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Week Ending June 2, 2017

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

Price Action: The July contract fell 31.1 cents (9.4%) to \$2.999 on a 26.7 cent range.

Price Outlook: Prices continued lower as temperature forecasts remain relatively moderate and the EIA reported a storage change and implied flow well above expectation. That helped pressure prices lower with a settlement below the psychologically important \$3 level. With a still very large speculative net long position, the market may indeed continue lower until summer temperatures arrive. If higher temperatures fail to materialize, prices will remain defensive. CFTC data indicated a very significant reduction in the managed money net long position as longs liquidated while shorts added. The net long position is the smallest since April 25. Total open interest fell to 3.826 million as of May 30. Aggregated CME futures open interest rose to 1.533 million as of June 2. The August \$4.00 call is the highest open interest option followed by the July \$4.00 call. The July \$3.00 put is in 5th.

Weekly Storage: US working gas storage for the week ending May 26 indicated a working gas storage injection of 81 bcf that was accompanied with a 4 bcf reclassification in the Mountain region that lifted the implied flow to 85 bcf. Working gas inventories rose to 2,525 bcf. Current inventories fall (382) bcf (13.1%) below last year while surpassing the 5-year average by 230 bcf (10.0%).

Storage Outlook: Our EIA weekly storage estimate was mathematically 12 bcf smaller than the actual EIA implied flow and is well above the upper end of our tolerance range. The 5-week summation of our error rose to 19 bcf and is at the upper end of our tolerance. The EIA has reported a net implied flow of 340 bcf over the last 5 weeks compared to our estimated 321 bcf. Our forecast for early November inventories is now 3,779 bcf. The forecasts use a 10-year rolling temperature profile past the 15-day forecast. Above normal national temperatures are now considered bullish.

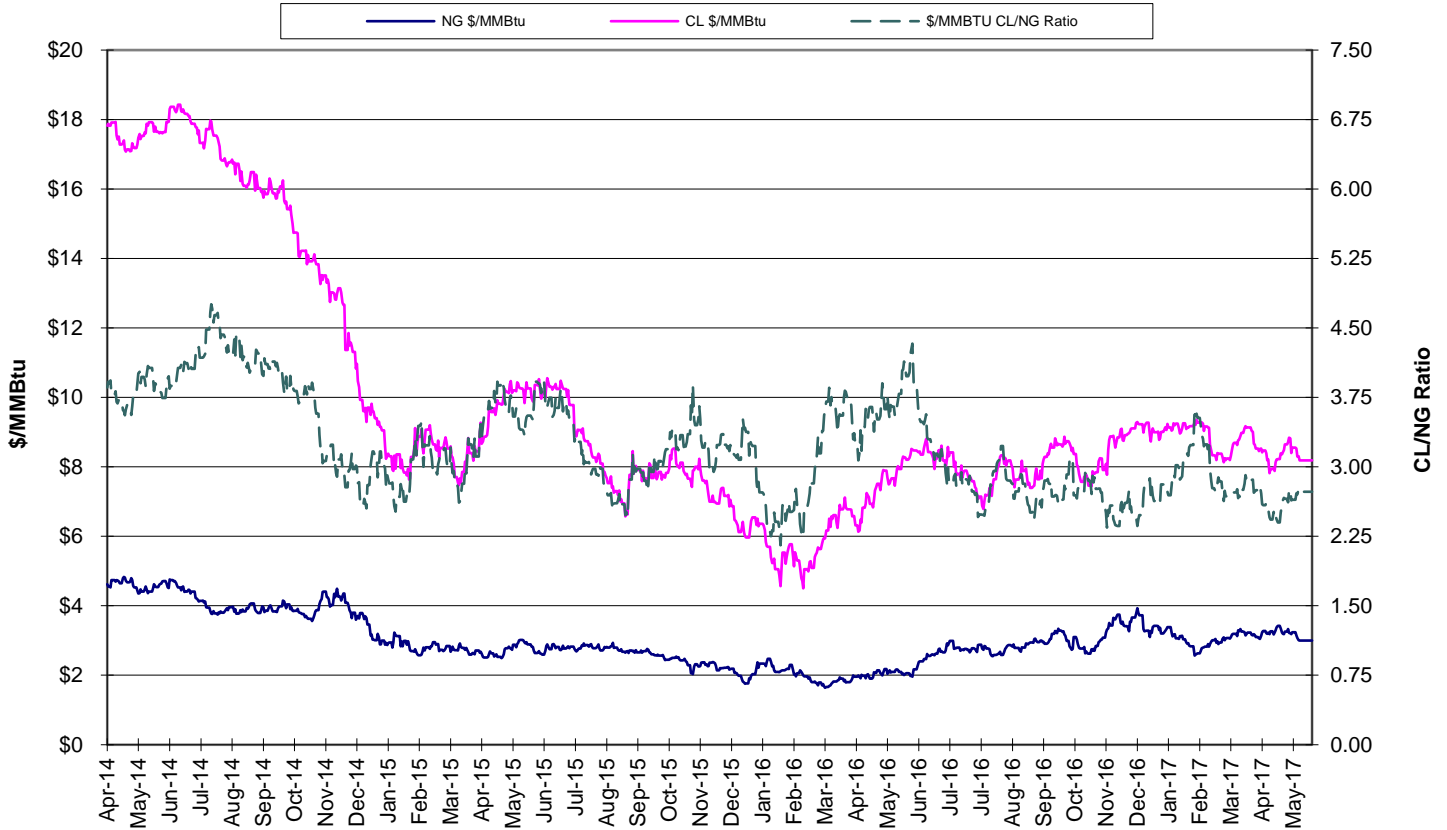
Supply Trends: Total supply fell 0.2 bcf/d to 70.0 bcf/d. Canadian and LNG imports and LNG exports were all lower. Mexican exports were higher and US production was unchanged. The US Baker Hughes rig count rose 8 with oil activity higher while natural gas slipped. The total US rig count now stands at 916. The Canadian rig count rose 6 to 99. Thus, the total North American rig count rose 14 to 1,015 and now exceeds last year by 566. The higher efficiency US horizontal rig count rose 5 to 771 and rises 452 above last year.

Demand Trends: Total demand fell 1.5 bcf/d to 61.7 bcf/d. All three sectors were lower. Electricity demand fell 3,873 gigawatt-hrs to 72,572 which trails last year by 3,190 (4.2%) and the 5-year average by 3,152 (4.2%).

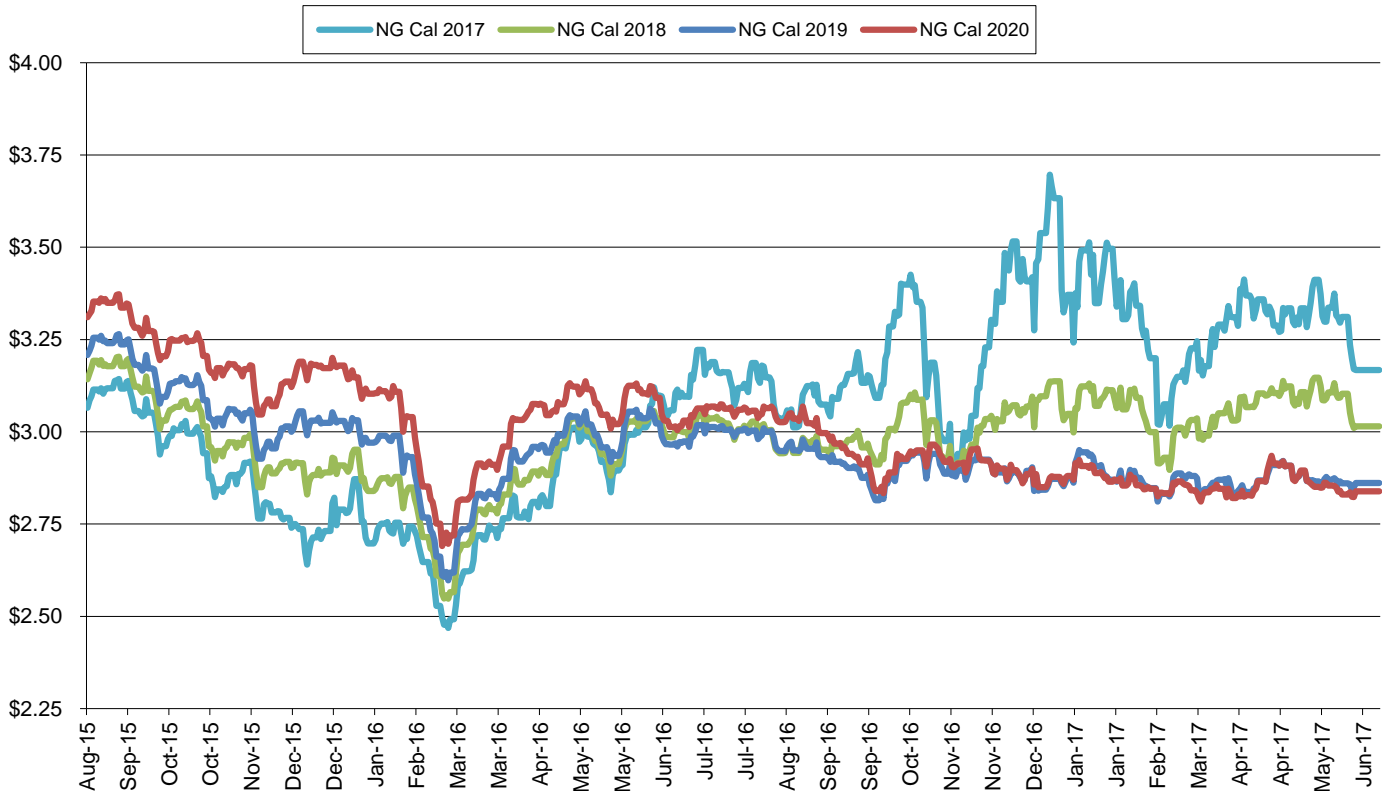
Nuclear Generation: Nuclear generation rose 3,857 MW in the reference week to 81,181 MW. This is (8,598) MW lower than last year and (5,255) MW lower than the 5-year average. Recent output is near 87,750 MW.

- The cooling season is beginning. With a forecast through June 16, the 2017 total cooling index is at 373 compared to 630 for 2016, 354 for 2015, 469 for 2014, 549 for 2013, 618 for 2012 and 808 bcf for 2011.

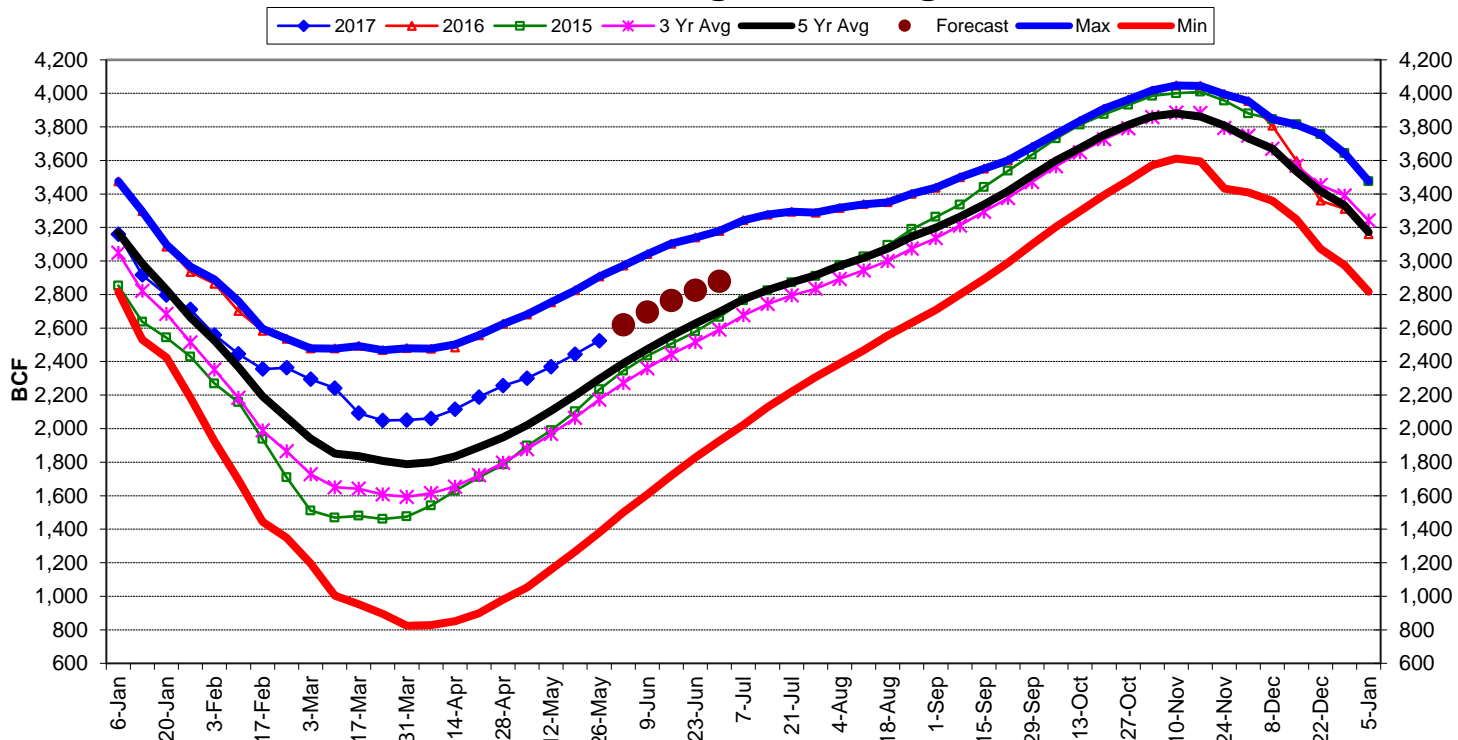
\$/MMBtu Ratio of NYMEX CL and NG



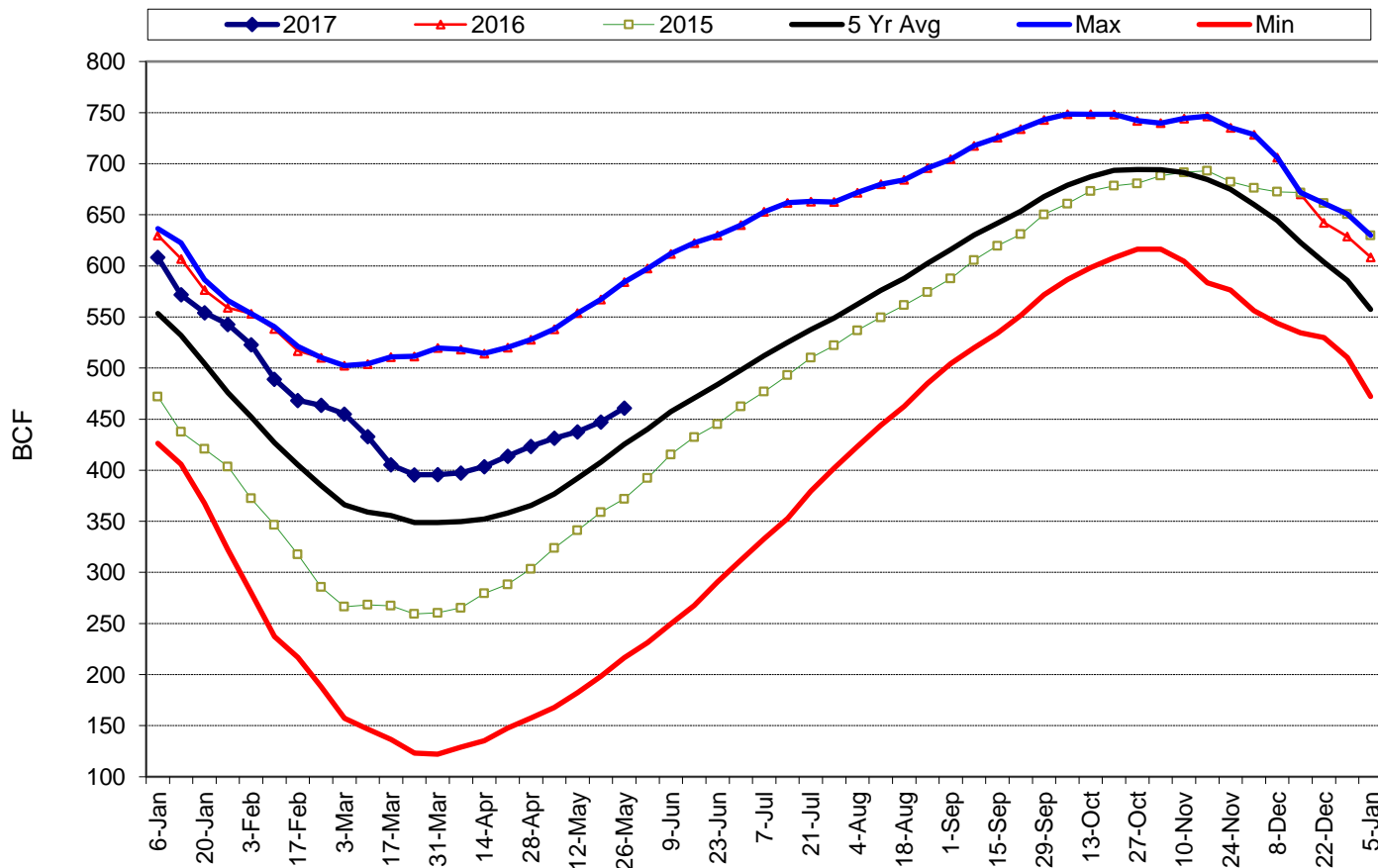
NYMEX Calendar Strips



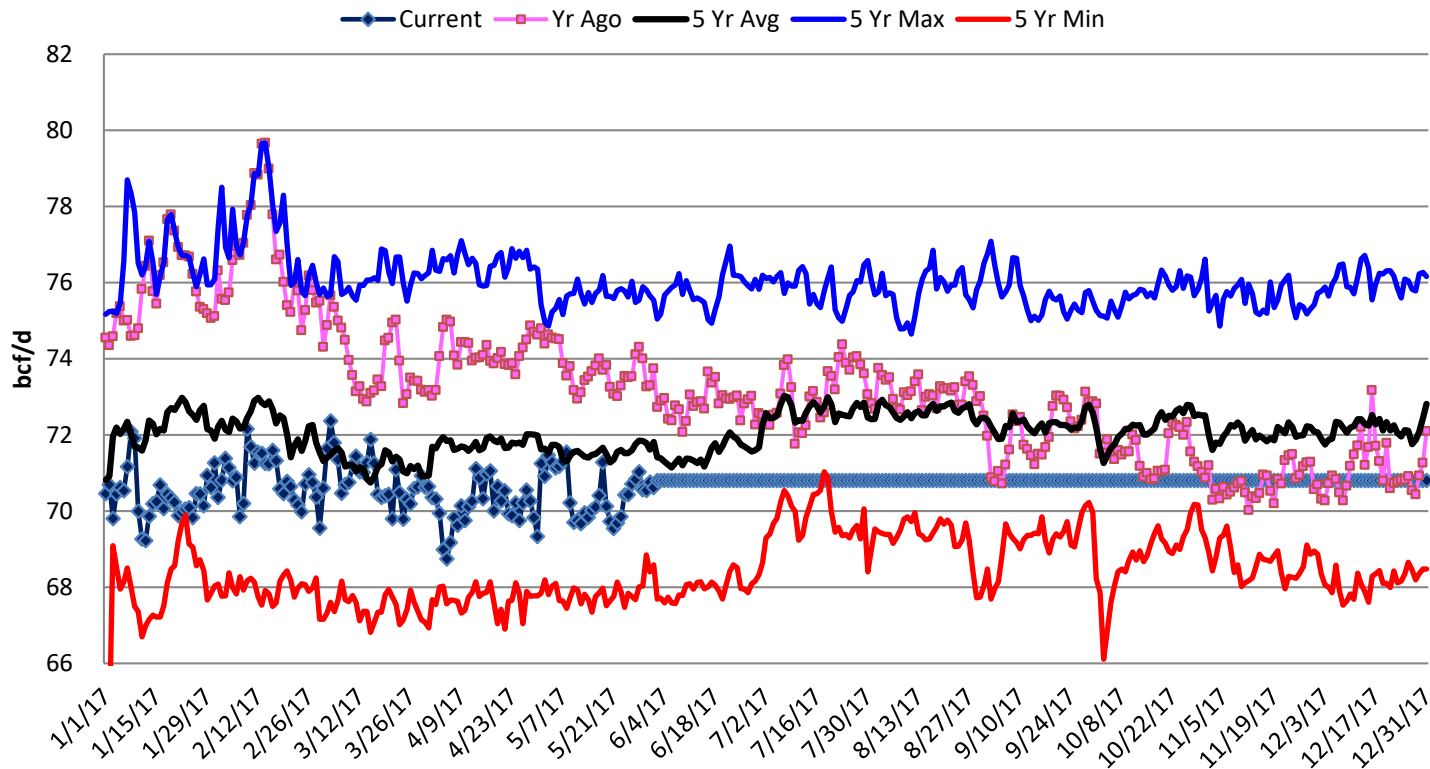
US Total Working Gas Storage - Source - EIA



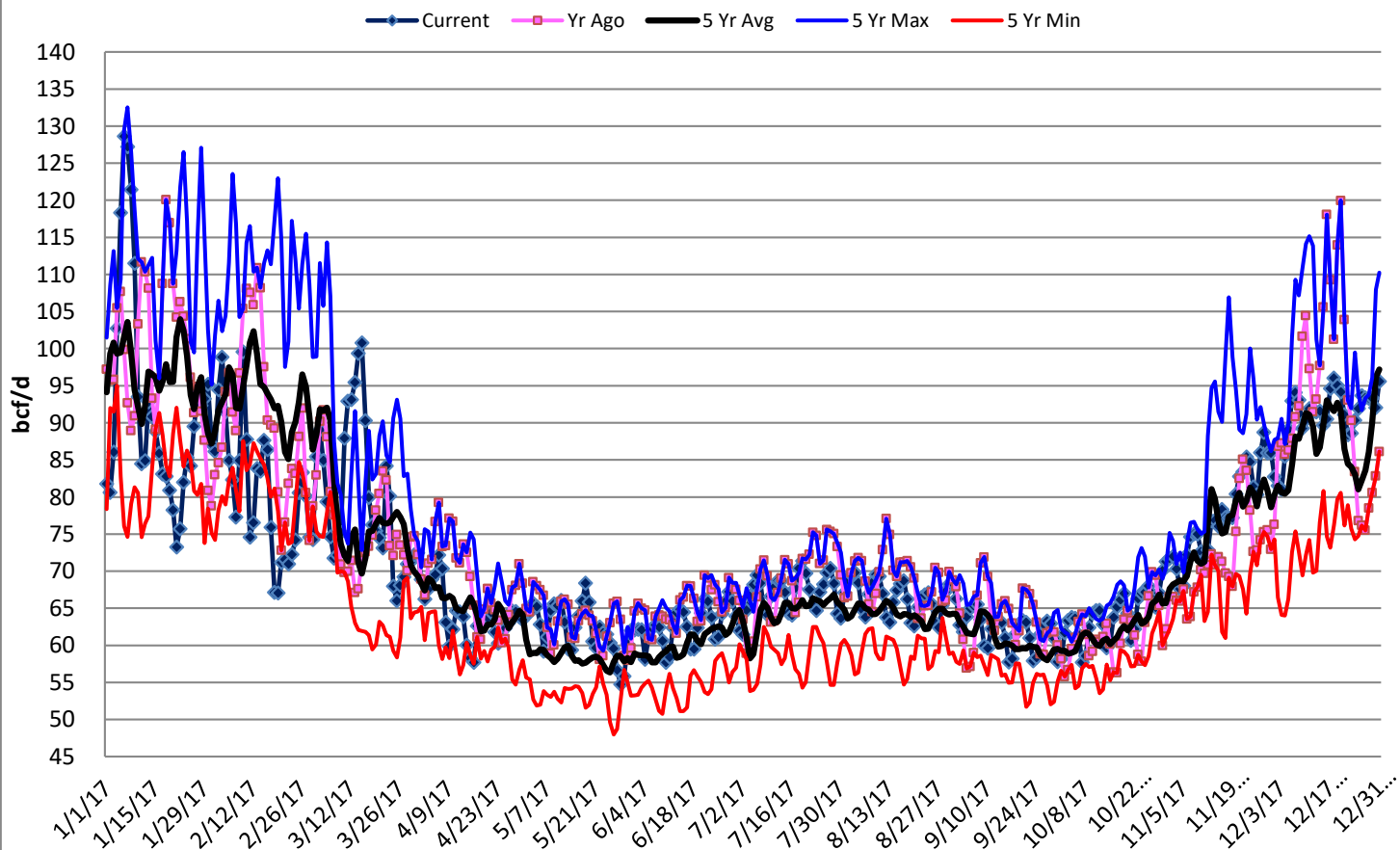
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



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