

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

Week Ending January 5, 2018

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

Price Action: The February contract fell 15.8 cents (5.4%) to \$2.795 on a 35.1. cent range (\$3.097/\$2.746).

Price Outlook: Prices retreated despite record demand as weather forecasts called for a significant in the coming 15 days. Despite record supply, the upcoming storage report is projected to reveal a withdrawal well over 300 bcf, shattering the current record 287 bcf withdrawal. None-the-less, the market slipped as weather forecasts turned bearish. **The current 15-day forecast is warmer than 7 of the previous 10 years.** CFTC data indicated a huge increase in the managed money net long position as longs added and shorts covered. The net long position is the largest since December 5, 2017. Total open interest fell 25,000 to 3.810 million as of January 2. Aggregated CME futures open interest fell to 1.431 million as of January 5. Open interest in the February \$4.00 call rose +5,936 to 124,185. Open interest in the February \$3.50 call rose +5,440 to 98,035. Open interest in the March \$2.50 put rose +7,557 to 47,213.

Weekly Storage: US working gas storage for the week ending December 29 indicated a working gas storage withdrawal of (206) bcf. Working gas inventories fell to 3,126 bcf. Current inventories fall (185) bcf (5.6%) below last year and (207) bcf (6.2%) below the 5-year average.

Storage Outlook: Our EIA weekly storage estimate was 5 bcf from the actual EIA implied flow and is within our tolerance for a Christmas Holiday week. The 5-week summation of our error fell to 11 bcf and is within our tolerance. The EIA has reported a net implied flow of (567) bcf over the last 5 weeks compared to our estimated (556) bcf. The forecasts use a 10-year rolling temperature profile past the 15-day forecast.

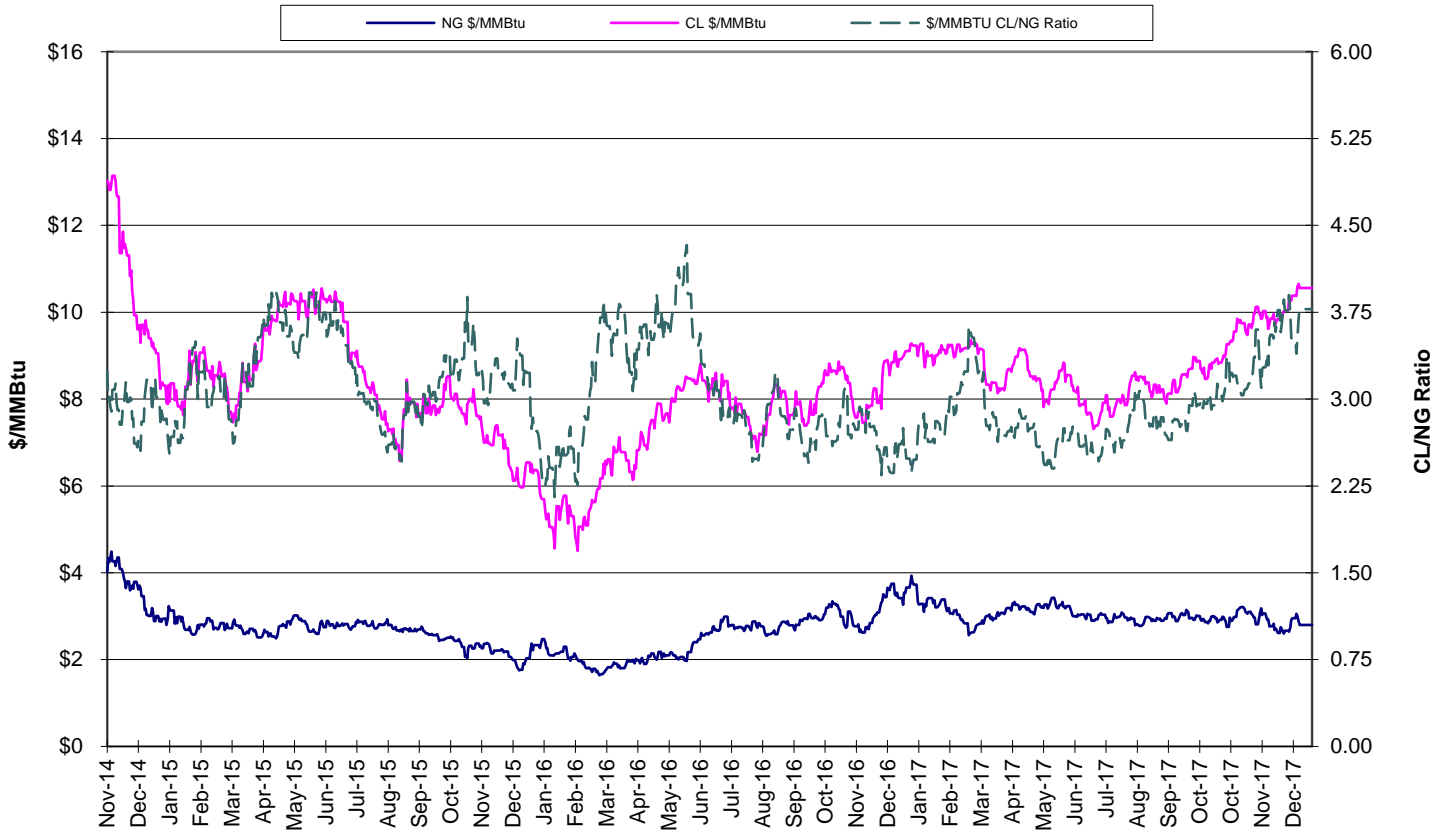
Supply Trends: Total supply rose +0.1 bcf to 75.8 bcf/d. LNG imports rose and Mexican exports fell. US production and Canadian imports were unchanged. LNG exports rose. The US Baker Hughes rig count fell (5) with oil activity lower and natural gas unchanged. The total US rig count now stands at 924. The Canadian rig count rose 38 to 174. Thus, the total North American rig count rose +33 to 1,098 and now exceeds last year by 228. **The higher efficiency US horizontal rig count rose +2 to 798 and rises 264 above last year.**

Demand Trends: Total demand rose 16.7 bcf/d to 106.6 bcf/d. All sectors were higher, except industrial which was unchanged. Electricity demand rose +5,609 gigawatt-hrs to 82,002 which exceeds last year by +9,184 (12.6%) and exceeds the 5-year average by +6,969 (9.3%).

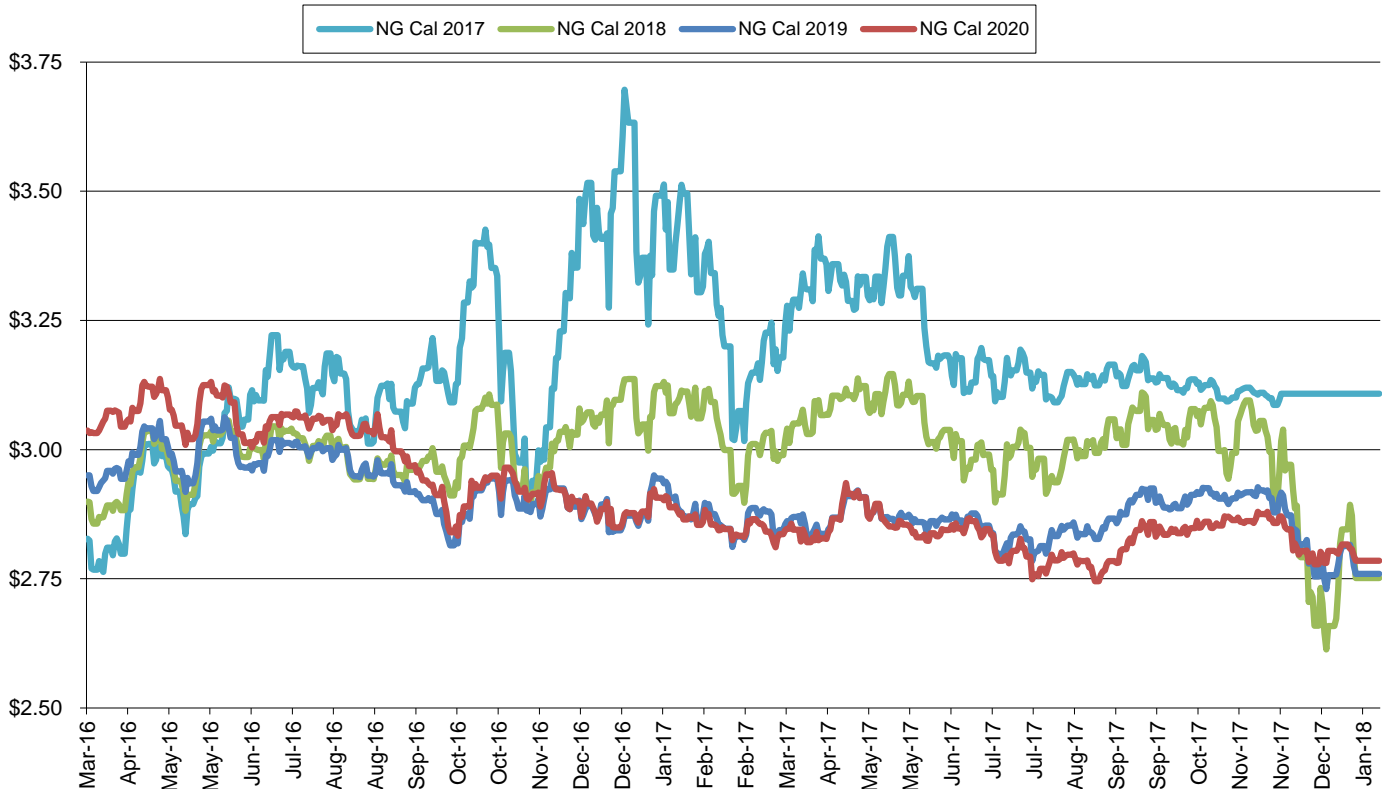
Nuclear Generation: Nuclear generation rose +2,421 MW in the reference week to 96,903 MW. This is +4,560 MW higher than last year and +3,427 MW higher than the 5-year average. **Recent output was at 96,891 MW.**

- The heating season is nearing its midpoint. With a forecast through January 19 the 2018 total heating index is at 1512 compared to 1,255 for 2017, 1,175 for 2016, 1,486 for 2015, 1,672 for 2014, 1,408 for 2013, 1,439 for 2012 and 1,651 for 2011.

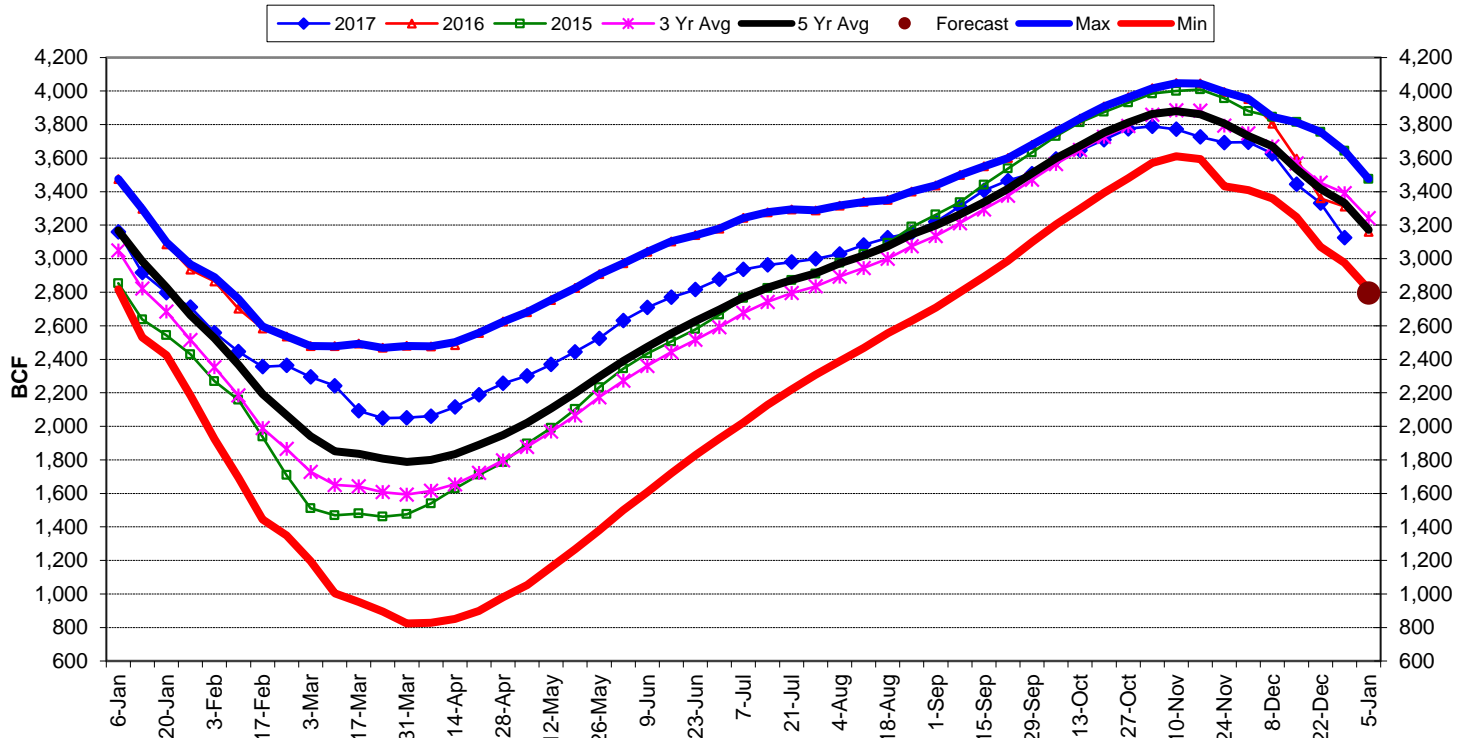
\$/MMBtu Ratio of NYMEX CL and NG



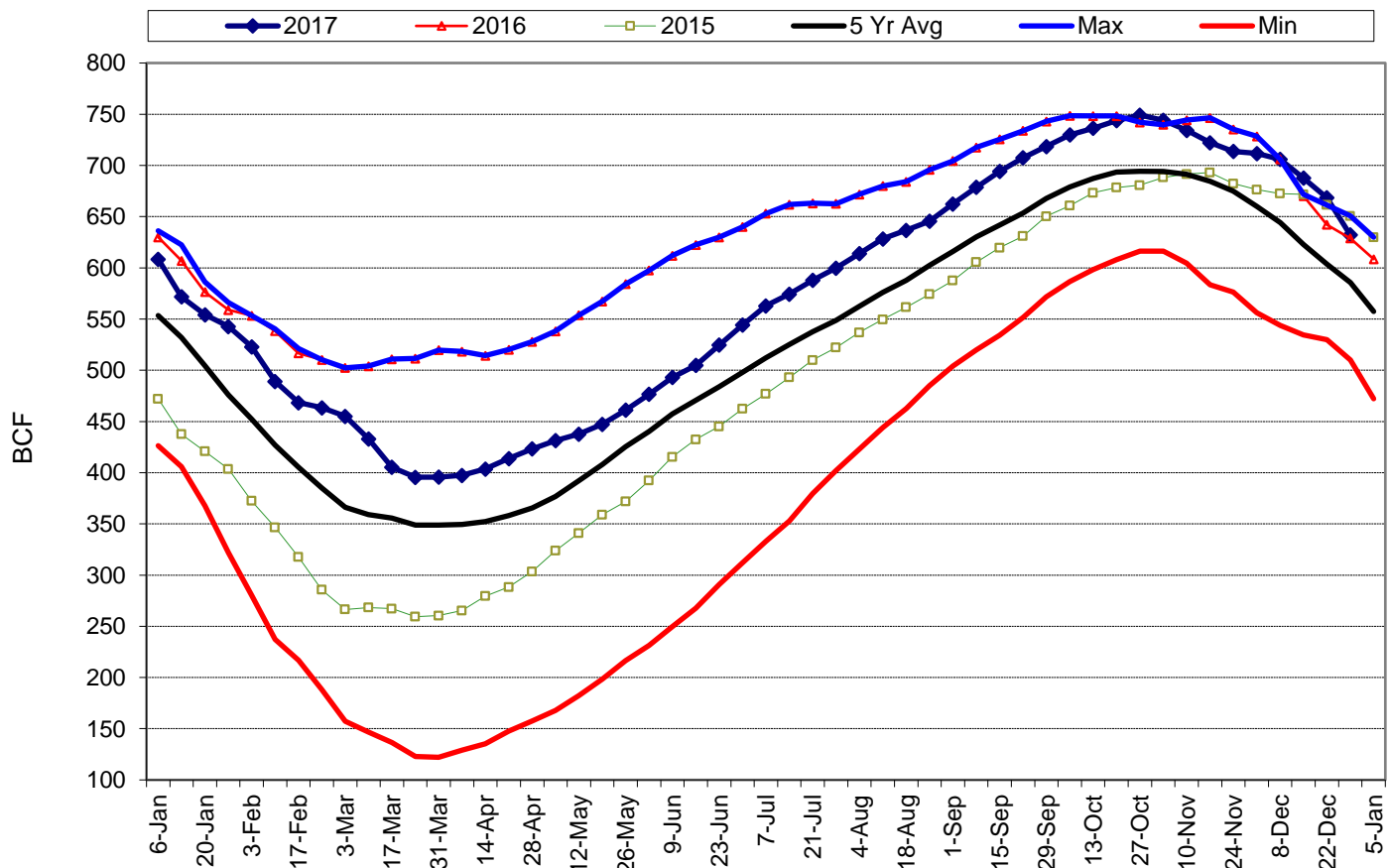
NYMEX Calendar Strips



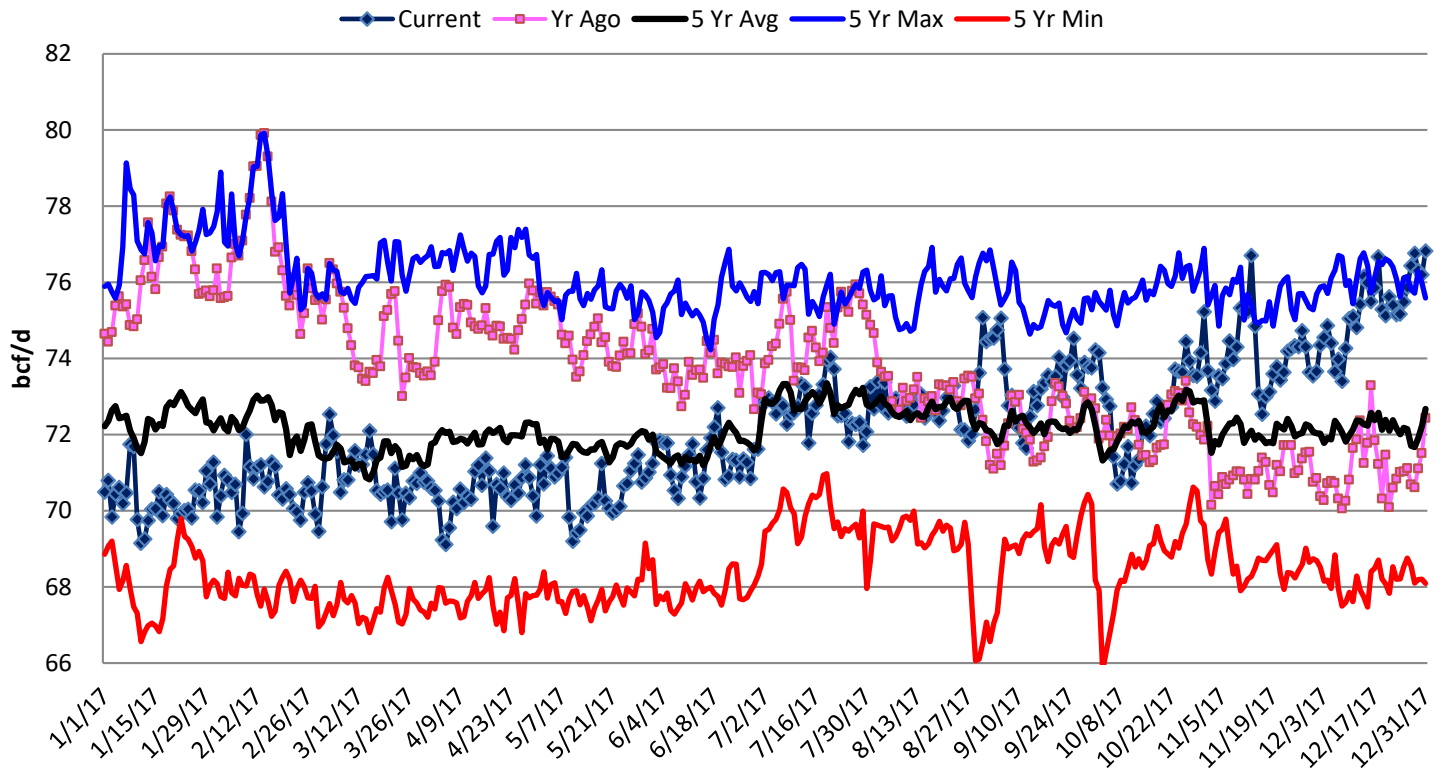
US Total Working Gas Storage - Source - EIA



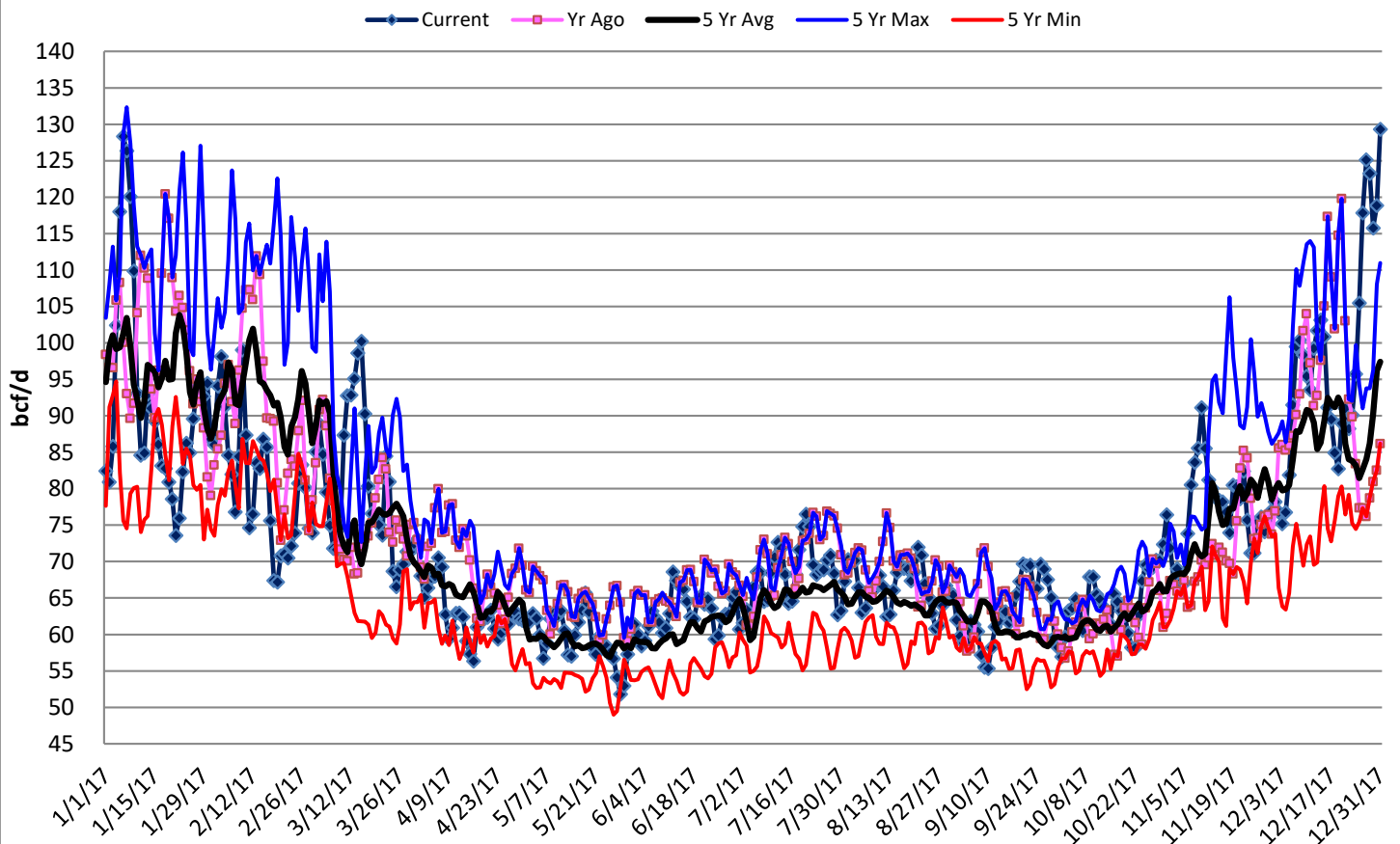
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



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.

© 2018 IAF Advisors