



Energy Market Outlook

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

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

Price Action: The November contract fell 29.2 cents (8.9%) to \$2.993 on a 36.2 cent range.

Price Outlook: The market plummeted as weather forecasts now project above normal temperatures into early November. At the same time, the EIA reported a storage injection slightly above expectations. We had been surprised by the recent price strength with temperature forecasts considered very bearish. However, the market has corrected with storage projections now introducing the possibility of reaching 4 tcf in early November. CFTC data indicated another notable increase in the managed money net long position as shorts liquidated in mass while longs barely added. Total open interest rose to 3.630 million as of October 18. Aggregated CME futures open interest rose to 1.168 million as of October 21.

Weekly Storage: US working gas storage for the week ending October 14 indicated a net injection of +77 bcf that lifted total working gas inventories to 3,836 bcf. Current inventories rise 23 bcf (0.6%) above last year while surpassing the 5 year average by 184 bcf (5.0%).

Storage Outlook: Our EIA weekly storage estimate was mathematically 1 bcf lower than the actual EIA report and back within our tolerance range. The 5 week summation of our error rose to 2 bcf as the EIA has reported a net implied flow of +337 bcf compared to our estimated +335 bcf. For a 5 week period, this is within our tolerance range. Our current estimation for early April inventories is 1,382 bcf.

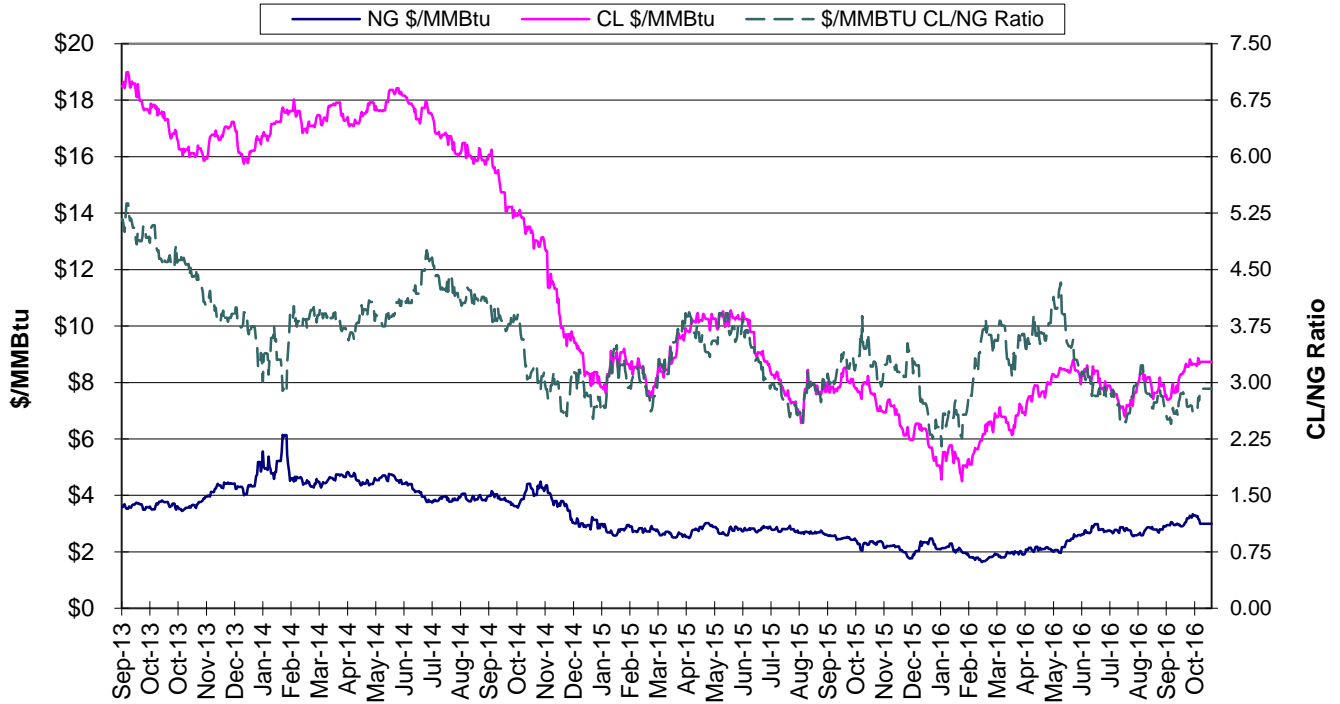
Supply Trends: Total supply was up +0.1 bcf/d to 73.5 bcf/d. US production and Mexican exports were higher. Canadian imports were lower. LNG imports were unchanged. The US Baker Hughes rig count rose 14 with both oil and natural gas activity higher. The total US rig count now stands at 553. The Canadian rig count fell 22 to 143. Thus, the total North American rig count fell 8 to 696 and now trails last year by 281, which is down from the record 1,441 yearly deficit recorded on December 11, 2015. The higher efficiency US horizontal rig count rose 14 to 445 and falls 146 below last year. The EIA Drilling Productivity report significantly revised October production and suggested a continued increase in rig productivity. However, connecting completed wells is admittedly increasing apparent rig productivity. Still the pace of production declines is clearly decelerating.

Demand Trends: Total demand rose 1.1 bcf/d to 61.2 bcf/d. Higher industrial and R&C demand offset lower power demand. Electricity demand fell 2,726 gigawatt-hrs to 70,015 which trails last year by 1,636 (2.3%) and the 5 year average by 453 (0.6%).

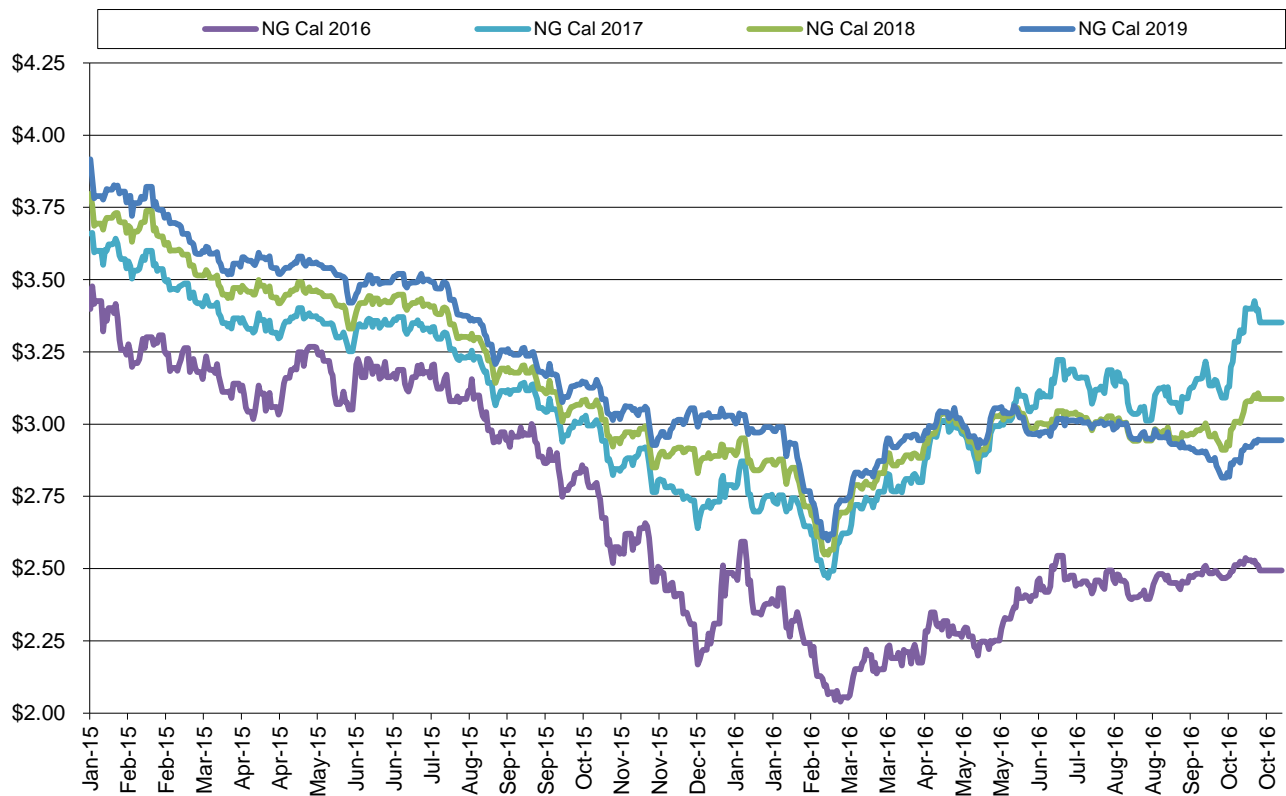
Other Factors: Nuclear generation fell 4,949 MW in the reference week to 77,453 MW. This is 2,294 MW lower than last year while (3,749) MW lower than the 5 year average. Recent output is near 79,250 MW. TVA's Watts Bar 2 began commercial operation marking the first new nuclear unit in decades.

- The 2016/17 heating season is beginning. With a forecast through November 4, the 2016/17 total heating index is at 24 compared to 39 for 2015/16, 84 for 2014/15, 123 for 2013/14, 123 for 2012/13 and 118 for 2011/12.

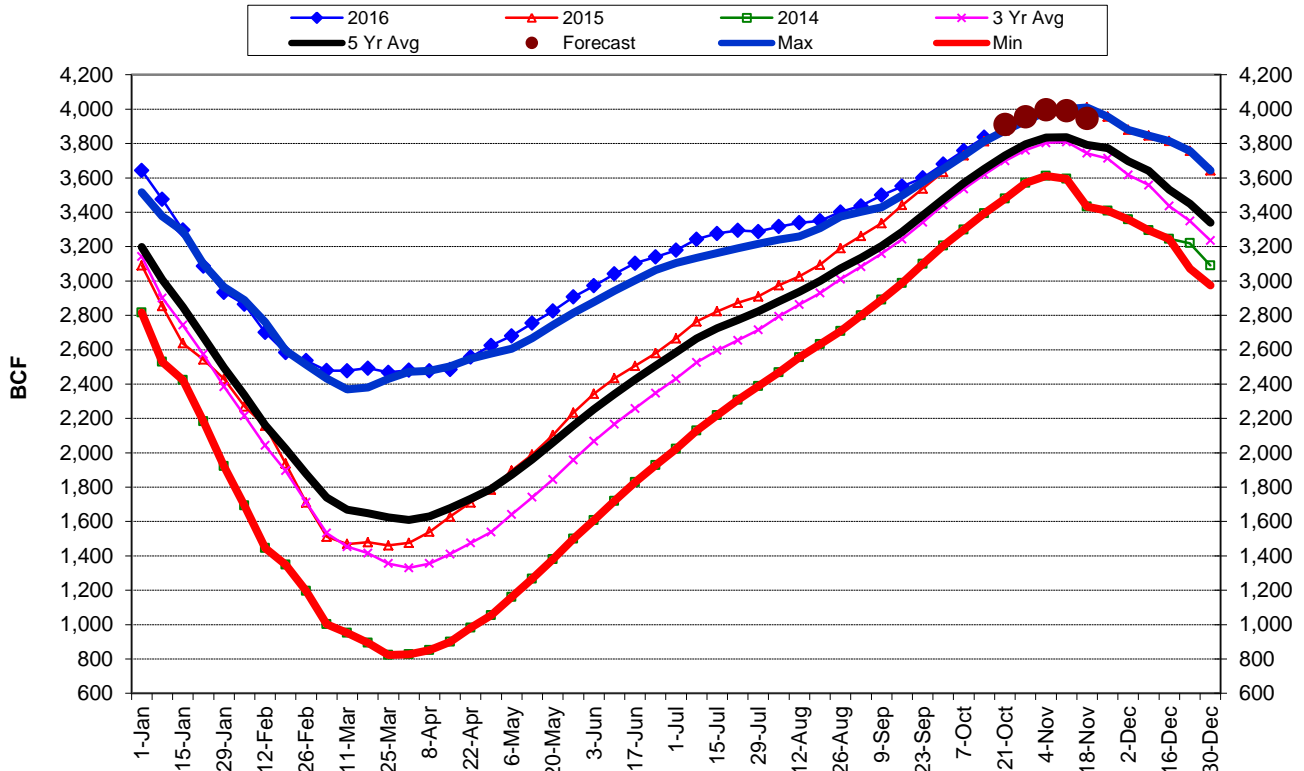
\$/MMBtu Ratio of NYMEX CL and NG



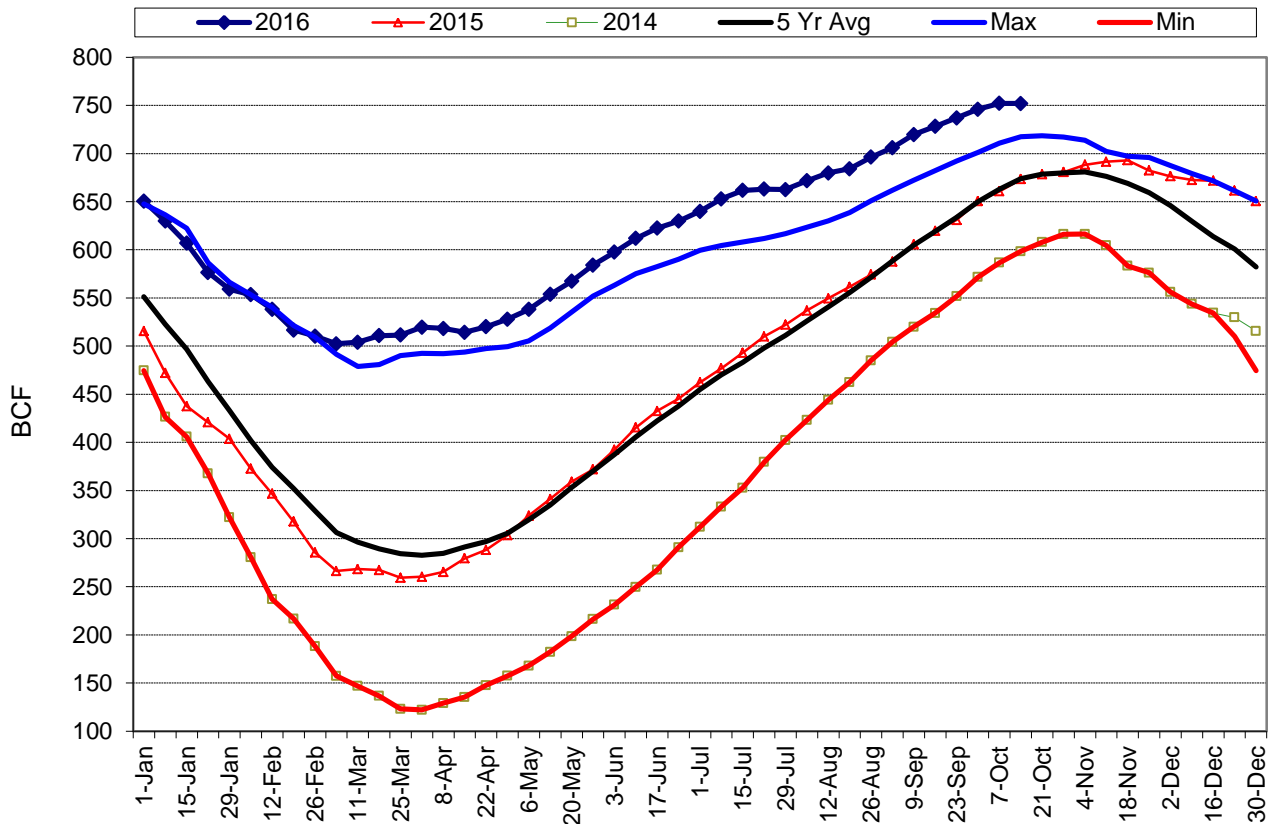
NYMEX Calendar Strips



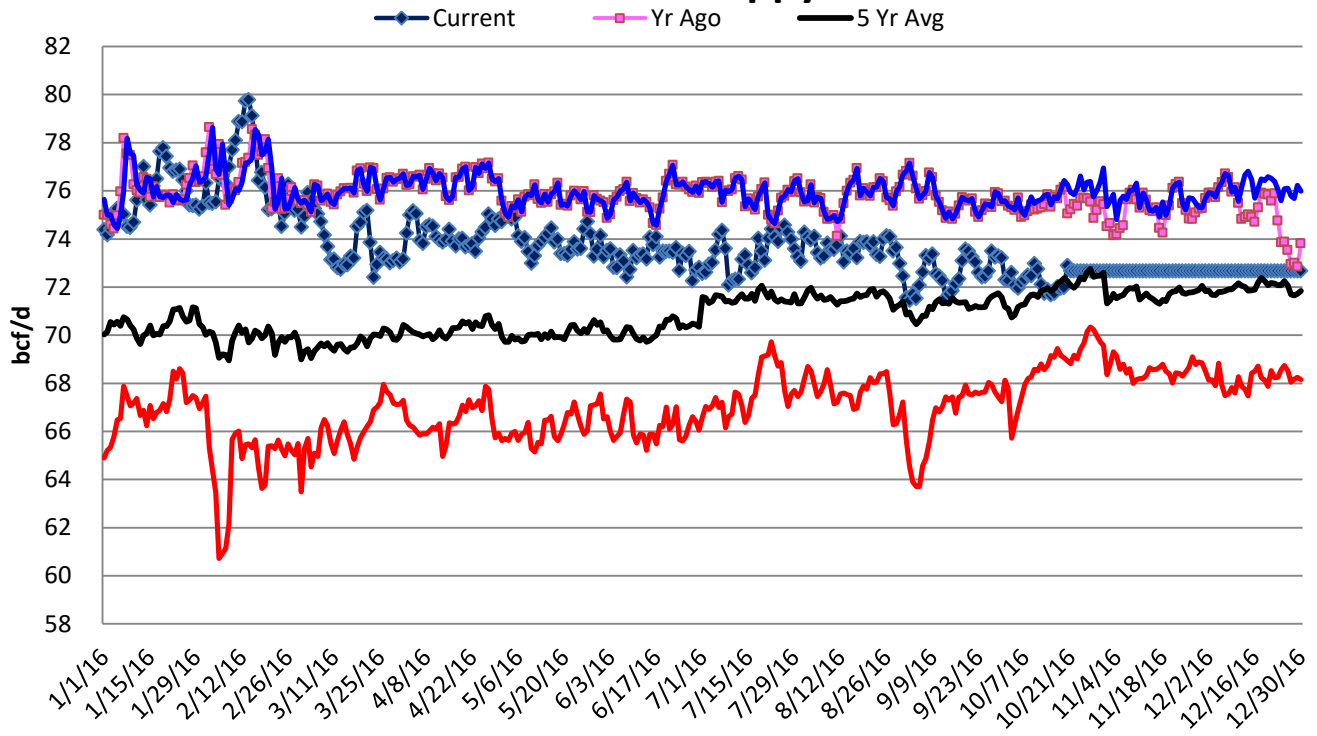
US Total Working Gas Storage - Source - EIA



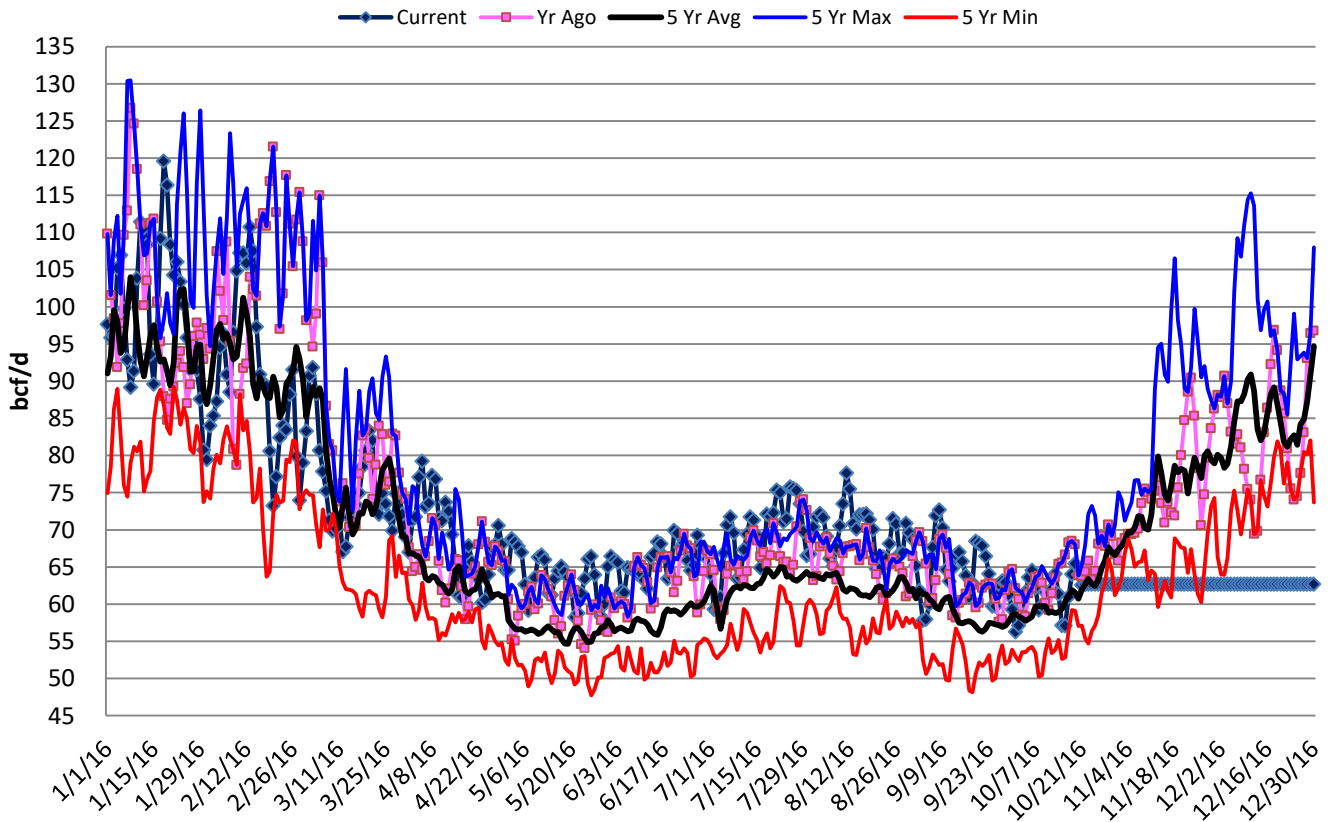
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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