



Energy Market Outlook

Kyle Cooper, (713) 248-3009 Kyle.Cooper@IAFAdvisors.com

October 7, 2016

Please contact me to review a joint RBN Energy daily publication detailing natural gas fundamentals.

Price Action: The November contract rose 28.7 cents (9.9%) to \$3.193 on a 35.2 cent range.

Price Outlook: After the rare inside week last week, the market posted both a new high and low. After early weakness established a new low, prices shot higher despite bearish weather forecasts, bearish physical data and a higher than expected EIA storage report. Still, the huge storage surplus resulting from the record warm 2015/16 winter will soon be eliminated and that does still imply an underlying bullish supply/demand balance. However, the recent price advance is certainly predicated on a major shift in the current temperature forecast. CFTC data indicated a notable decrease in the managed money net long position as some longs liquidated while shorts added. Total open interest fell to 3.340 million as of October 4. Aggregated CME futures open interest rose to 1.122 million as of October 7.

Weekly Storage: US working gas storage for the week ending September 30 indicated a net injection of +80 bcf that lifted total working gas inventories to 3,680 bcf. Current inventories rise 46 bcf (1.3%) above last year while surpassing the 5 year average by 203 bcf (5.8%).

Storage Outlook: This week's temperature adjusted supply/demand balance indicated a bearish shift to both last year and the 5 year average. The temperature adjusted supply/demand balance now stands at (2.3) bcf/d bullish compared to (4.6) bcf/d bullish to last year last week. The comparison to the 5 year average is at (2.3) bullish compared to (4.2) bcf/d bullish to the 5 year average last week. Our current estimation for early November inventories is 3,960 bcf.

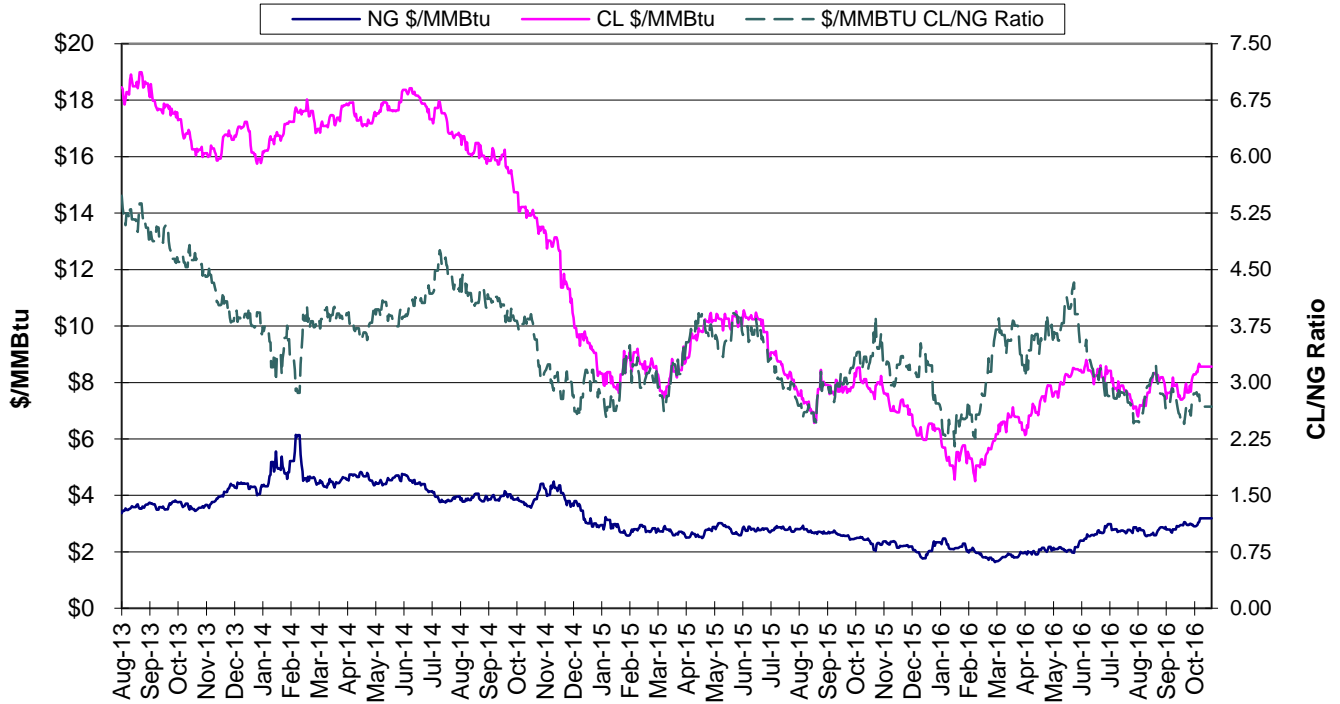
Supply Trends: Total supply was unchanged at 74.1 bcf/d. US production fell. Canadian imports were higher. Mexican exports and LNG imports were unchanged. The US Baker Hughes rig count rose 2 with oil activity higher while natural gas slipped. The total US rig count now stands at 524. The Canadian rig count rose 3 to 165. Thus, the total North American rig count rose 5 to 689 and now trails last year by 286, which is down from the record 1,441 yearly deficit recorded on December 11, 2015. **The higher efficiency US horizontal rig count rose 6 to 413 and falls 185 below last year. The EIA Monthly Natural Gas report indicated another drop in US output.**

Demand Trends: Total demand fell 3.5 bcf/d to 61.4 bcf/d. Lower power demand offset higher industrial demand. R&C demand was unchanged. Electricity demand fell 8,967 gigawatt-hrs to 72,986 which trails last year by 709 (1.0%) and the 5 year average by 1,008 (1.4%). **The EIA Monthly Natural Gas report indicated another record monthly demand level driven primarily by power consumption.**

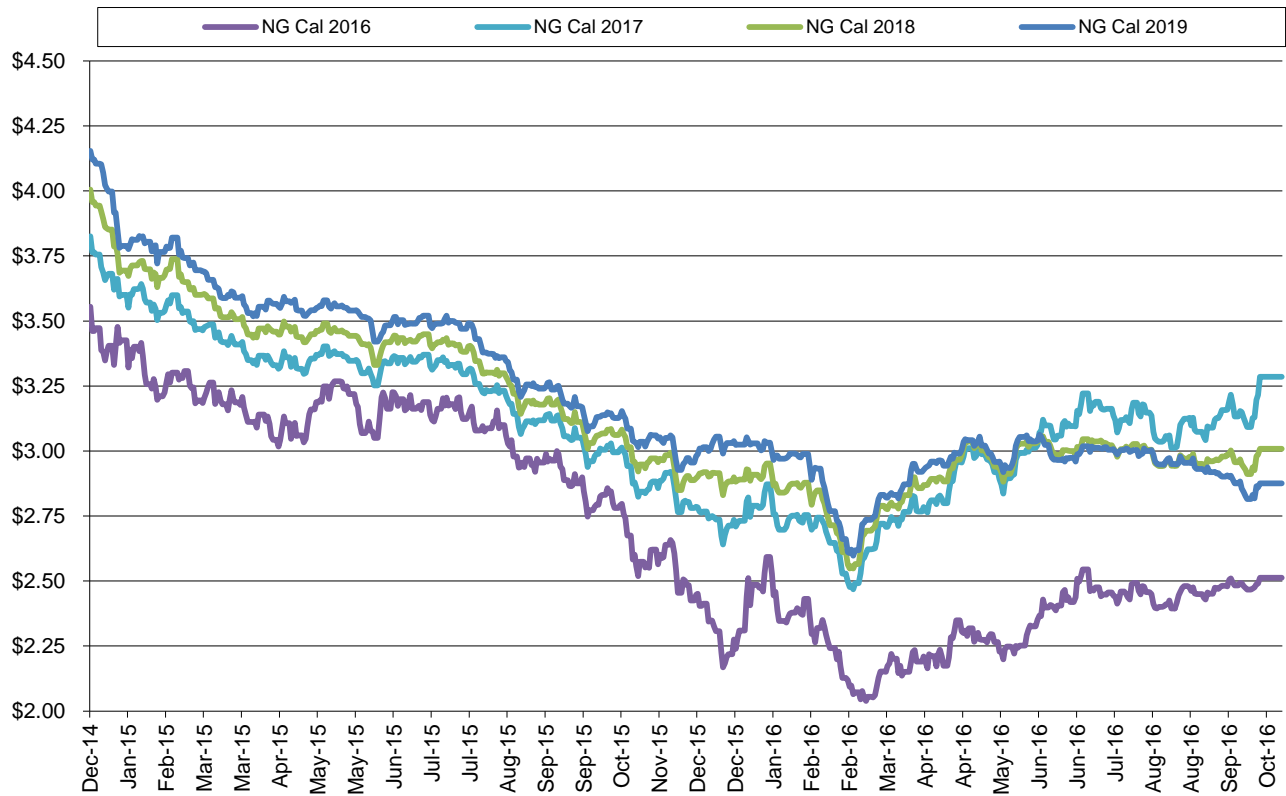
Other Factors: Nuclear generation fell 2,273 MW in the reference week to 86,826 MW. This is 1,469 MW higher than last year while (576) MW lower than the 5 year average. Recent output is near 80,000 MW.

- The 2016 cooling season is winding down. With a forecast through October 21, the 2016 total cooling index is at 5,483 compared to 4,402 for 2015, 3,451 for 2014, 4,811 for 2013, 7,212 for 2012 and 6,709 for 2011. The heat is primarily concentrated in the West.

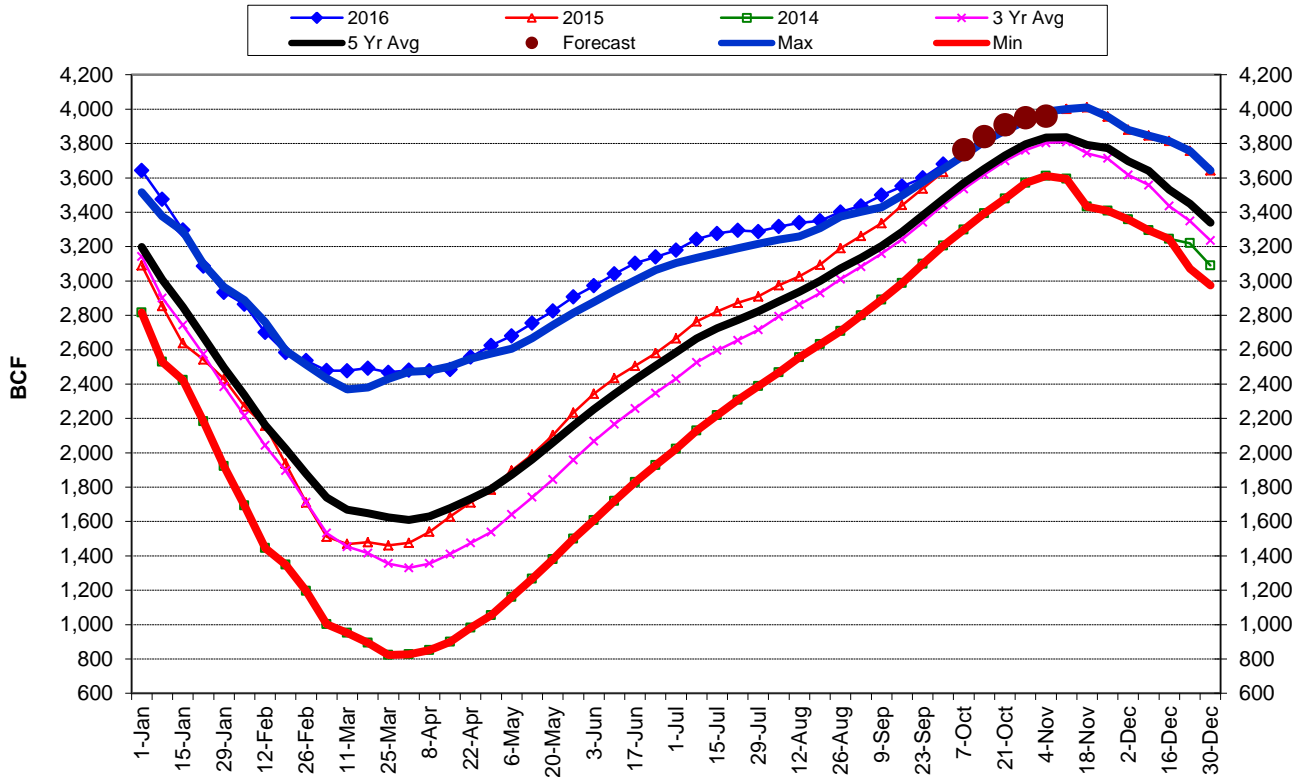
\$/MMBtu Ratio of NYMEX CL and NG



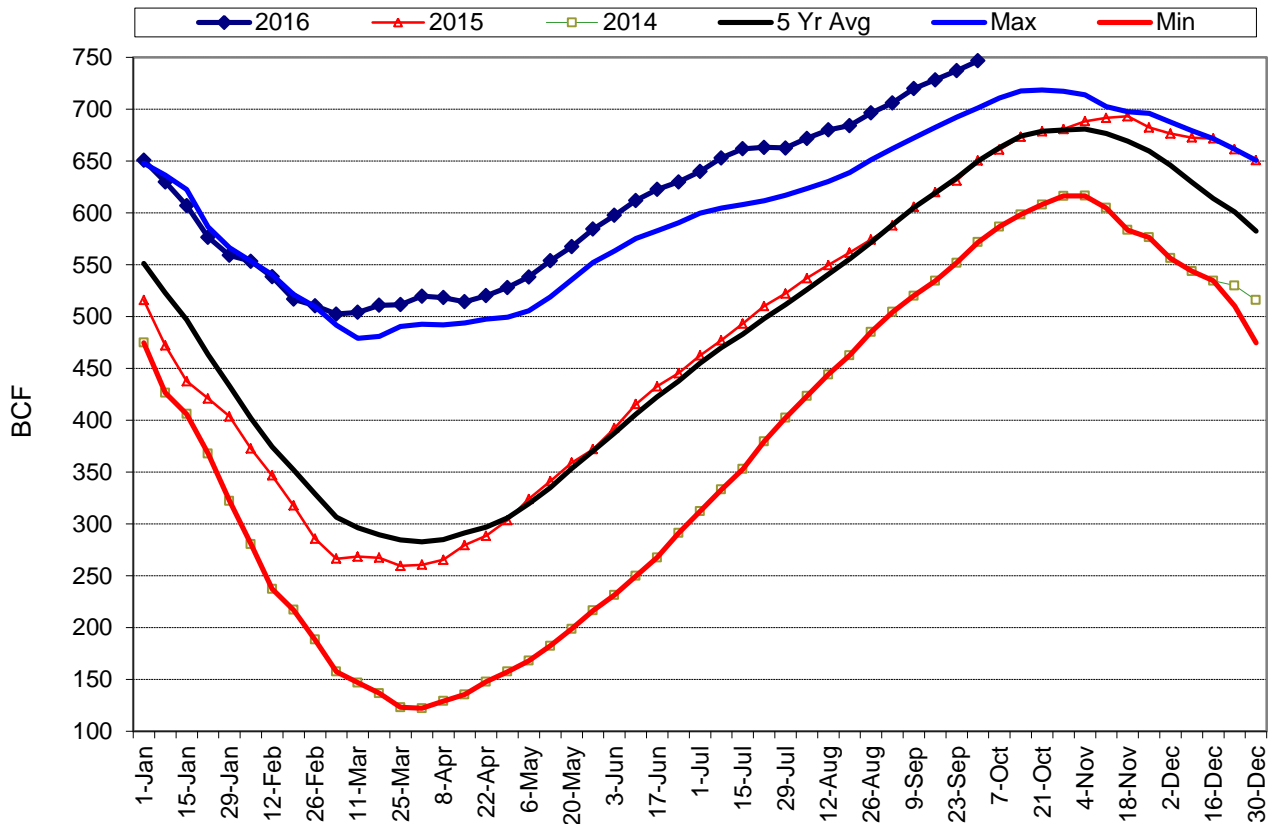
NYMEX Calendar Strips



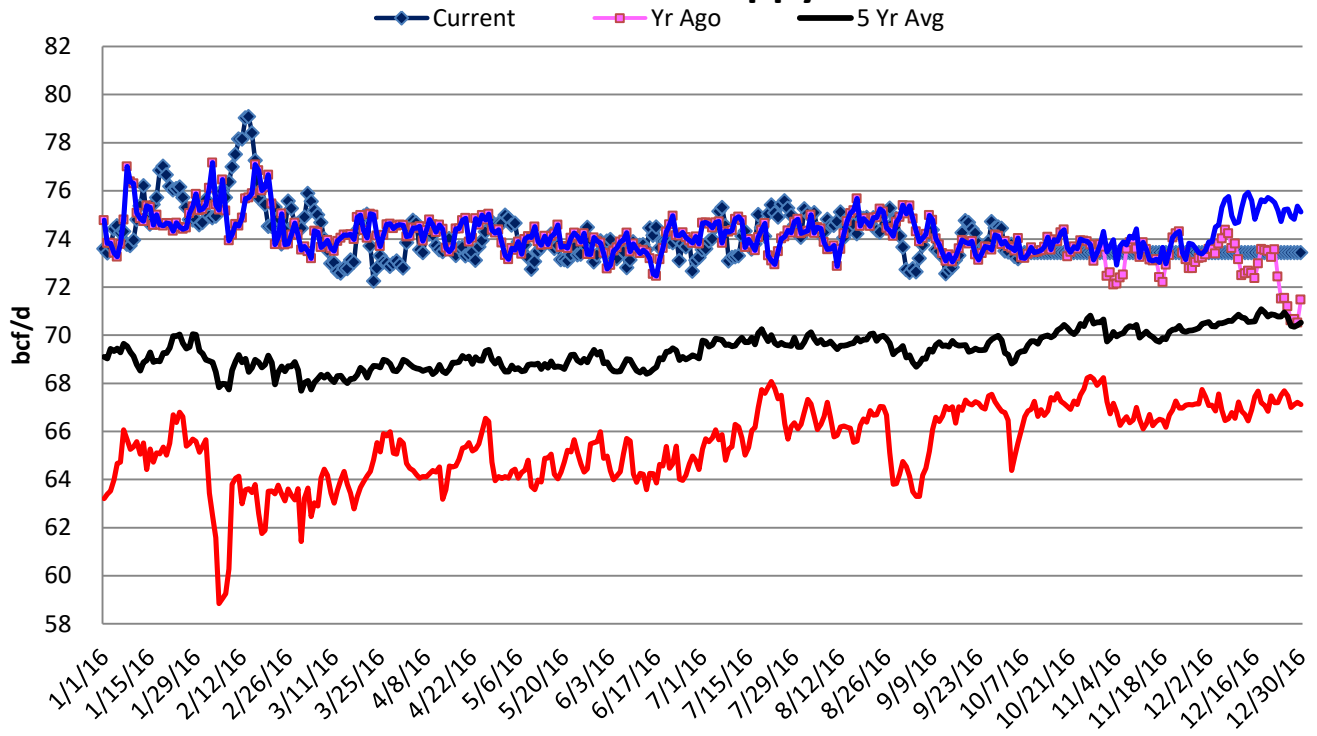
US Total Working Gas Storage - Source - EIA



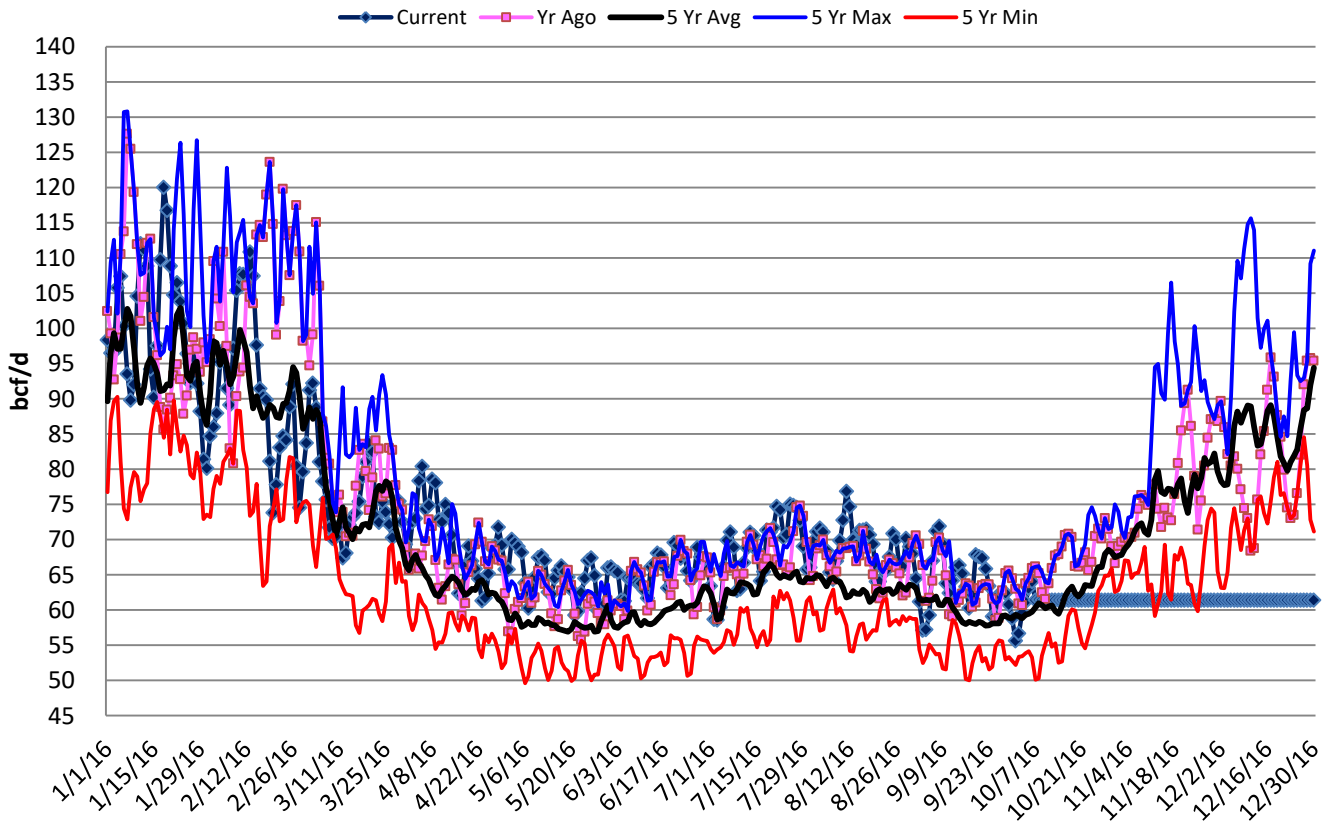
Canadian Working Gas Storage - Enerdata



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.