



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 January contract fell 33.1 cents (8.8%) to \$3.415 on a 25.8 cent range.

Price Outlook: The market collapsed as weather forecasts turned bearish. The move highlights the incredible sensitivity of prices to changing weather forecasts. Inventories fell below the year ago level for the 1st time since December 5, 2014 and with cooler temperatures last week and expected next week, inventories are likely to slip below the 5-year average by December 23. Thus, unless weather forecasts turn even more bearish, prices are likely to find support and possibly head higher in coming weeks. CFTC data indicated a huge increase in the managed money net long position as longs added and shorts liquidated. The position is the largest since June 24, 2014. Total open interest rose to 3.668 million as of December 13. Aggregated CME futures open interest rose to 1.246 million as of December 16.

Weekly Storage: US working gas storage for the week ending December 9 indicated a net withdrawal of (147) bcf that dropped total working gas inventories to 3,806 bcf. Current inventories fall (40) bcf (1.0%) below last year while surpassing the 5-year average by 164 bcf (4.5%). **This is the 1st yearly storage deficit since December 5, 2014.**

Storage Outlook: Our EIA weekly storage estimate was mathematically 8 bcf higher than the actual EIA report and well above our tolerance range. The 5-week summation of our error rose to 20 bcf and is also above our tolerance. The EIA has reported a net implied flow of (211) bcf compared to our estimated (191) bcf flow. Our estimation for early April inventories is 1,489 bcf.

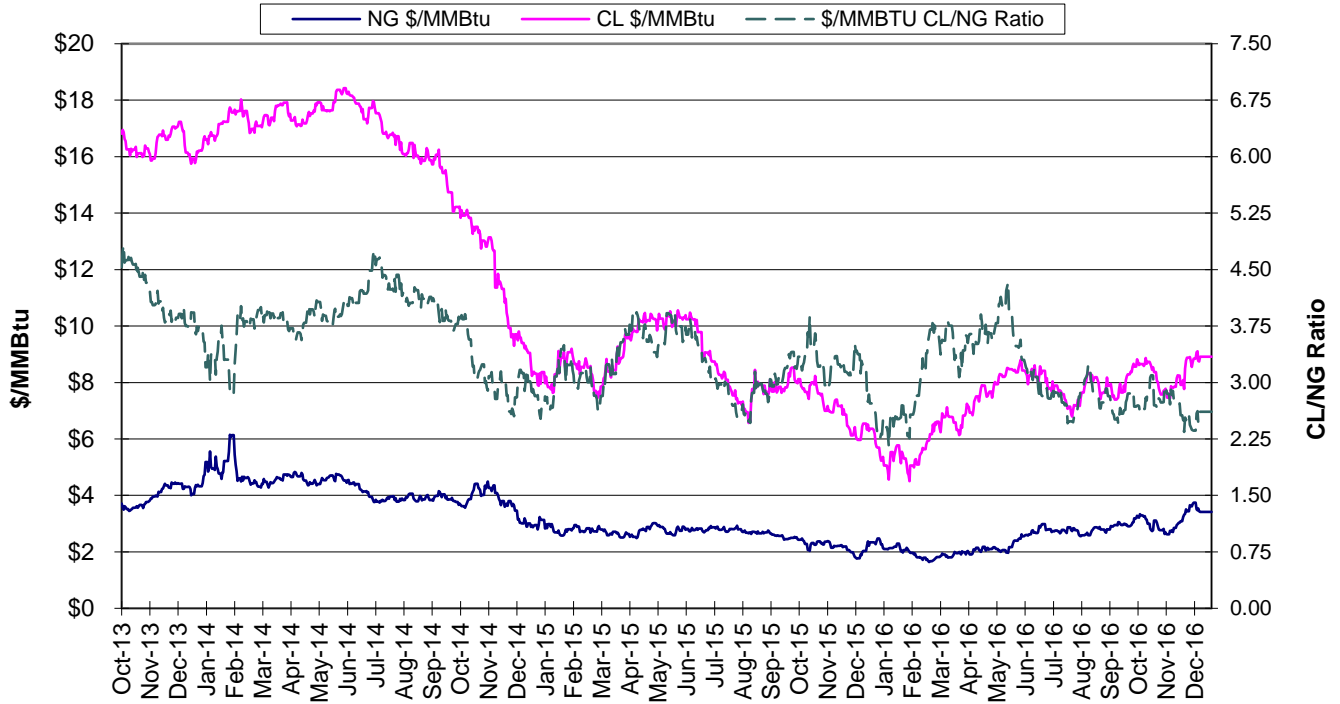
Supply Trends: Total supply fell (0.3) bcf/d to 70.0 bcf/d. US production was lower while Canadian imports rose. Other components were little changed. The US Baker Hughes rig count rose 13 as both oil and natural gas activity increased. The total US rig count now stands at 637. The Canadian rig count rose 3 to 233. Thus, the total North American rig count rose 16 to 870 and now trails last year by 1, which is down from the record 1,441 yearly deficit recorded on December 11, 2015. The higher efficiency US horizontal rig count rose 9 to 512 and falls 47 below last year. **The EIA Drilling Productivity Report projects an increase in Shale production in January. This is the 1st projected increase since April 2015. Increasing rig efficiencies, falling decline rates and rising new additions are all contributing to the projected increase.**

Demand Trends: Total demand rose +13.9 bcf/d to 89.8 bcf/d. R&C lead demand higher as all sectors rose. Electricity demand rose 5,919 gigawatt-hrs to 79,066 which exceeds last year by 6,786 (9.4%) and the 5-year average by 2,099 (2.7%).

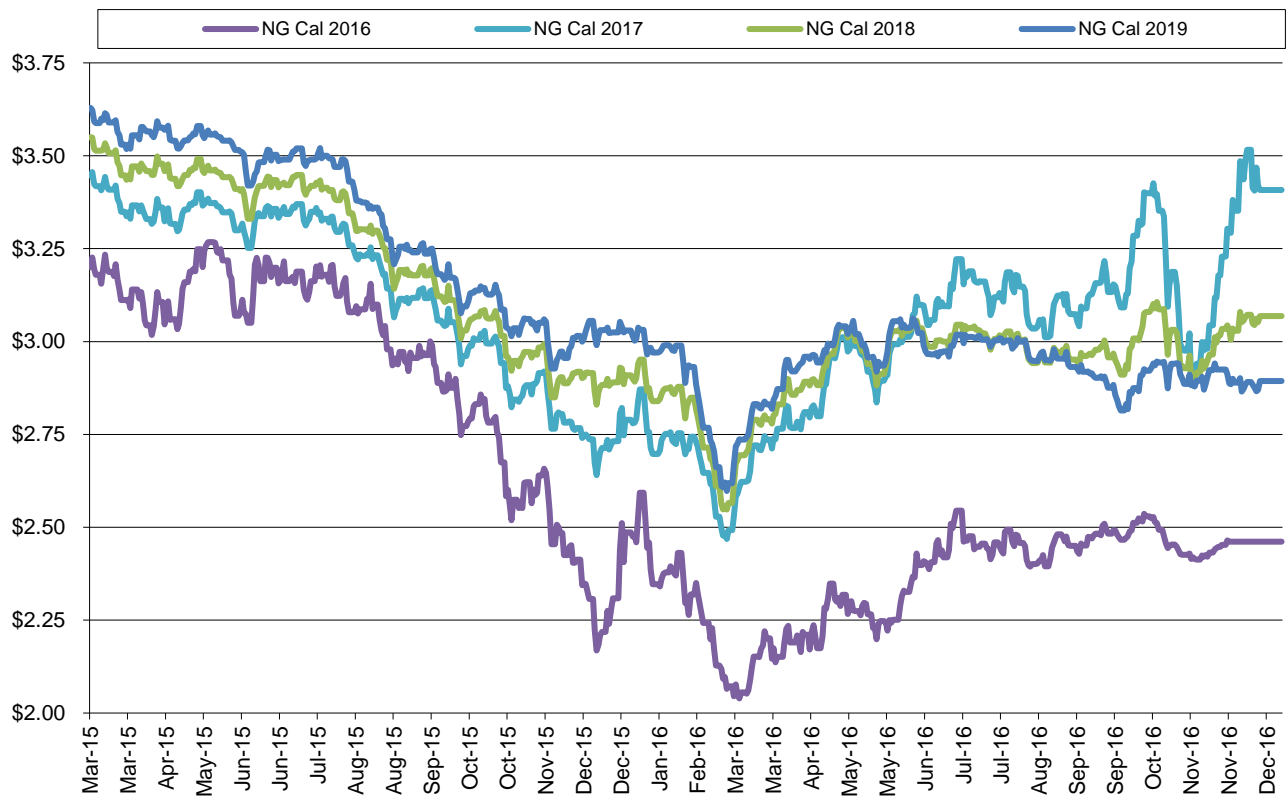
Other Factors: Nuclear generation rose 442 MW in the reference week to 90,216 MW. This is 1,990 MW higher than last year and (191) lower than the 5-year average. Recent output is near 92,000 MW.

- The 2016/17 heating season continues. With a forecast through December 30, the 2016/17 total heating index is at 868 compared to 723 for 2015/16, 1,007 for 2014/15, 1,178 for 2013/14, 987 for 2012/13 and 979 for 2011/12.

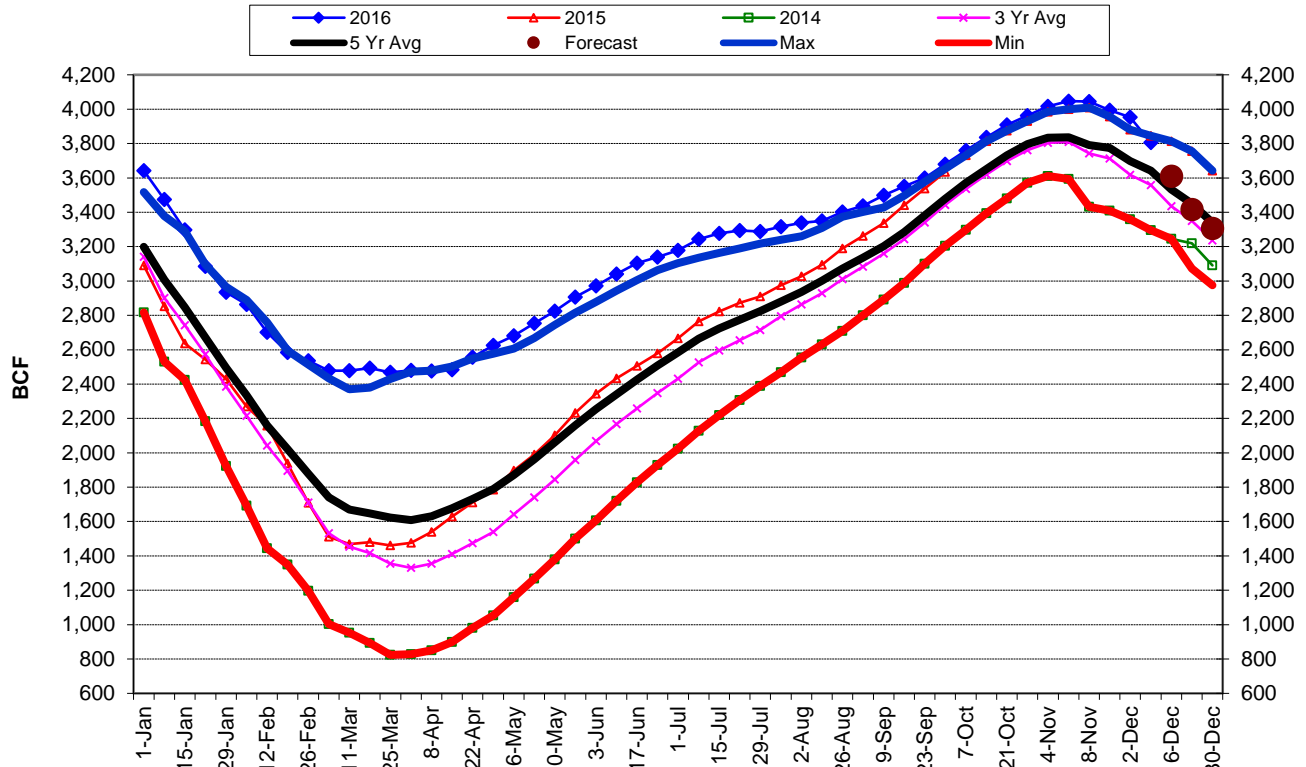
\$/MMBtu Ratio of NYMEX CL and NG



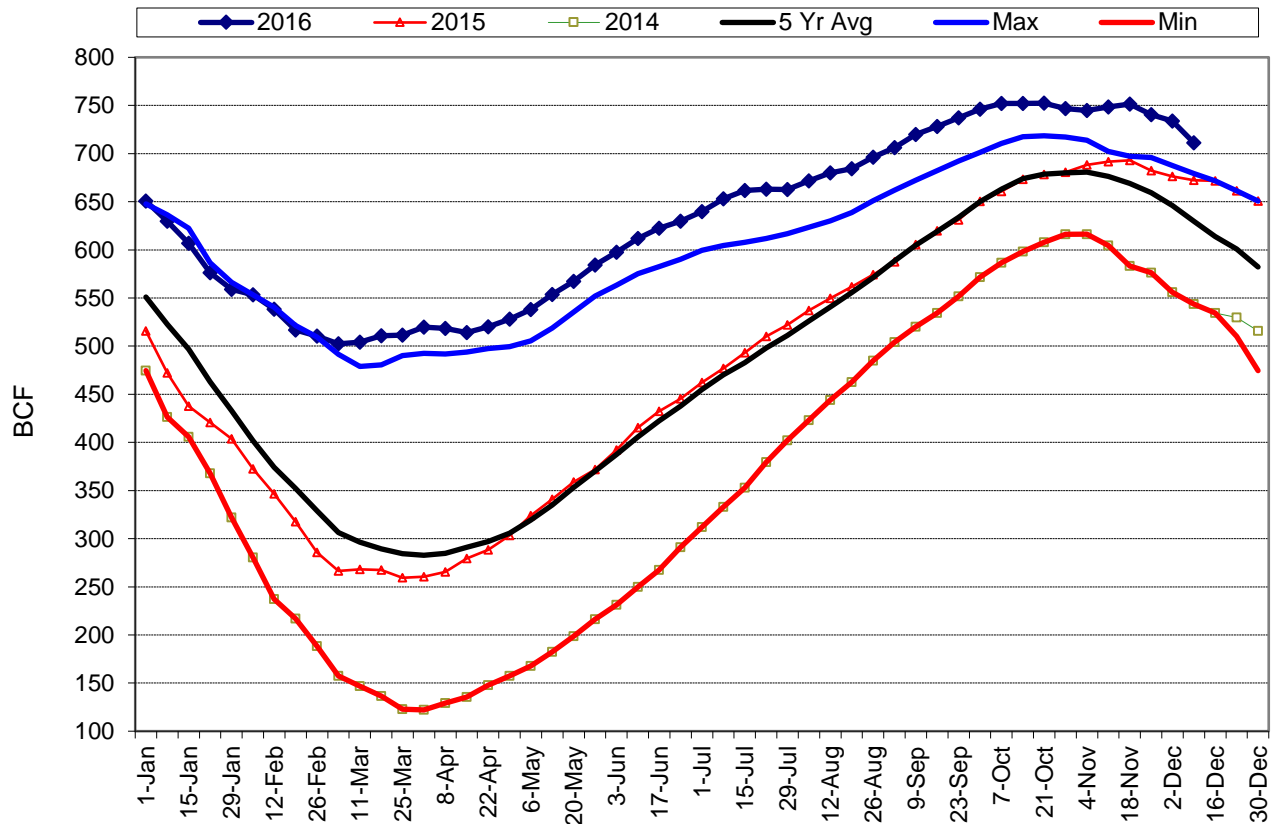
NYMEX Calendar Strips



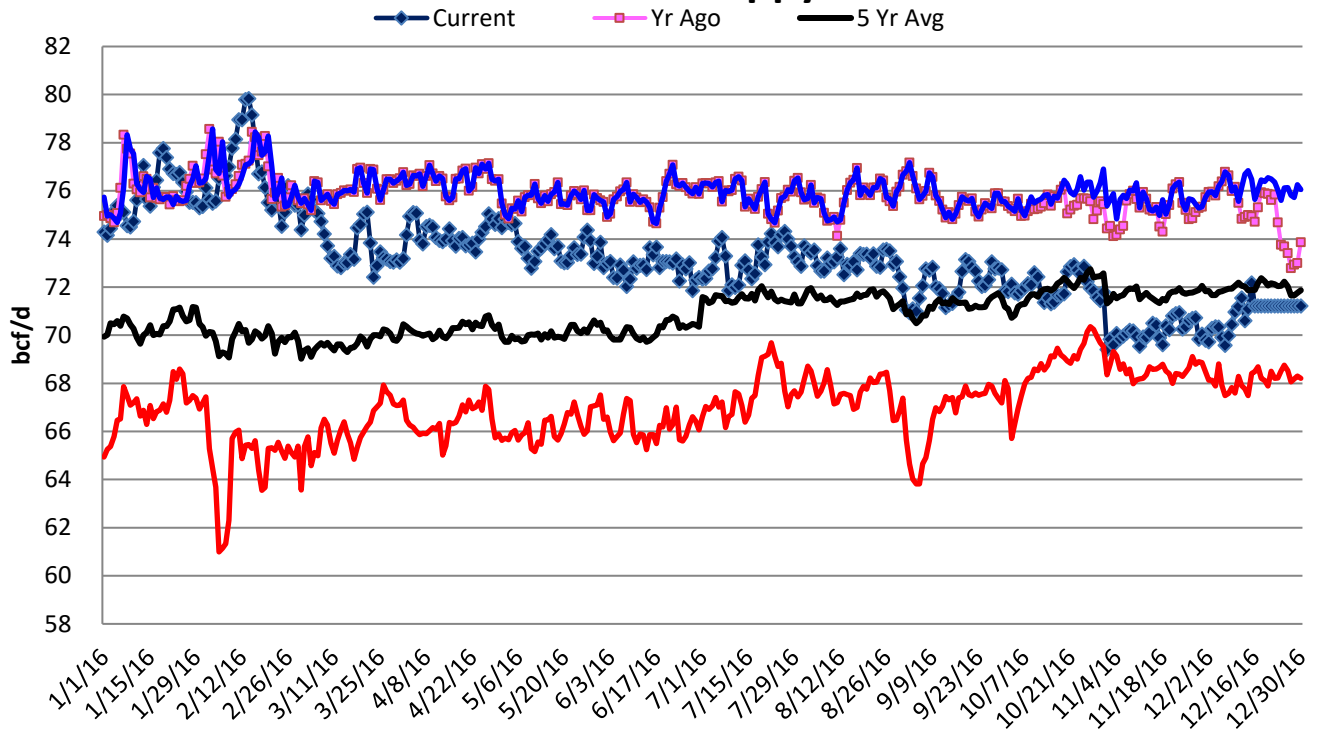
US Total Working Gas Storage - Source - EIA



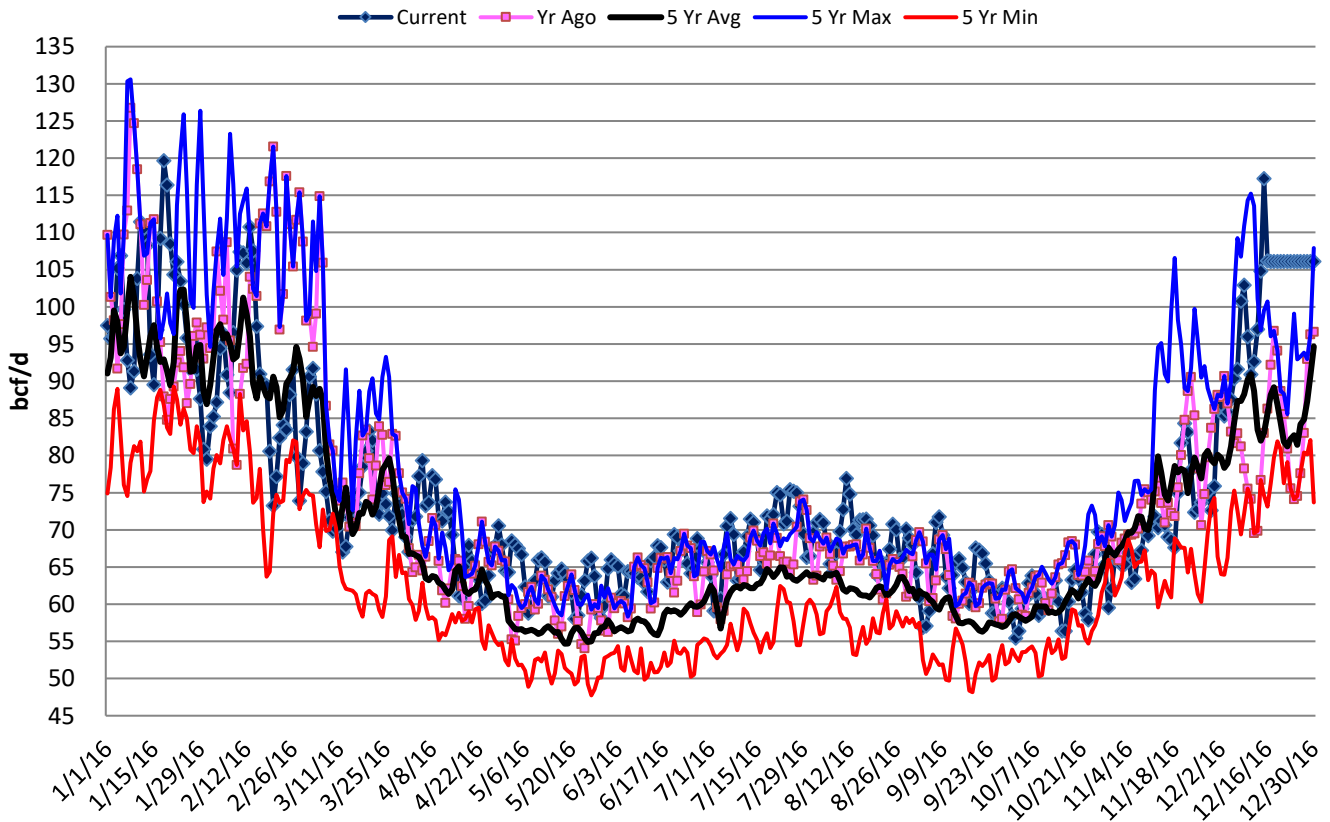
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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