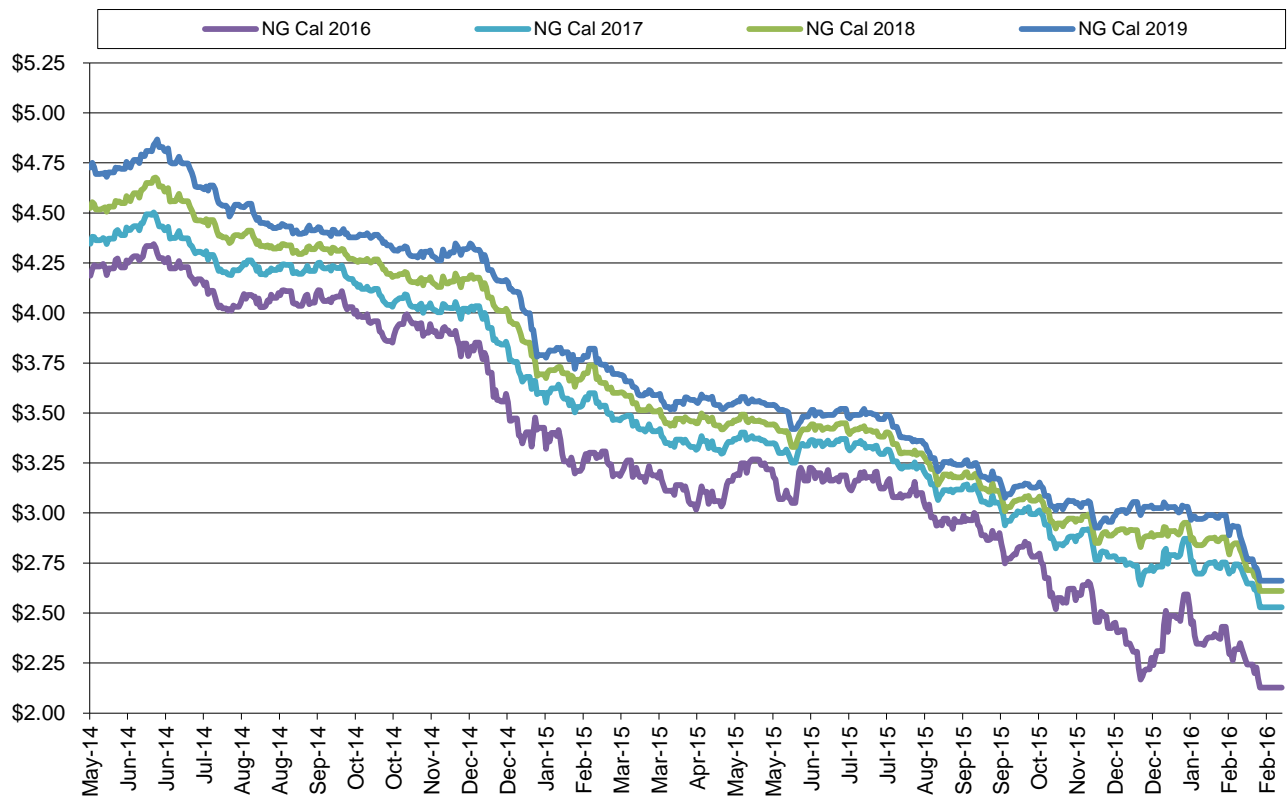
Other Factors Nuclear generation fell 798 MW in the reference week to 90,713 MW. This is 268 MW lower than last year and 793 MW lower than the 5 year average. Recent output is nearly 92,000 MW.

- The 2015/16 heating season continues to easily be the least severe since 2011/12. With a forecast through March 4, the 2015/16 total heating index is at 2,047 compared to 2,461 for 2014/15, 2,673 for 2013/14, 2,395 for 2012/13 and 2,279 for 2011/12.

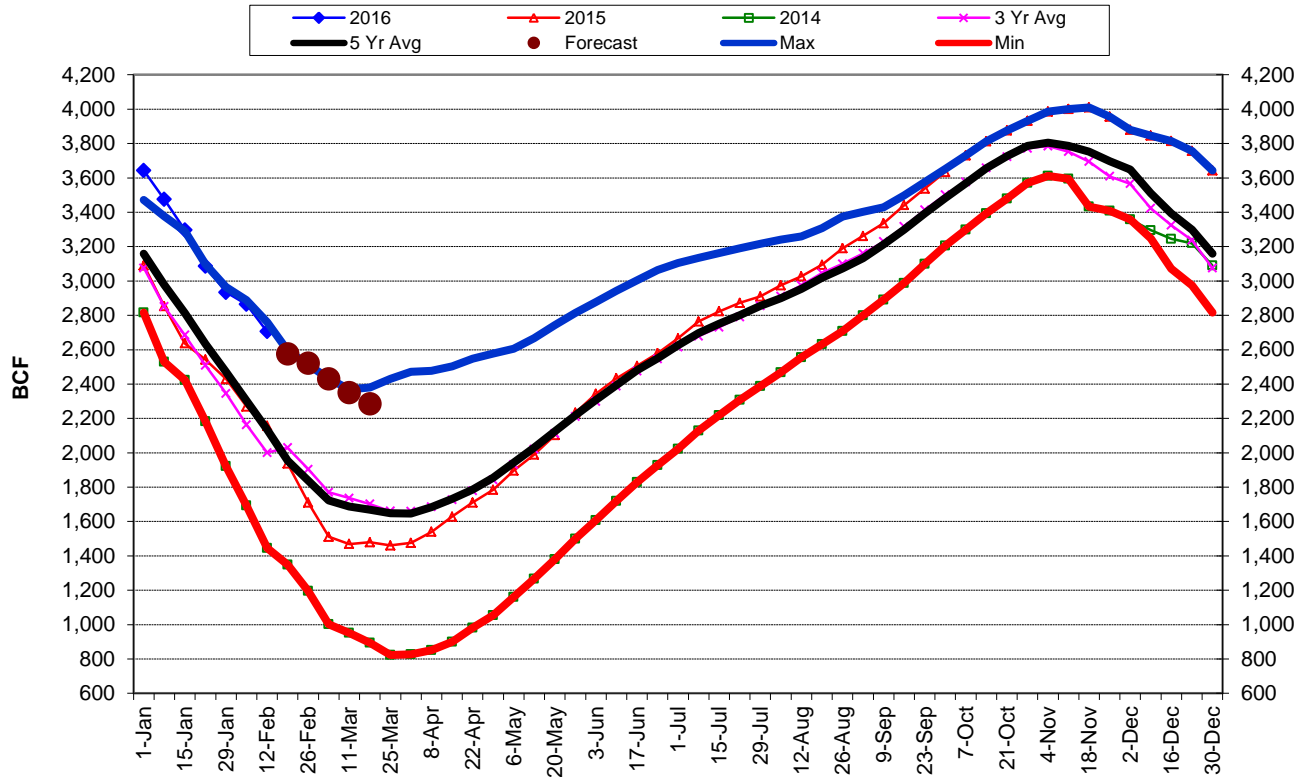
\$/MMBtu Ratio of NYMEX CL and NG



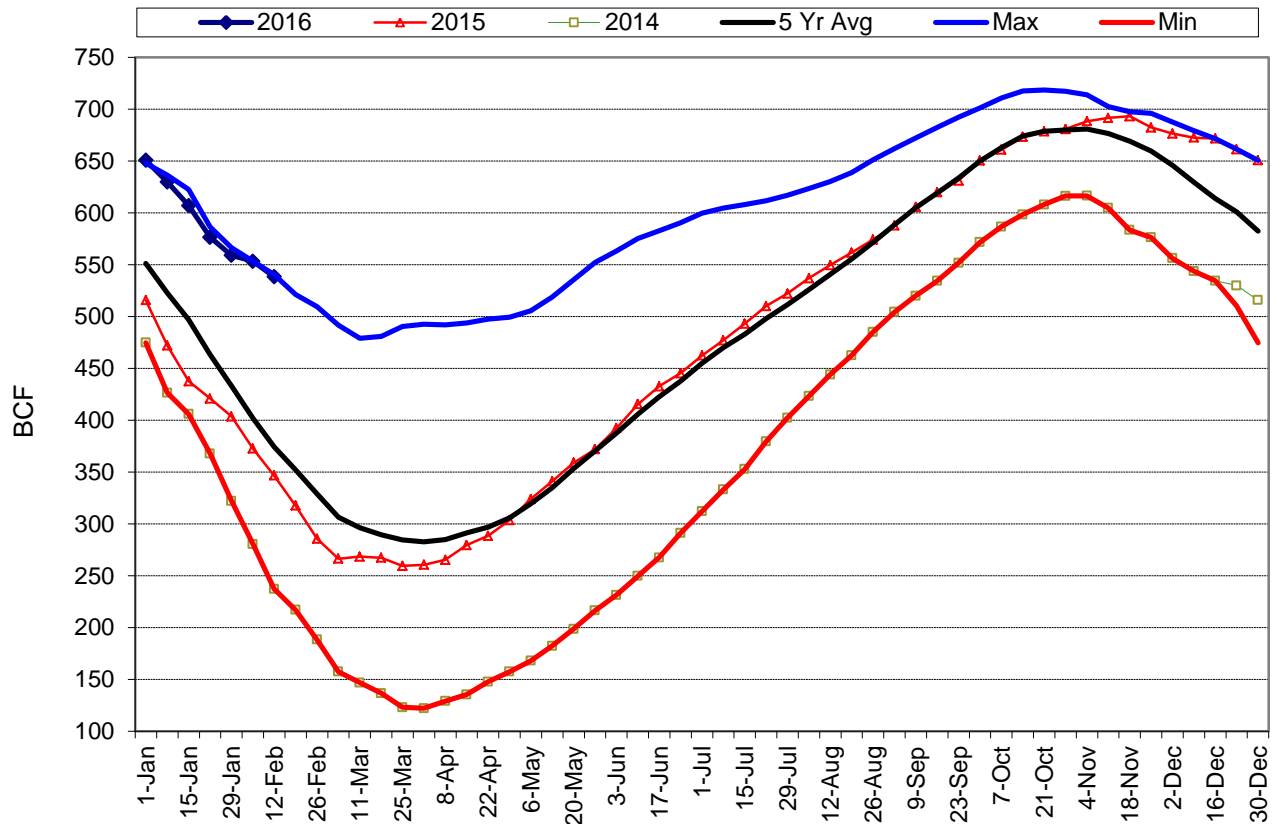
NYMEX Calendar Strips



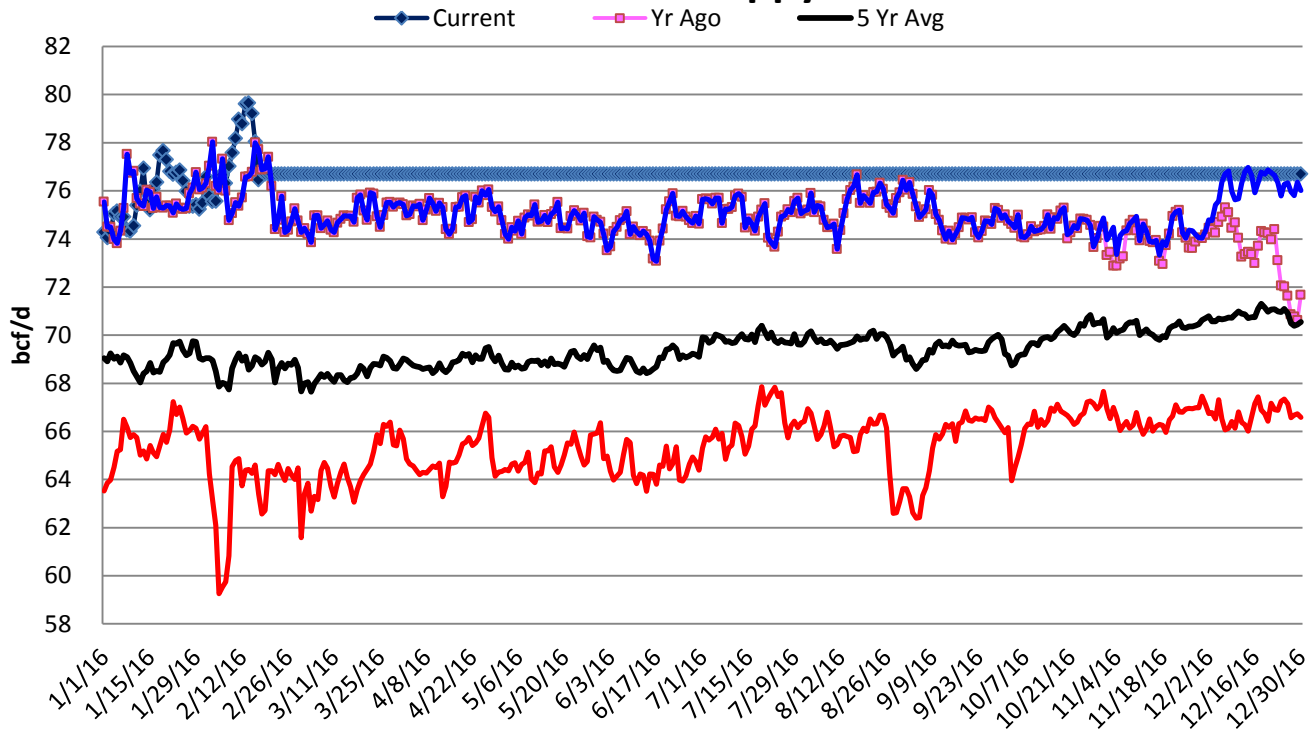
US Total Working Gas Storage - Source - EIA



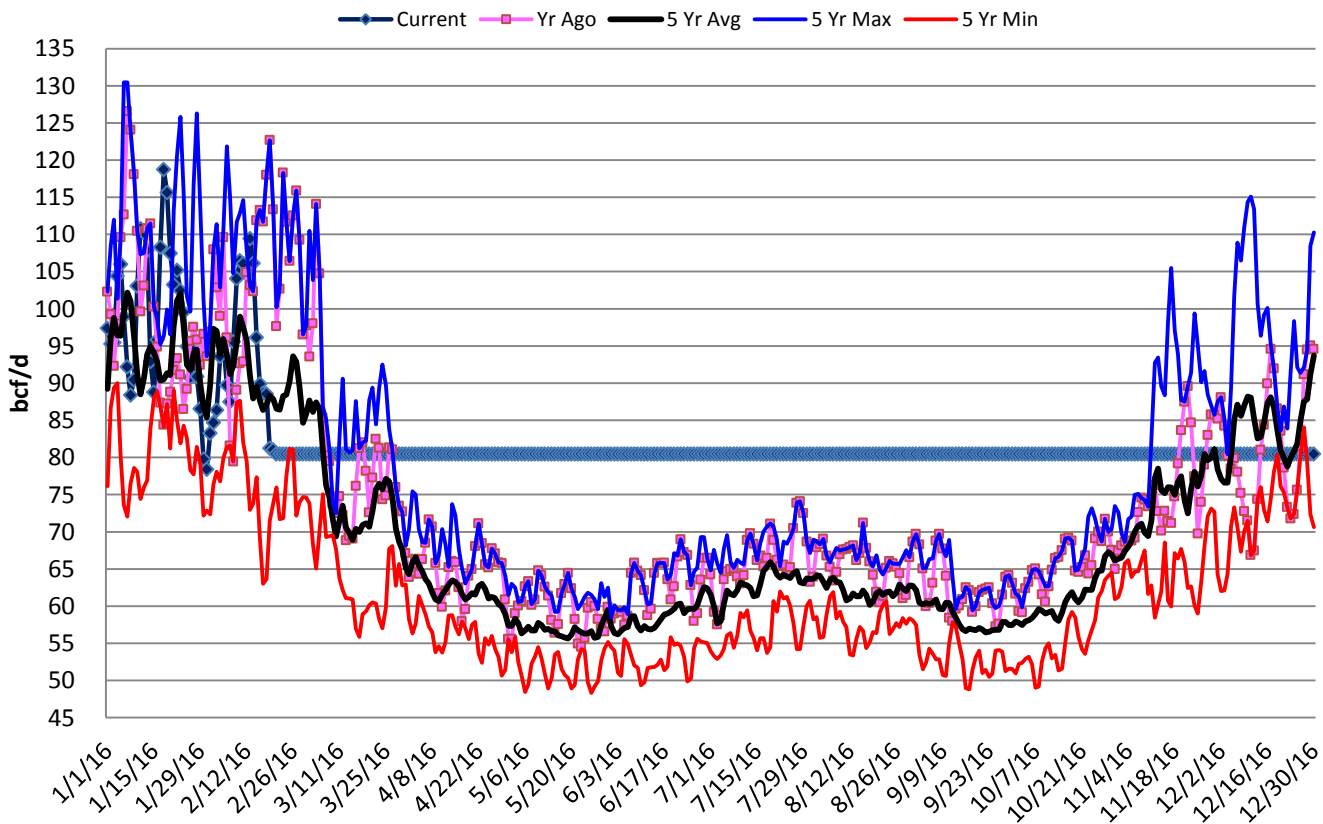
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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, equity, bond or option contract on any other financial asset. IAF Advisors does not provide investment, financial, tax, or other advice, nor does it operate as a broker-dealer. IAF Advisors does not recommend the purchase or sale of any particular security or securities. 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, equity, bond or option contract on any other financial asset 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.