

IAF Advisors
Energy Market Outlook
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Price Action: Prices rose 10.8 cents (3.0%) to \$3.768 on a 24.2 cent range.

Price Outlook: Prices did continue higher with the market up now for 2 consecutive weeks while also slightly expanding the weekly range. The market again ended very near the weekly high and thus another new weekly high is expected. 53 of the 95 instances where there have been two consecutive higher weeks witnessed a 3rd weekly high. Considering the Thanksgiving Holiday, volatility with low volume is very likely. The December contract will also expire this week. The slide in the CFTC speculative net long position continued, but at a slower pace than recently. Total open interest across the complex rose to 4.69 million contracts as of November 19. CME futures open interest dropped to 1.24 million contracts as of November 21. There is still a decent net long position and unlike crude where speculators have not been net short for years, natural gas speculators were net short as recently as March 2012. Additional selling could keep the market very defensive.

Weekly Storage: US working gas storage for the week ending November 15 indicated a weekly withdrawal of 45 bcf. Thus, current inventories of 3,789 bcf fall 84 bcf (2.2%) below last year while exceeding the 5 year average by 13 bcf (0.3%).

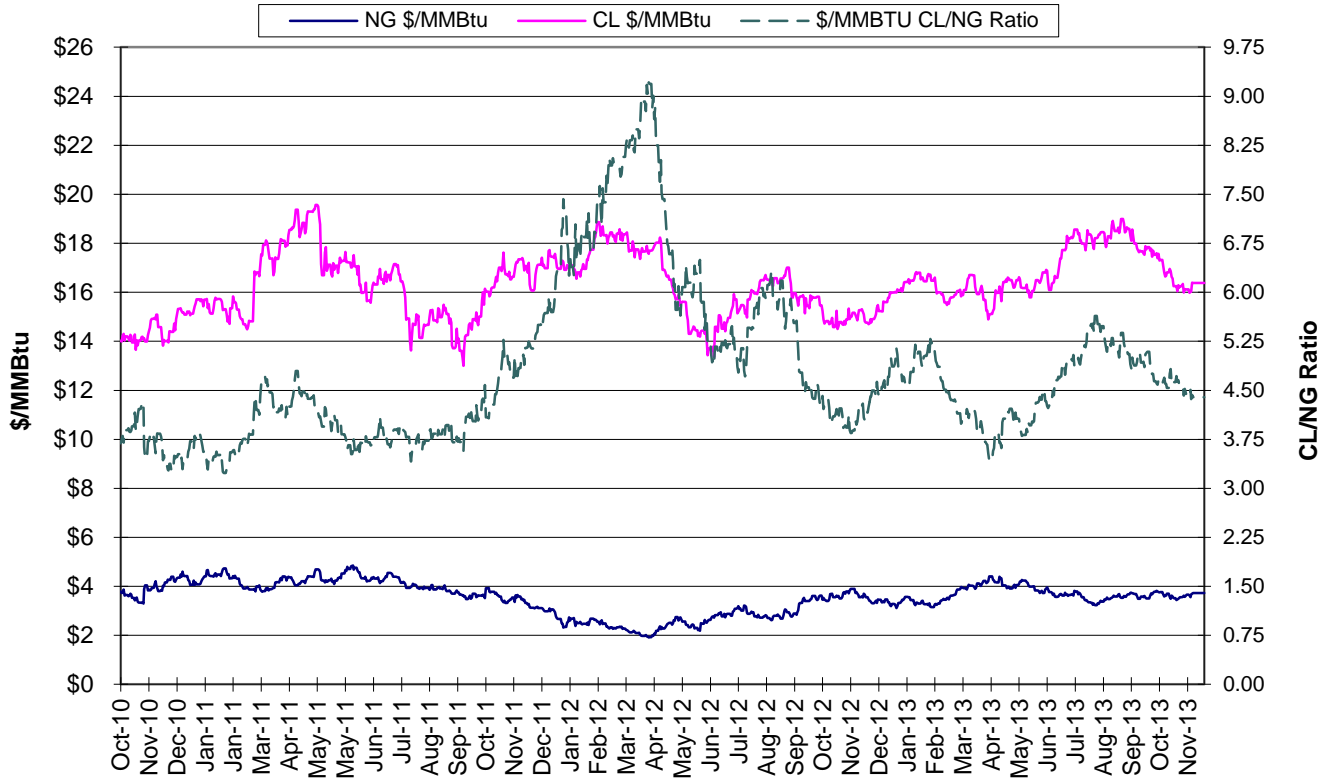
Storage Outlook: With expectations for next week to be roughly unchanged to a slight draw, it appears the 2013 peak will be 3,834. Considering the warm December 2012, the yearly storage deficit is expected to soar with the anticipation that it could rise to over 300 bcf by mid-December and turn a 5 year average surplus into a triple digit deficit.

Supply Trends: Total supply rose 0.6 bcf/d to 71.1 bcf/d. Higher Canadian imports and falling Mexican exports contributed to the increase. US production was unchanged. The US Baker Hughes rig count fell 1 with oil up and natural gas down. Canadian activity dropped 33. Thus the total North American rig count fell by 34 to 2,129 and trails last year by 75. The higher efficiency US horizontal rig count rose 13 to 1,127 and rises 13 above last year. Pipeline data continues to indicate record production levels and this is clearly pervading market sentiment. We do expect continued record US production levels. We also continue to note that total US supply is not growing at nearly the same pace with falling Canadian imports and rising Mexican exports cutting into total supply. However, this week witnessed Canadian imports rise while Mexican slipped.

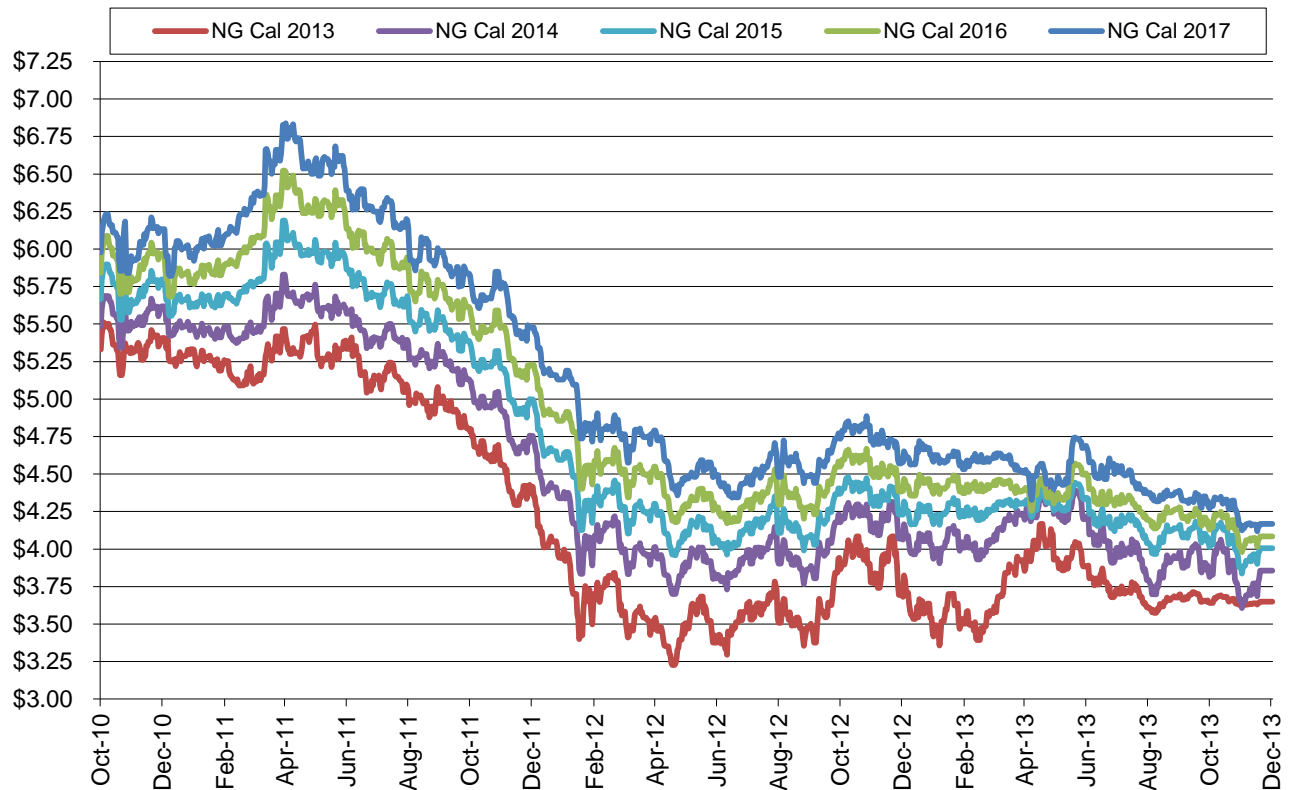
Demand Trends: Total demand rose 7.4 bcf/d to 74.7 bcf/d. All demand sectors were higher. Electricity demand increased 1,925 gigawatt-hrs to 72,099, which exceeds last year by 575 (0.8%) and the 5 year average by 779 (1.1%). Total demand remains very impressive with the demand not solely power related. Rather we believe larger homes, LED lighting and a demographic shift to the south is resulting in the market underestimating weather related demand.

Other Factors: The S&P 500 soared above 1,800 for the 1st time as investors remain enthusiastic about central bank policy and the Christmas retail season.

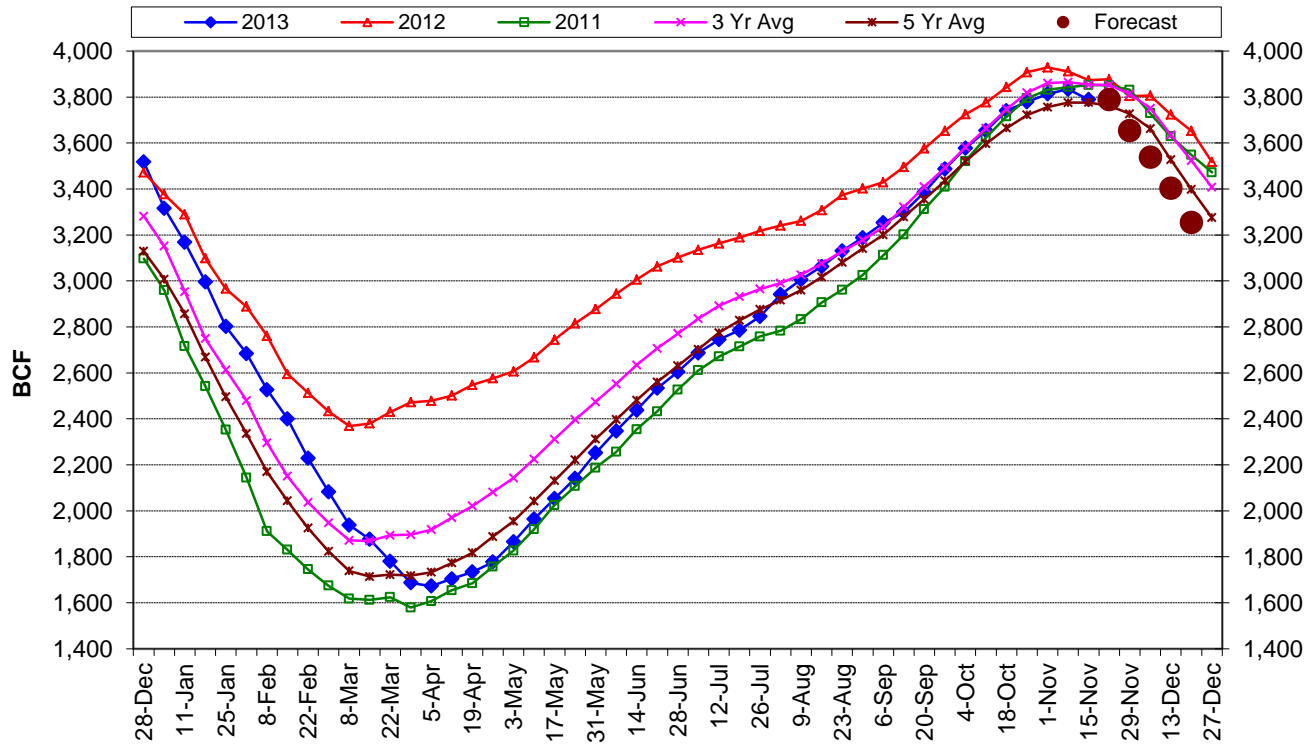
\$/MMBtu Ratio of NYMEX CL and NG



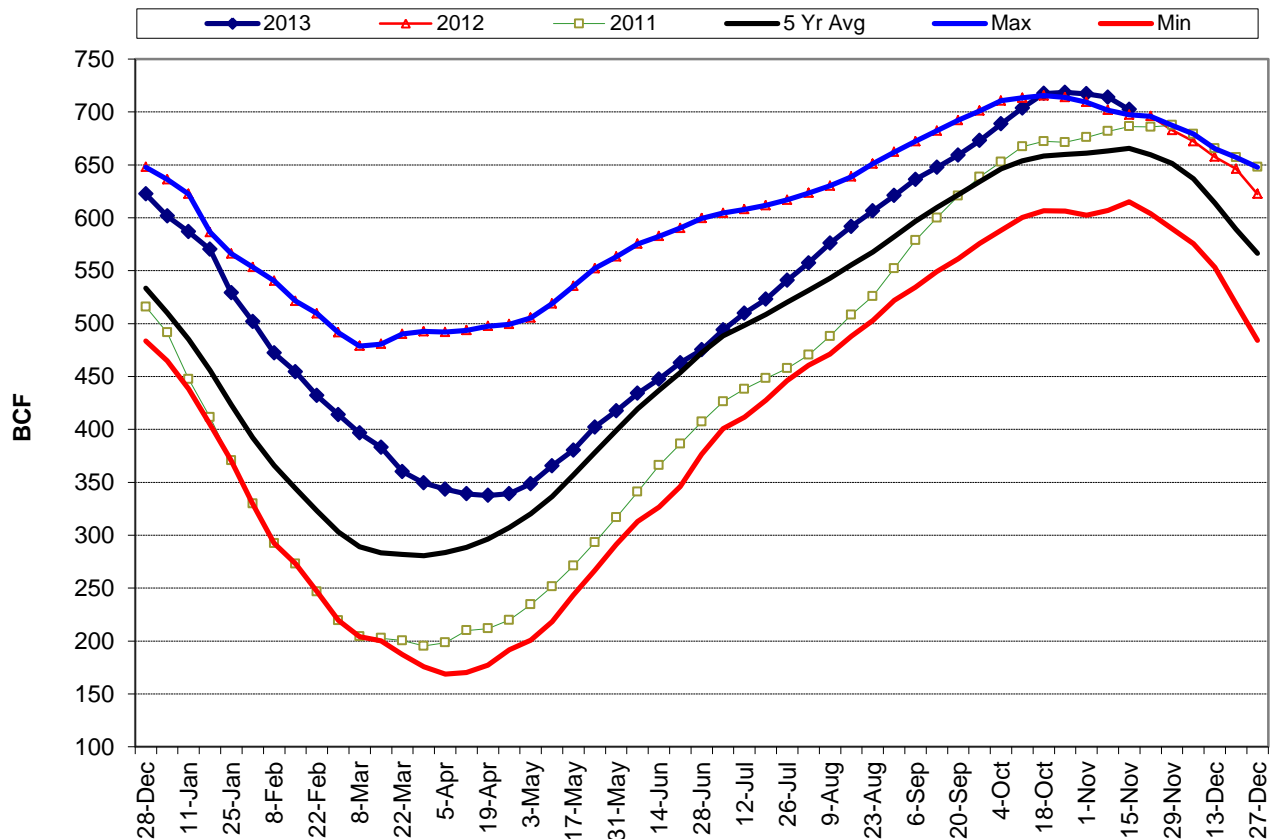
NYMEX Calendar Strips



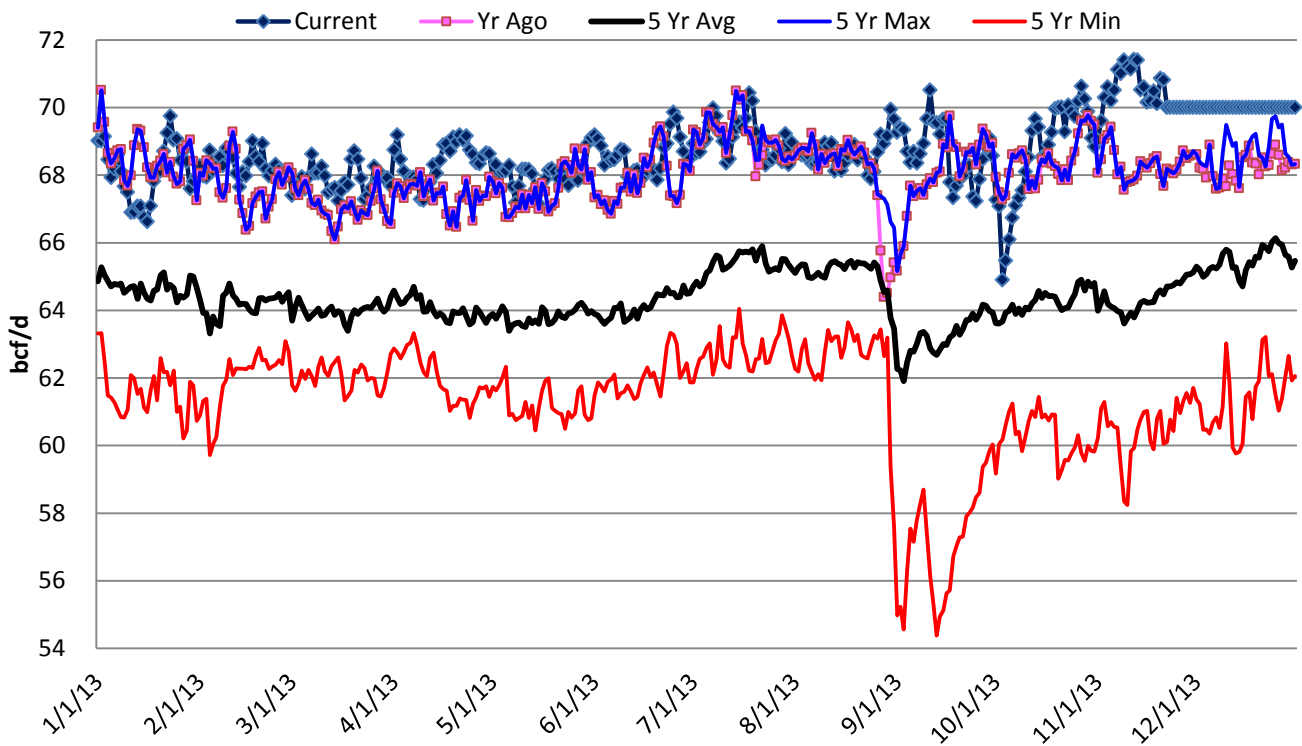
US Working Gas Storage - Source - EIA



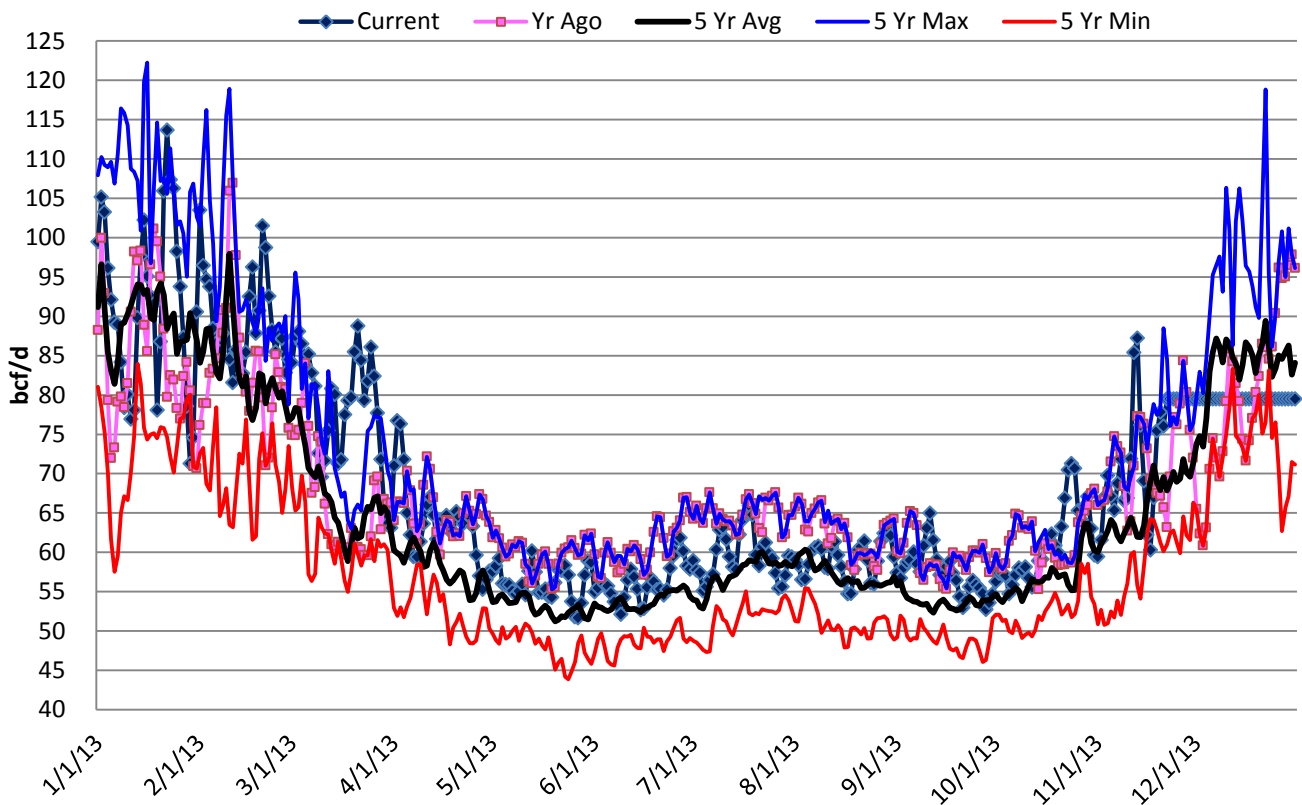
Canadian Working Gas Storage - Enerdata



US Total Supply



US Total Demand



ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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