

IAF Advisors/Criterion Research
Energy Market Outlook
Kyle Cooper, (713) 248-3009 Kyle.Cooper@IAFAdvisors.com
February 26, 2016

Price Action: The April contract fell 7.6 cents (4.1%) to \$1.791 on a 7.6 cent range.

Price Outlook: The market continued lower as weather forecasts remained very bearish and the EIA reported a much smaller than expected withdrawal. This winter has basically failed to materialize and with production still solid, inventories may not fall below 2,300 bcf in April. If the significantly above average temperatures persist, injections may begin in late March. Although the market has been down 4 weeks in a row, the fundamentals remain bearish and further lows are possible. CFTC data indicated another significant increase in the managed money net short position that returned the position to nearly 33,000 and the largest since January 5. Total open interest rose to 3.600 million. Aggregated CME futures open interest rose to 1.041 million as of February 26.

Weekly Storage: US working gas storage for the week ending February 19 indicated a net withdrawal of 117 bcf to 2,584 bcf. Current inventories rise 646 bcf (33.3%) above last year while surpassing the 5 year average by 596 bcf (30.0%). There was a revision to the prior week, changing last week's draw from 158 bcf to 163 bcf.

Storage Outlook: Our 5 week summation of error is now just 2 bcf. For a 5 week period, this is well within our comfort zone. Warmer weather forecasts have increased our April inventory low to 2,314 bcf. Our estimation for early November inventories is 4,200 bcf.

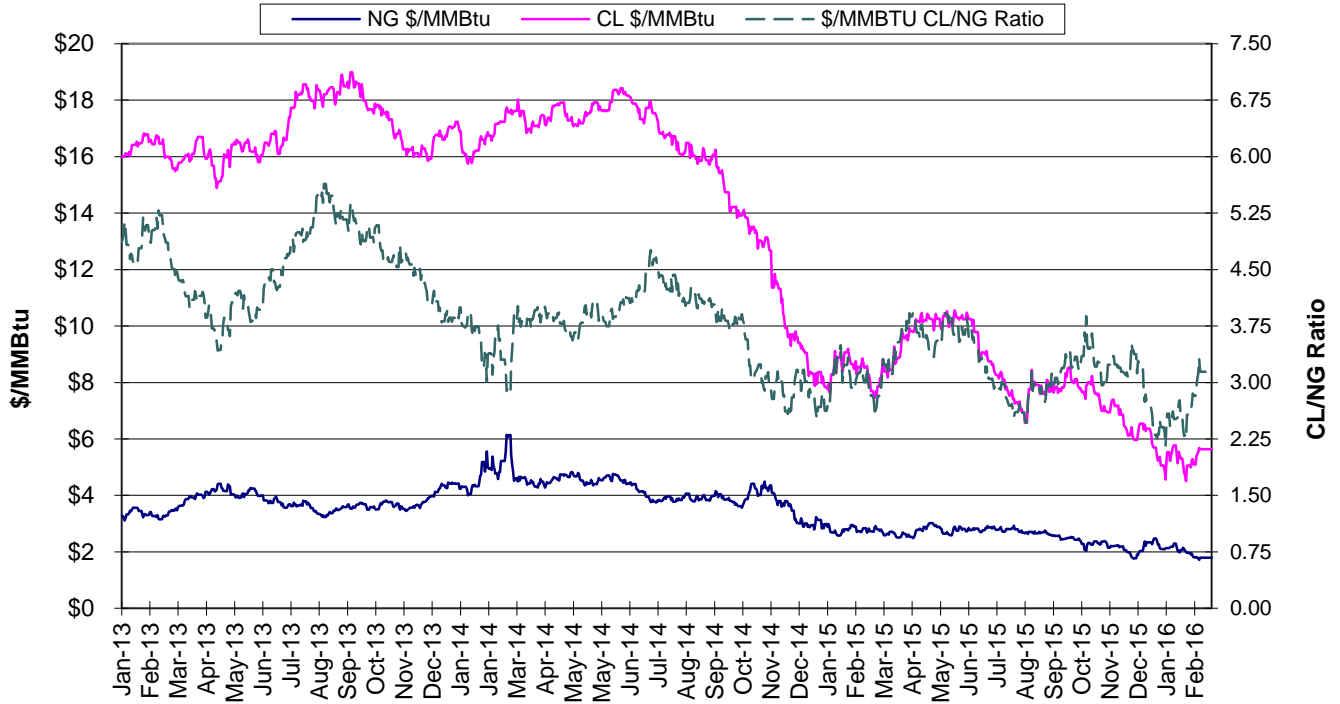
Supply Trends: Total supply rose 1.0 bcf/d to 78.5 bcf/d. All supply components were higher. The US Baker Hughes rig count fell 12 with oil activity lower but natural gas up. The total US rig count now stands at 502. The Canadian rig count fell 31 and now stands at 175. Thus, the total North American rig count fell 43 to 677 and now trails last year by 920, which is down from the record 1,441 yearly deficit recorded on December 11, 2015. A review of Q4 US E&P company reports highlights reduced spending offset by lower costs that are keeping production levels relatively flat. Production in early 2016 is expected to rise slightly from Q4 as companies focus on connecting already drilled wells and benefit from increased rig efficiencies.

Demand Trends: Total demand fell 0.2 bcf/d to 97.6 bcf/d. Power demand was much lower while R&C and industrial rose. Electricity demand fell 4,471 gigawatt-hrs to 75,345 which trails last year by 10,717 (12.5 %) and the 5 year average by 1,877 (2.4%).

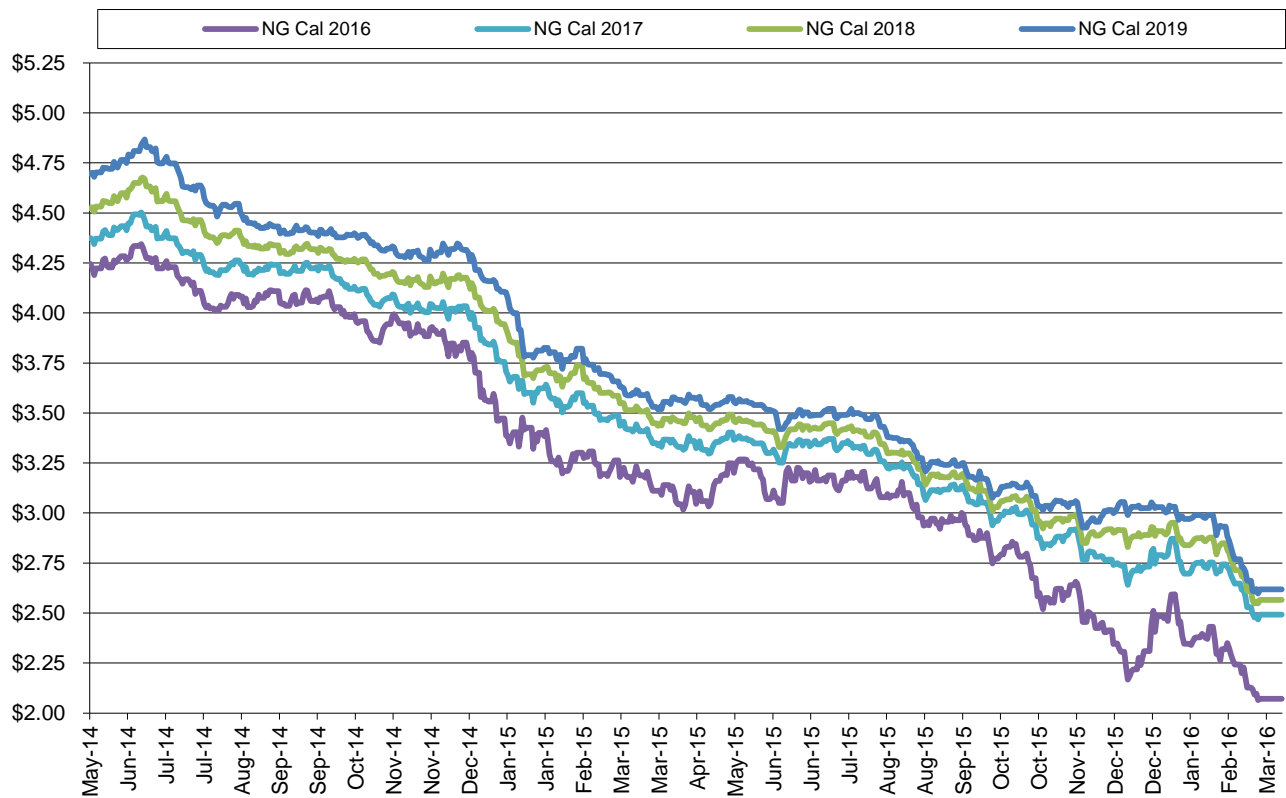
Other Factors Nuclear generation fell 418 MW in the reference week to 90,295 MW. This is 1,001 MW lower than last year and 86 MW higher than the 5 year average. Recent output is just over 89,000 MW.

- The 2015/16 heating season continues to easily be the least severe since 2011/12. With a forecast through March 11, the 2015/16 total heating index is at 2,133 compared to 2,571 for 2014/15, 2,781 for 2013/14, 2,518 for 2012/13 and 2,391 for 2011/12.

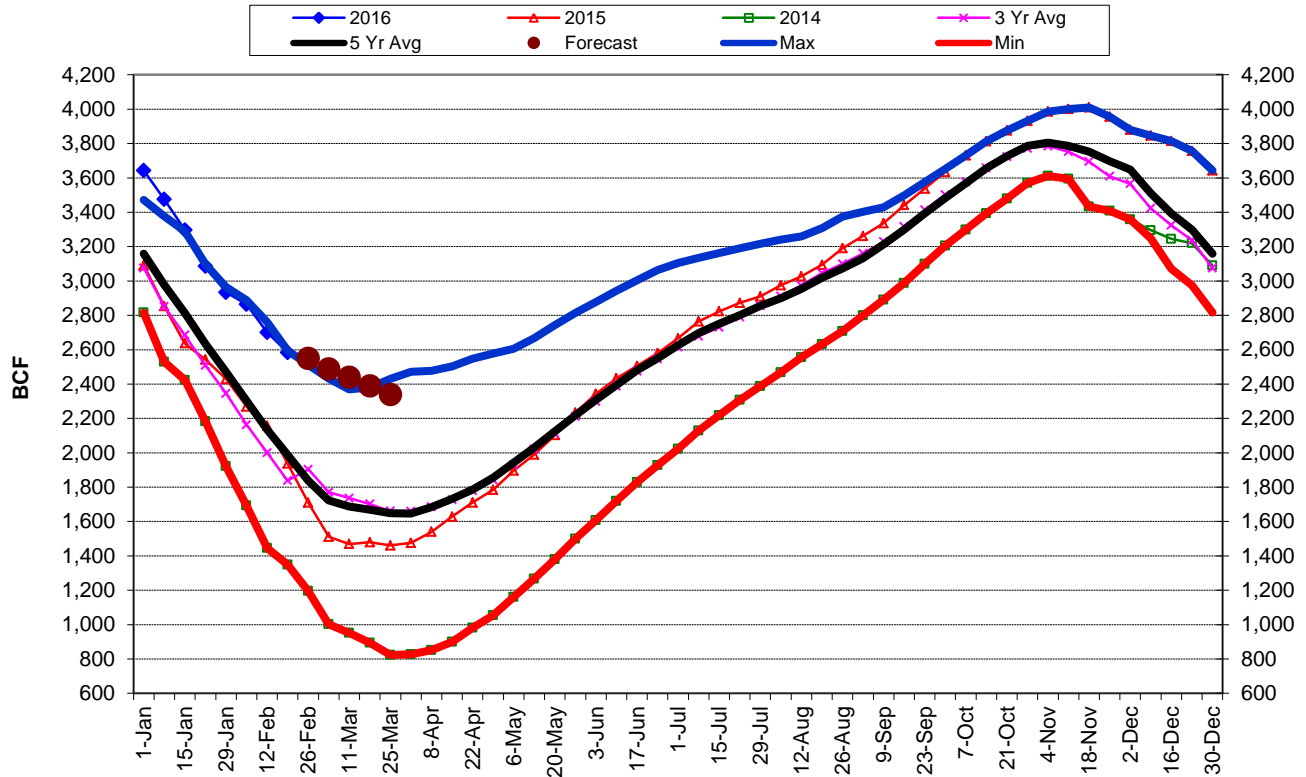
\$/MMBtu Ratio of NYMEX CL and NG



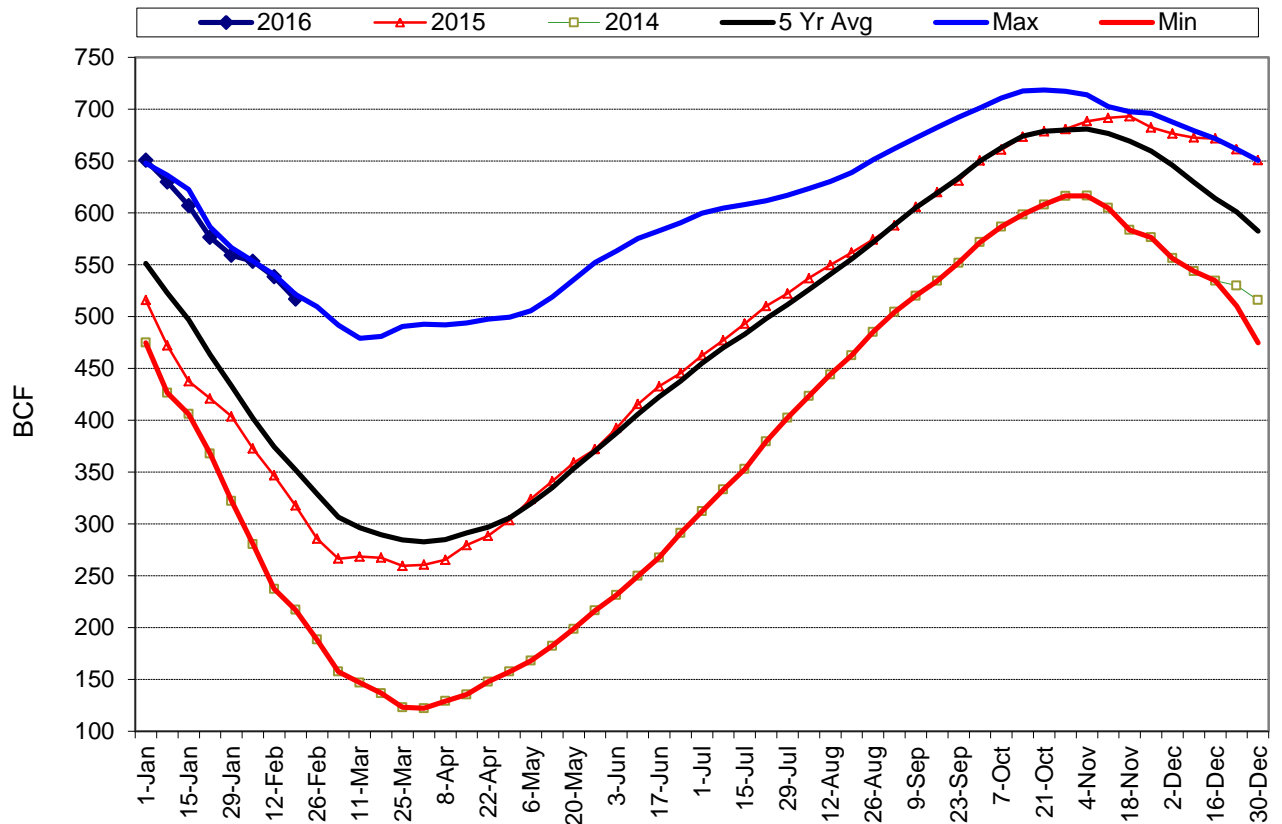
NYMEX Calendar Strips



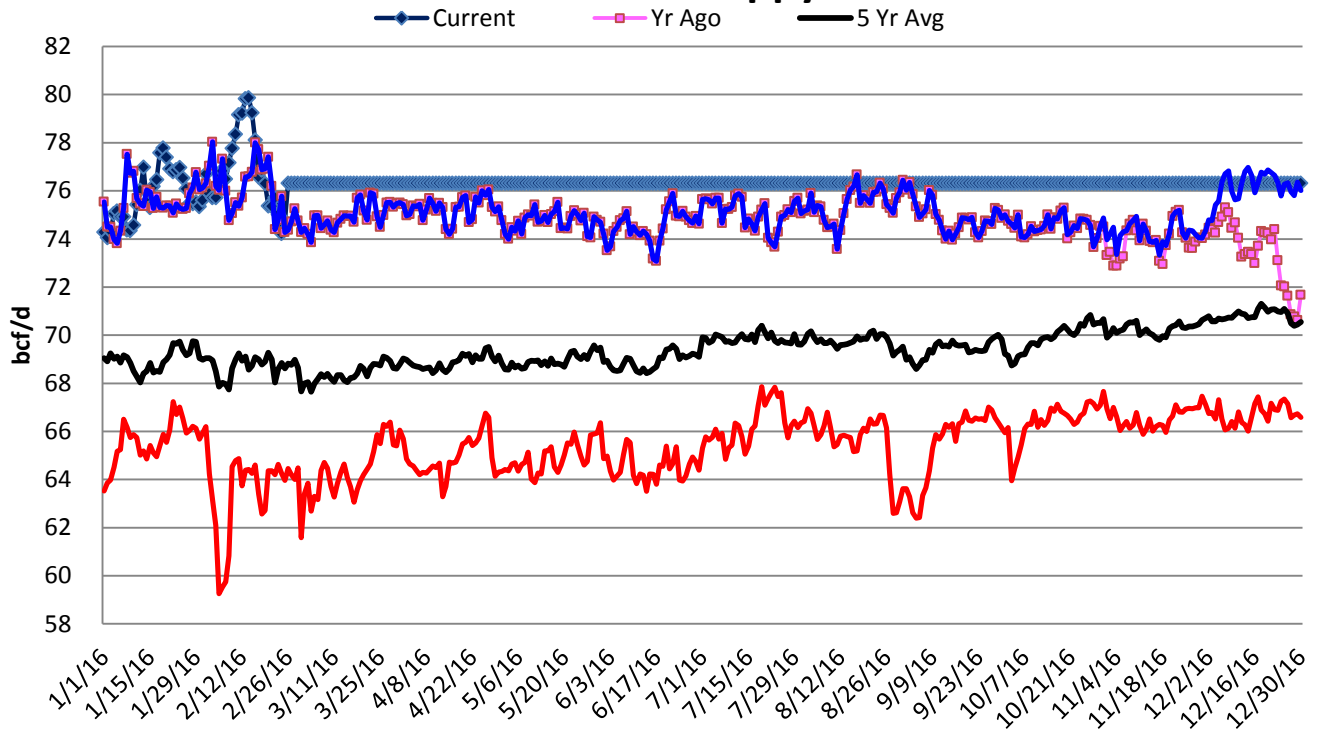
US Total Working Gas Storage - Source - EIA



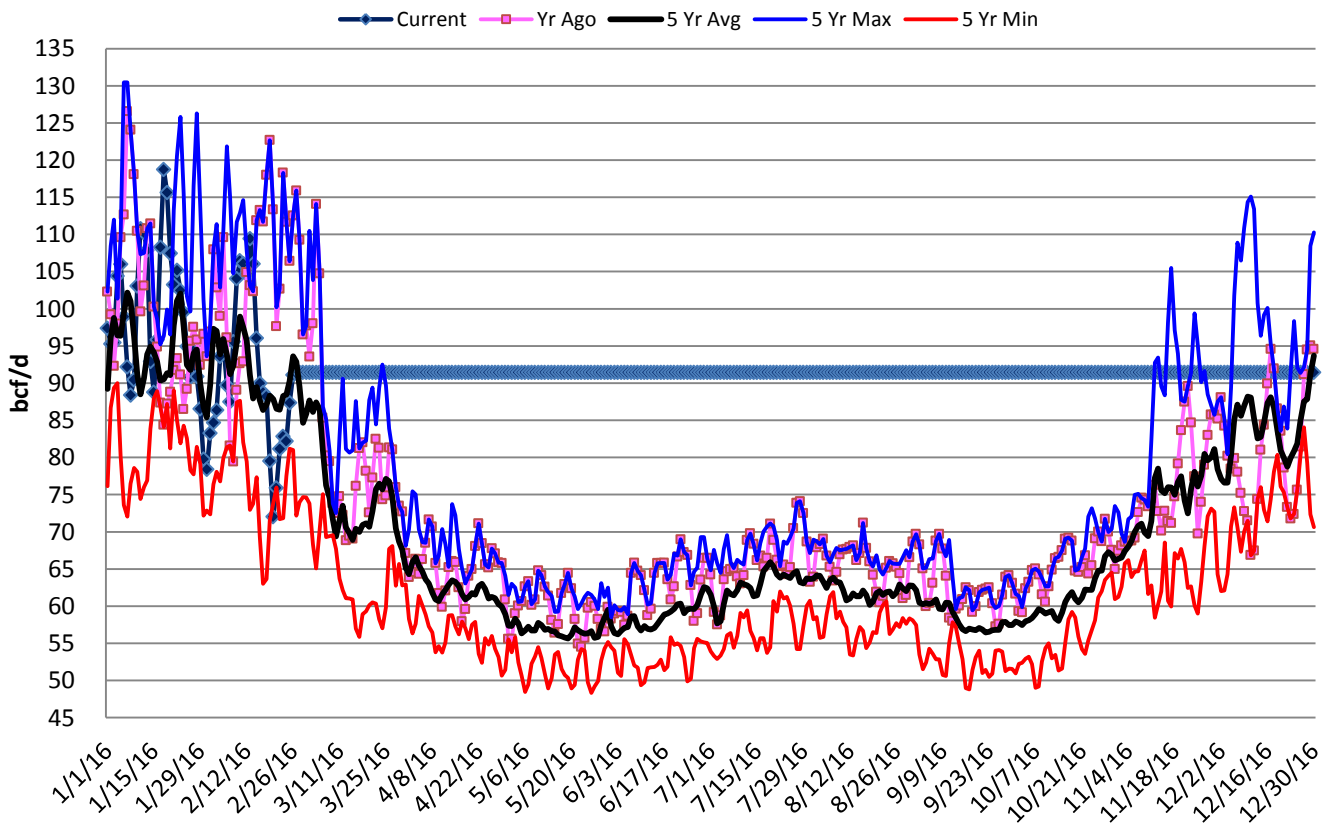
Canadian Working Gas Storage - Enerdata



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.