

MAY 25, 2012

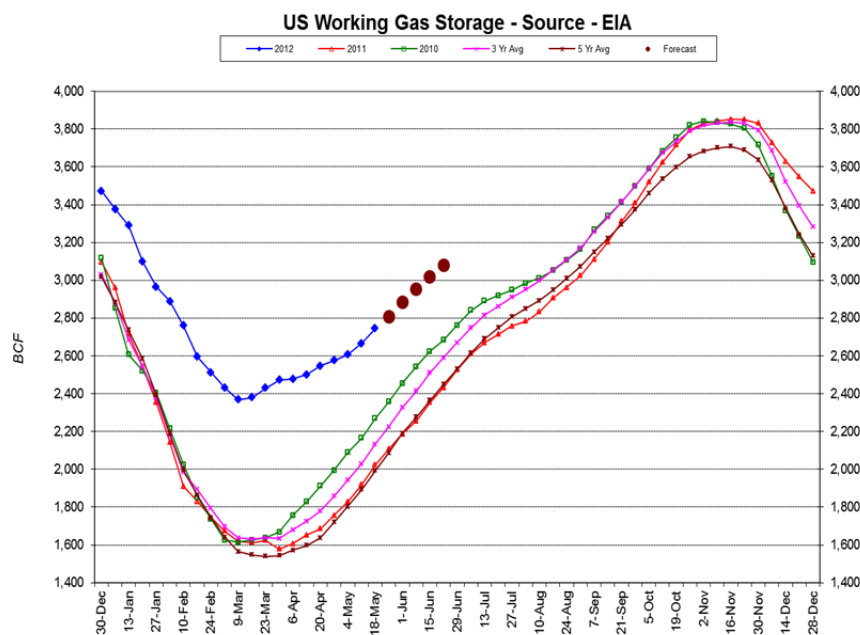
## Natural Gas Summary and Outlook

- The market could not continue higher and slipped 17.4 cents (6.3%) to \$2.568 on a 22.7 cent range. At the same time, prices recorded a rare inside week, with prices remaining completely within the previous weeks' price range.
- Although this week's storage report was smaller than normal, the differential was not as large and thus the pace of storage surplus reduction slowed. After peaking at 893 BCF on March 30, the storage surplus now stands at 720 BCF. Our current forecast is that the storage surplus will be below 700 BCF by early June.
- Temperatures across the country represent the historically lowest demand profile witnessed throughout the year. Excluding holiday influenced weeks, the recent 77 BCF injection may be the largest of the 2012 injection season.
- The electric generation sector remains the primary supply/demand balance driver. Thus, the market reaction to the June index pricing as well as electric grid reliability considerations will garner close attention.
- Tropical Storm Beryl is considered a bearish event with rain and power outages reducing demand and no production curtailments.

### US Working Gas Storage

US working gas storage rose 77 BCF for the week ending May 18. Current inventory levels of 2,744 BCF now rise 720 BCF (35.6%) above last year while surpassing the 5 year average by 752 BCF (37.8%). This week was the 4th consecutive week of injections smaller than last year and the 5 year average. At the same time, recent storage flows indicate a bullish trend in the temperature adjusted supply/demand balance that would eliminate containment issues in October or November.

Source: US EIA Weekly Gas Storage Report



### Weekly Supply:

Total supply rose 0.3 BCF/D to 67.3 BCF/D. US production was unchanged with increased Canadian and LNG imports offsetting higher Mexican exports.

### Demand Trends:

Total demand fell 2.3 BCF/D to 56.2 BCF/D with the power and R&C sectors accounting for the majority of the decrease.

### Power Trends:

Electricity demand rose 1,329 gigawatt-hrs to 72,281 which is 2,809 (4.0%) above last year and 1,616 (2.3%) over the 5 year average.

### NYMEX Cal Strips:

Prices along the curve also fell. While Cal 13 was the weakest, Cal 14 fell back below \$4. Further price weakness may continue if producer hedging activity increases.

## Northeast Power Prices

PJM peak prices continued to move higher with NY prices also increasing on the week.

Sources for Power Prices and Gas Storage: CME/NYMEX Futures Contracts, DOE Weekly Estimated Gas Storage.

### Rig Count:

The US Baker Hughes rig count slipped as increased oil activity did not overcome the drop in natural gas. The Canadian rig count continued the seasonal trend higher and thus the total North American rig count rose 32 to 2,141, 115 higher than last year. The higher efficiency horizontal rig count slipped 2 from last weeks' record, still 137 higher YOY.

### Capital Flow:

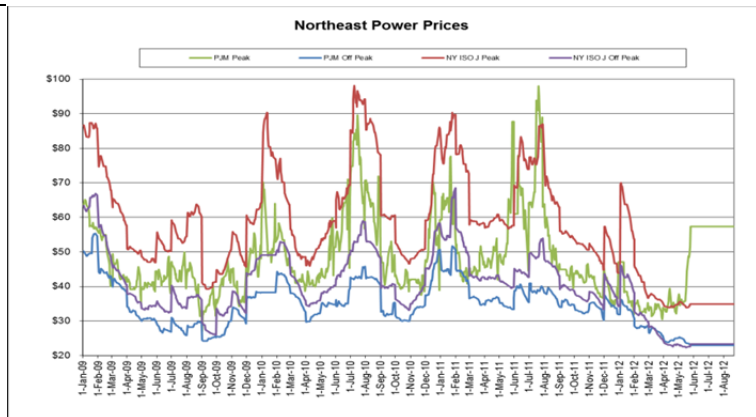
CFTC data indicated a slight reduction in the net long speculative position. However, total open interest across the complex rose to over 6 million contracts on May 22, 2012.

### Other Drivers:

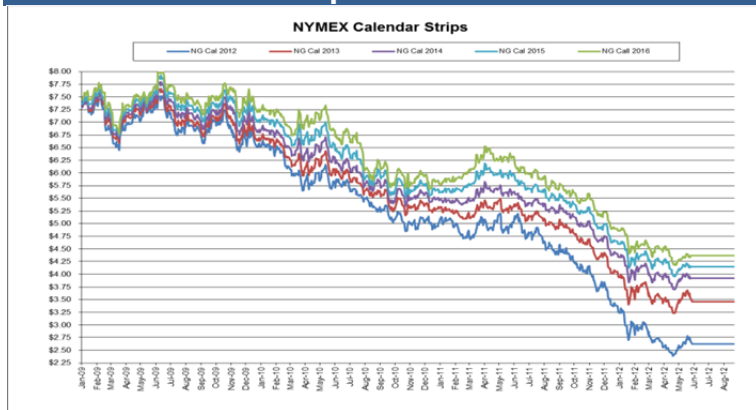
Nuclear generation rose with output again above both last year and the 5 year average.

### Economic Factors:

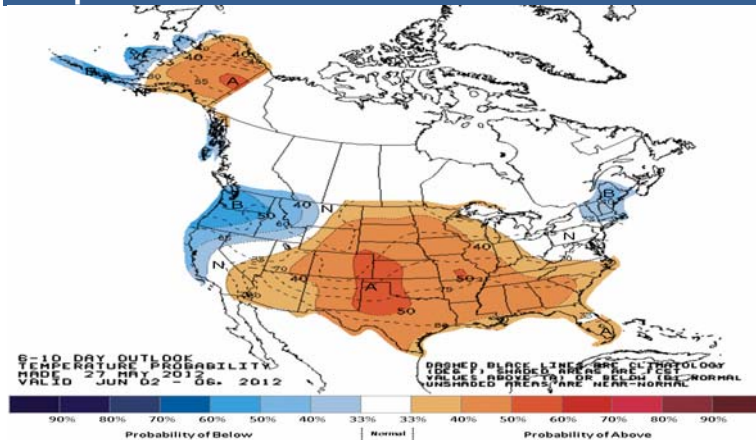
Equity markets rose as recent economic fears were alleviated. The US dollar and treasuries remained strong as perceived safety is sought.



## NYMEX Calendar Strips



## Temperature Forecasts National Weather Service



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