

North American Natural Gas Markets: Not *Quite* Out of the Woods

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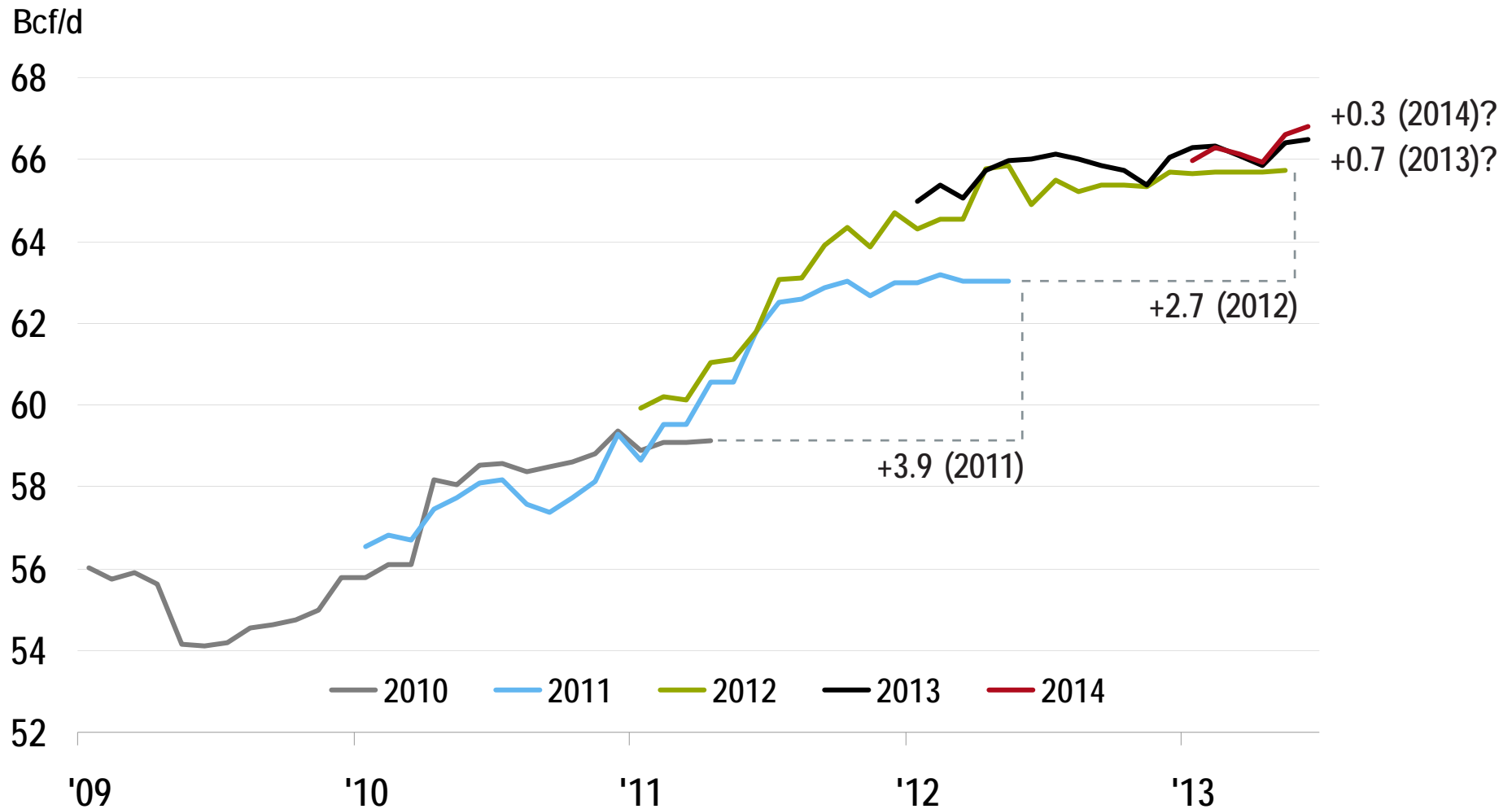
North American Natural Gas

Marginally Supportive in 2013... But Not Out of the Woods

Not Out Of The Woods Yet...

- The US gas balance looks more price supportive in 2013, but in the short-run (12-24 months) both gas supply and gas demand are still very price elastic. That means rangebound prices.
- In the medium- to long-run, gas production will continue to be price sensitive. It is when gas demand — specifically utility demand for gas — is no longer price elastic that the market will truly turn the corner. The 2015-16 period will be key.
- Last summer gave us a taste of what coal-to-gas substitution can do to the market. This year will pale in comparison, but eventual coal retirement will make that shift to gas permanent. One implication is that gas prices will reflect a steeper summer pricing.
- Production of gas liquids has been phenomenal, and prices have come off sharply. What will it take to see a shift back to dry gas production?
- LNG will matter at the margin, but won't be the game changer for the US supply/demand balance. Alberta is a different story...

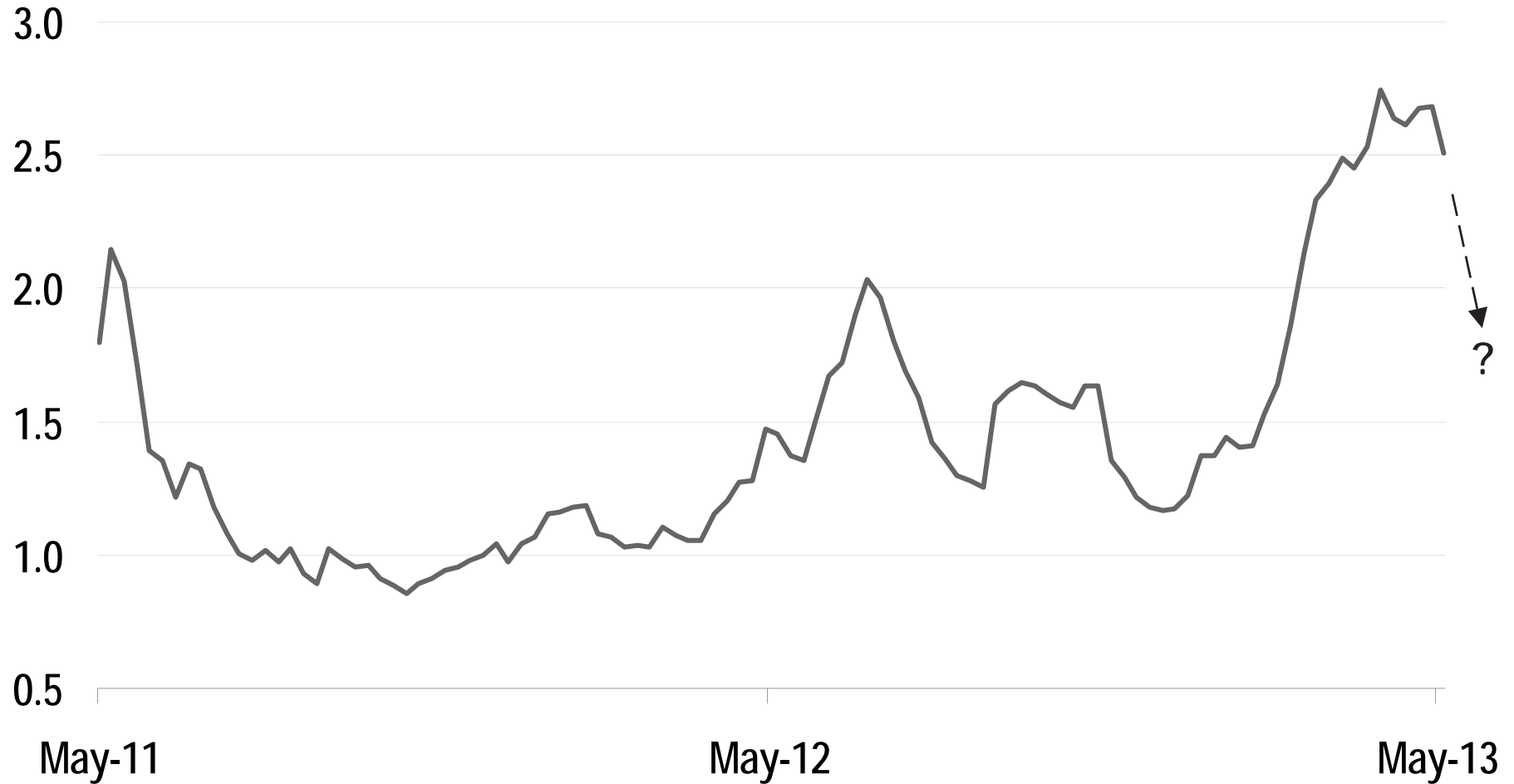
Evolution of EIA Dry Gas Production Forecasts



CIBC Commodities Strategy, EIA

The Gas Market *Had* Been Very, Very Long...

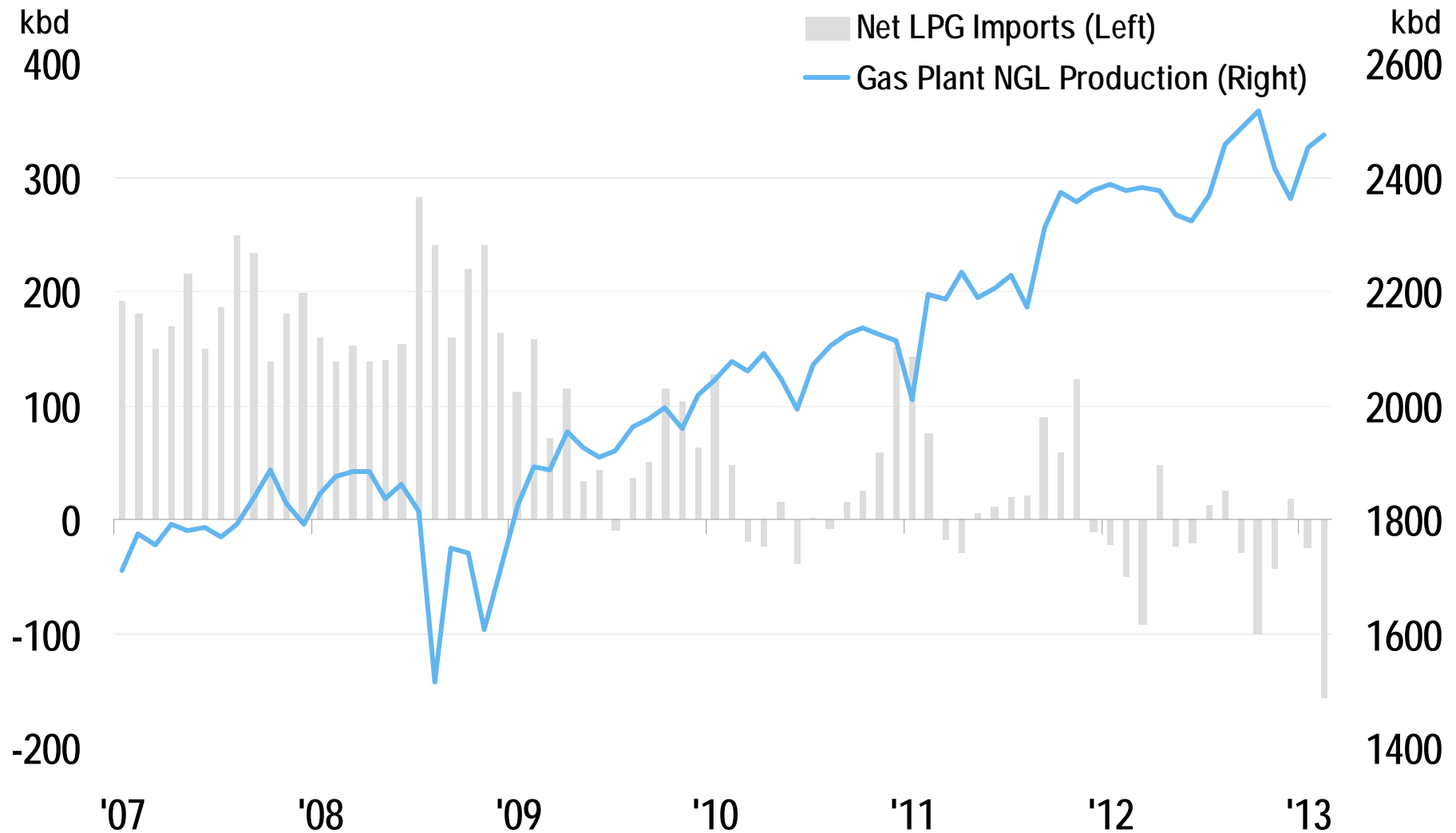
Long:Short Ratio



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Natural Gas Production: One Lifeline After Another...

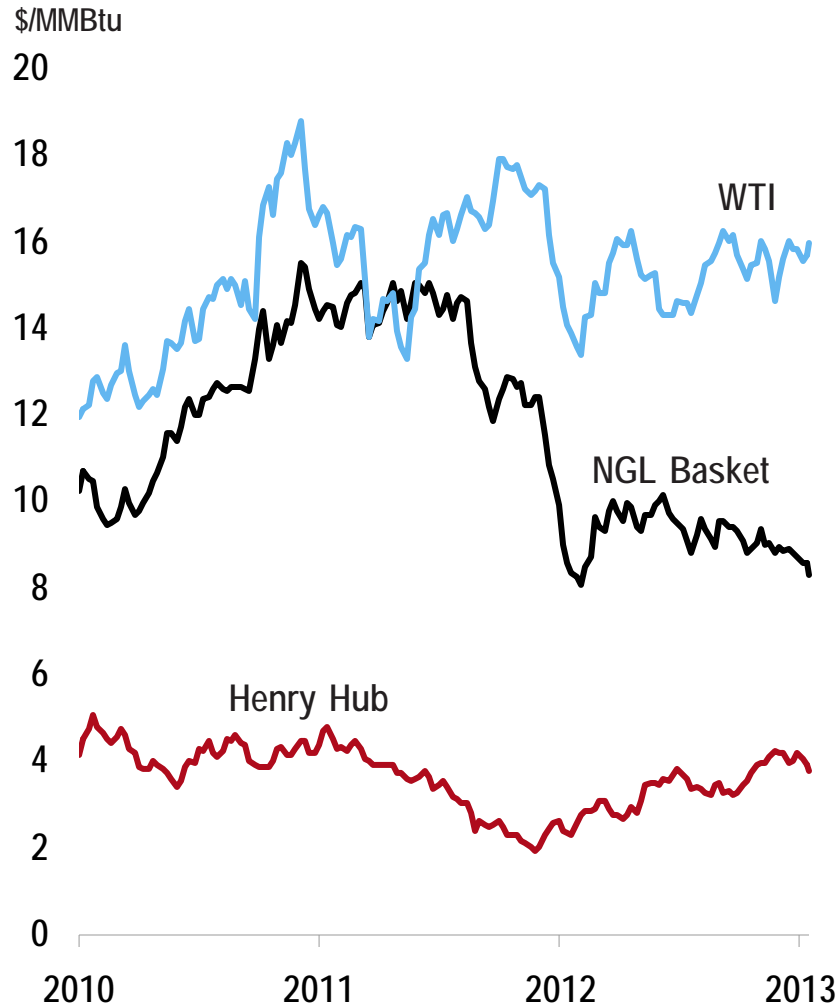
US Now a Net Exporter Of NGLs



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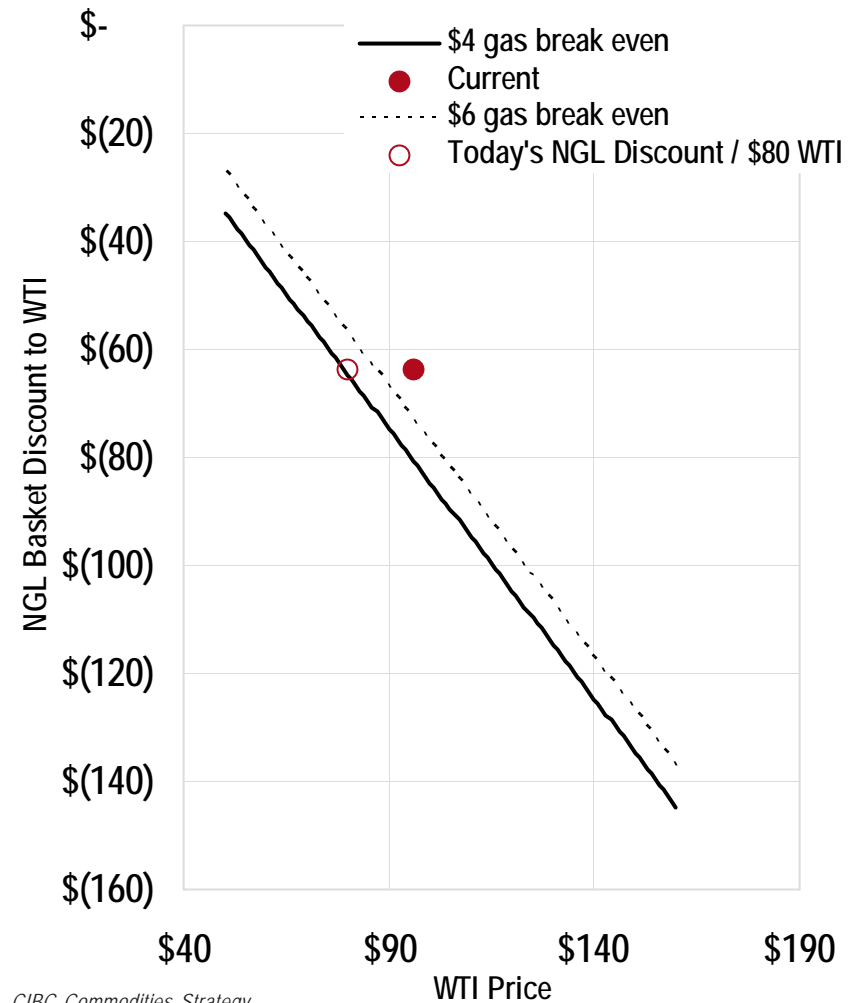
Is the Liquids Subsidy At Risk...?

Net Capacity Chg In Power Gen By Fuel Source



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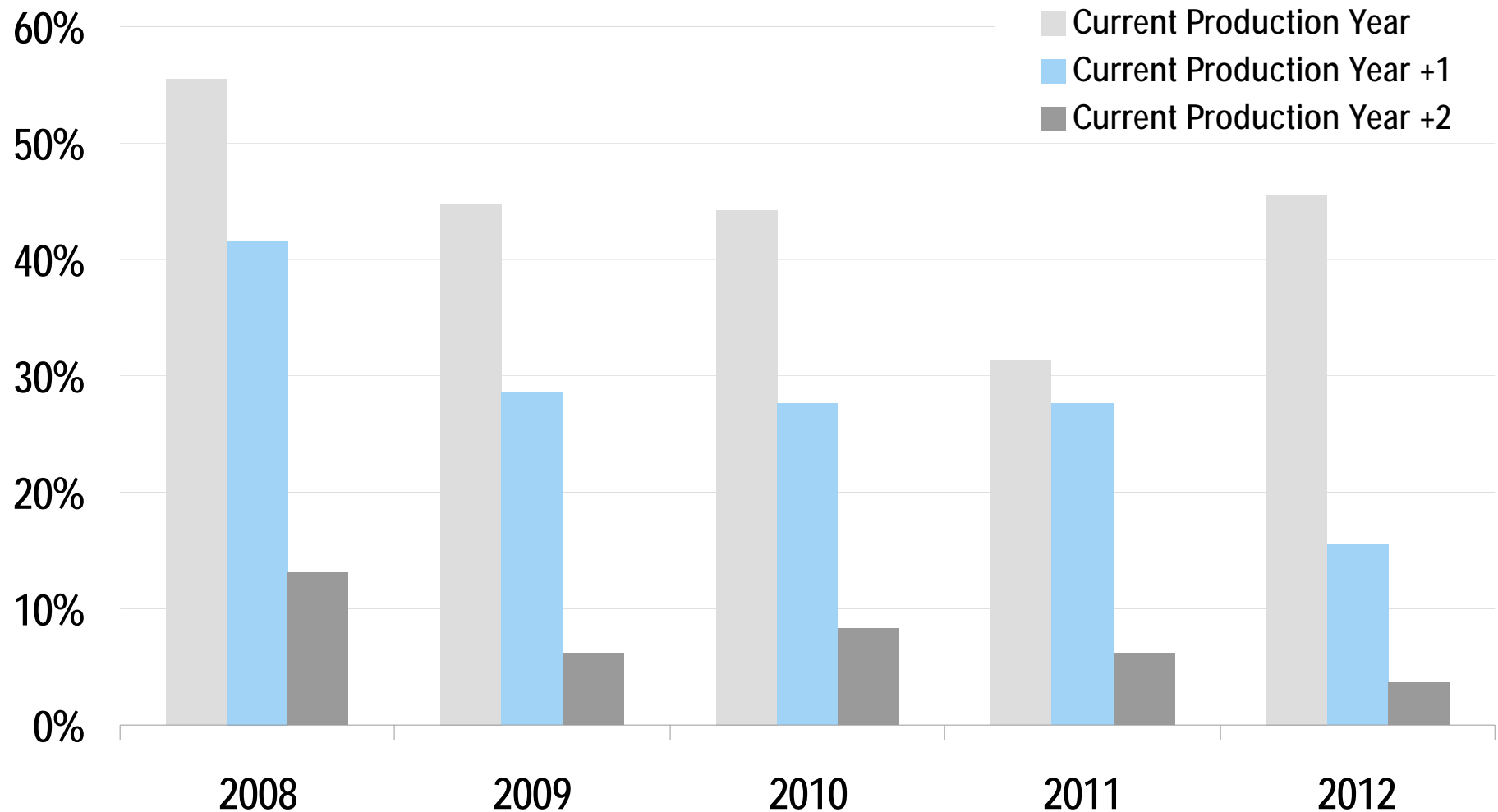
US Power Gen Slate In 2011 Vs. 2016



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Hedging Had Been 'Just In Time' Until Q1 Rally...

% Hedged As of Q3 of Indicated Year



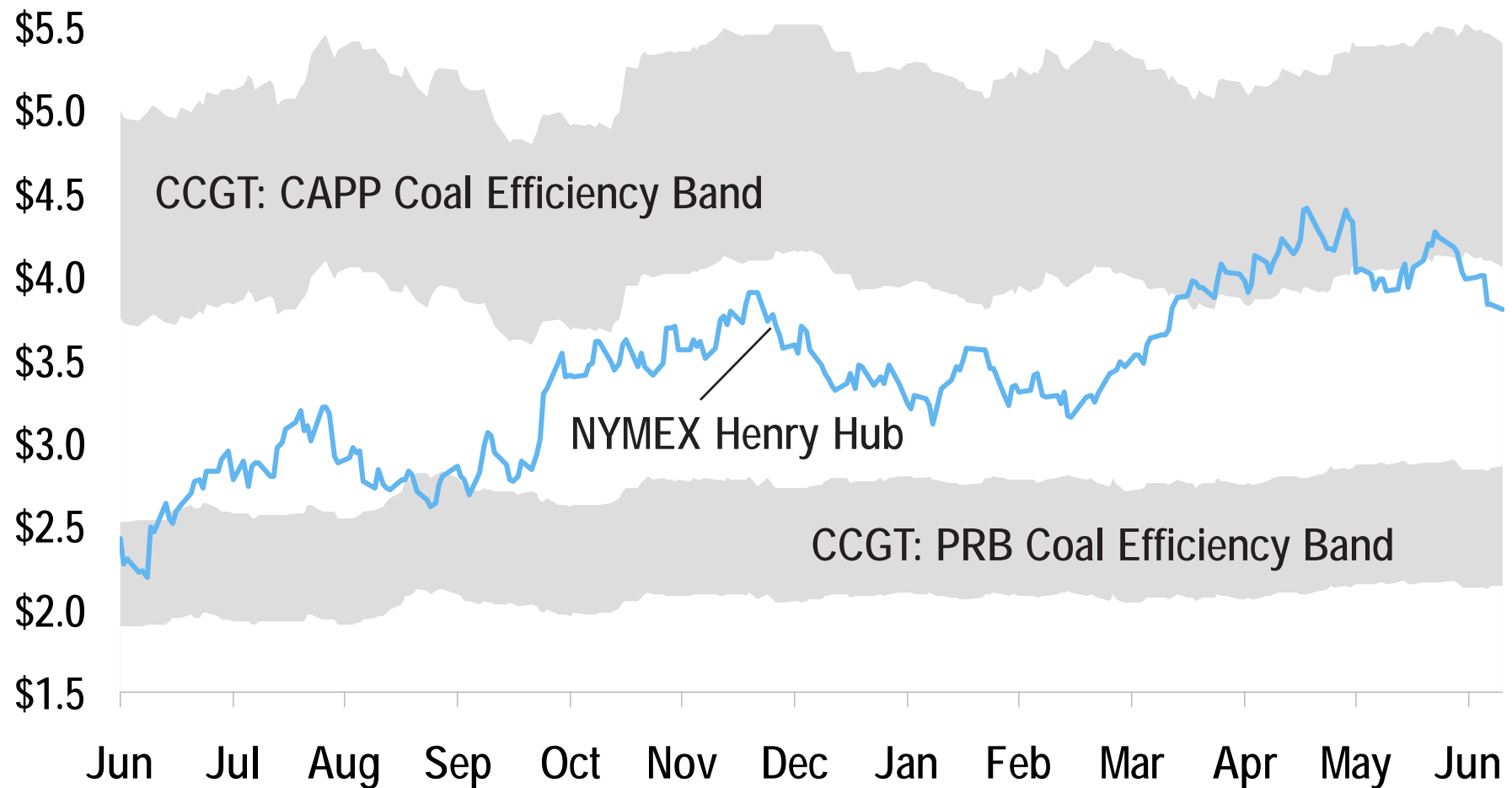
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Natural Gas Demand: Price Elastic Now But Not Forever

Natural Gas Competes With CAPP Coal

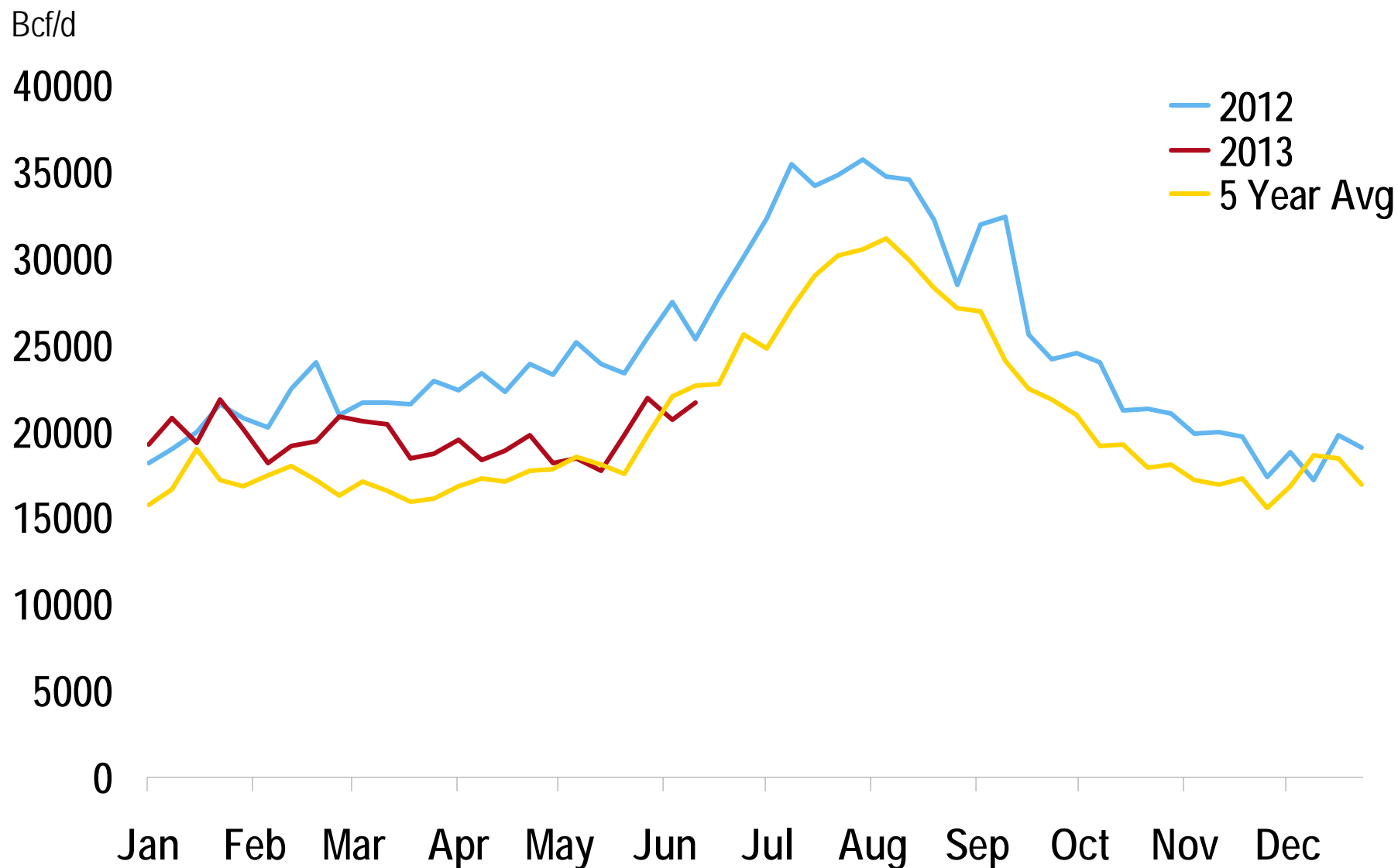
Competing Fuels - Past 12 Months

\$/MMBtu



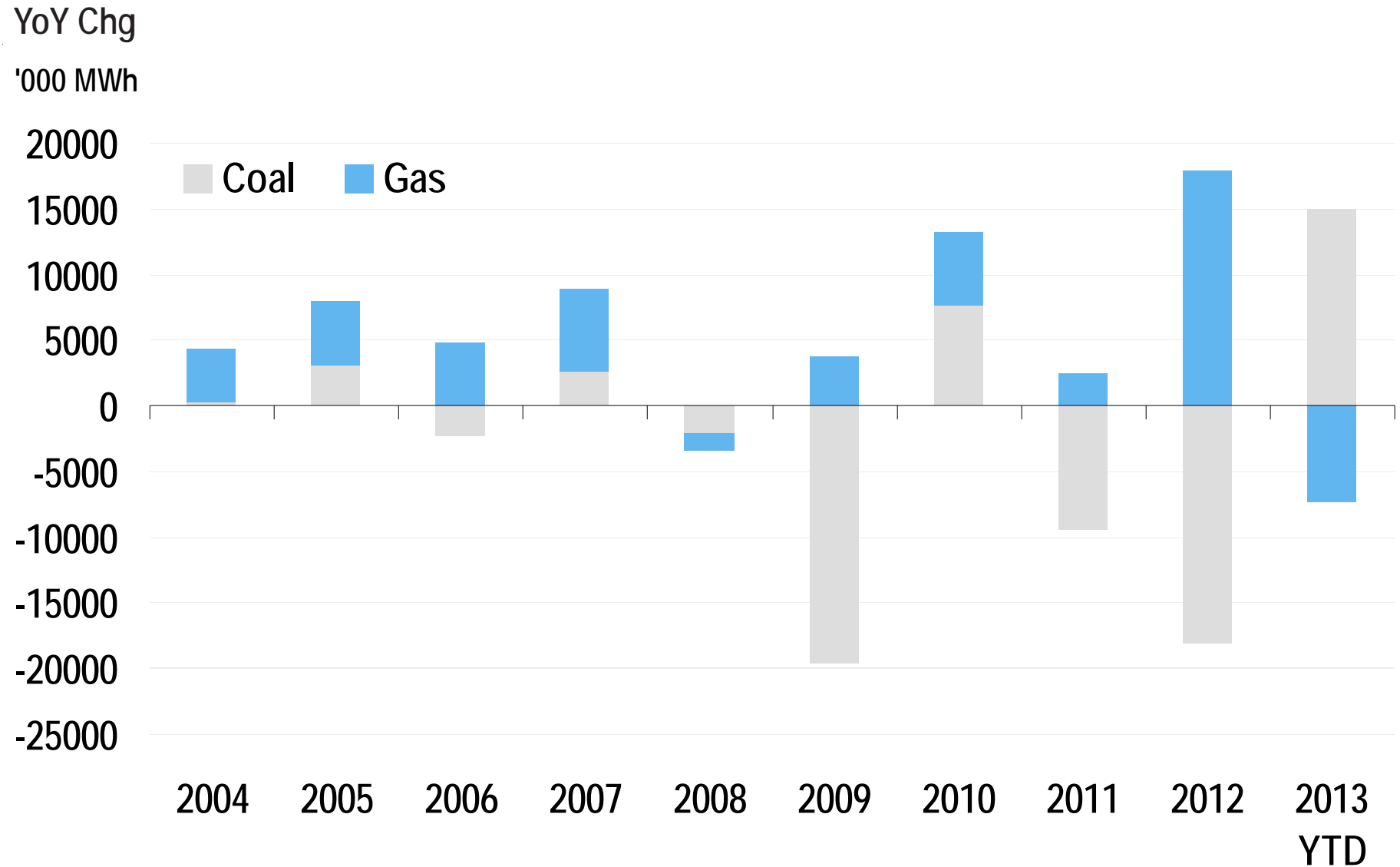
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Utility Demand Lags Last Year's Levels...



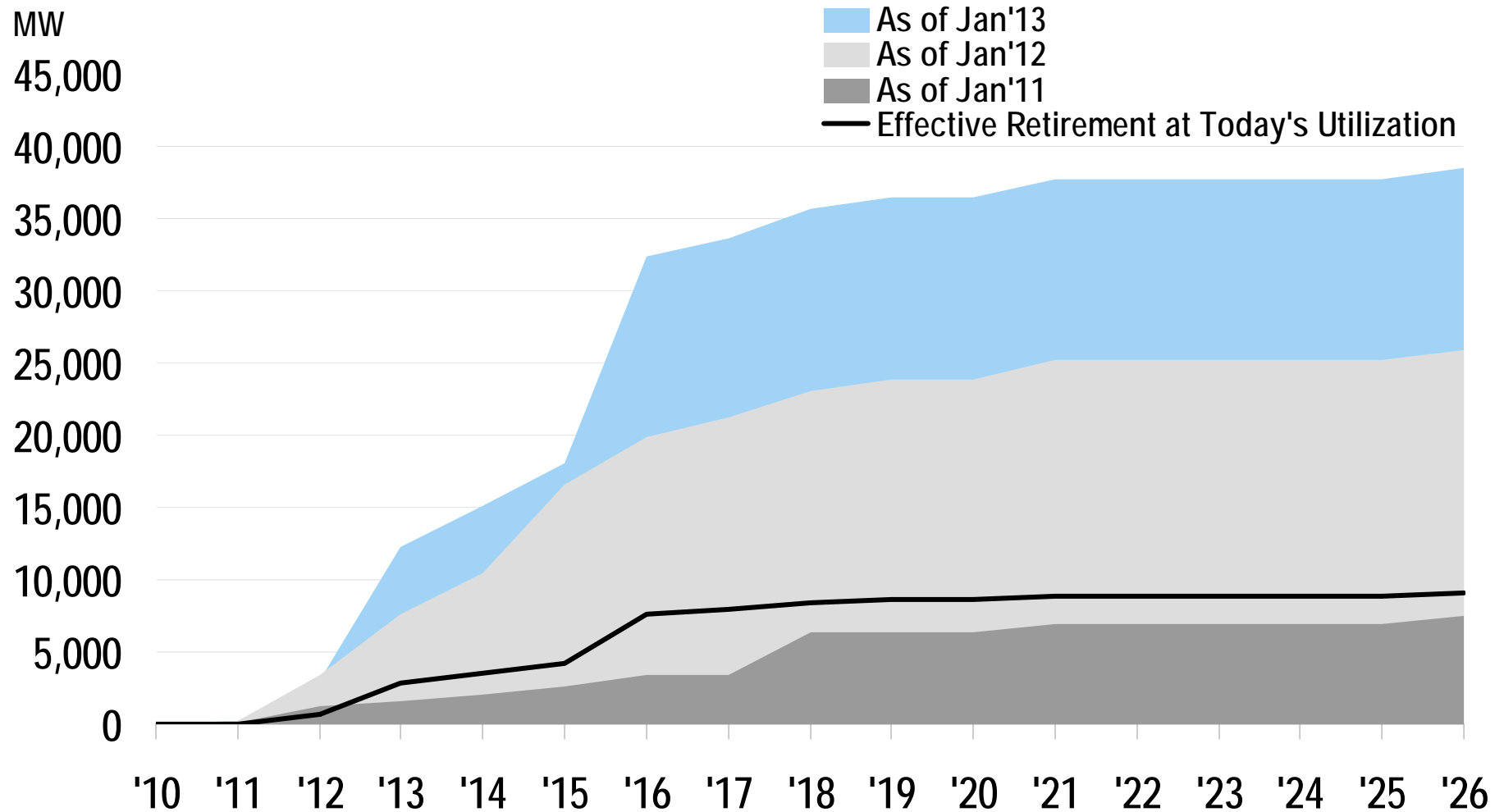
CIBC Commodities Strategy, EIA, Bentek

Utilities Trend Towards Natural Gas...



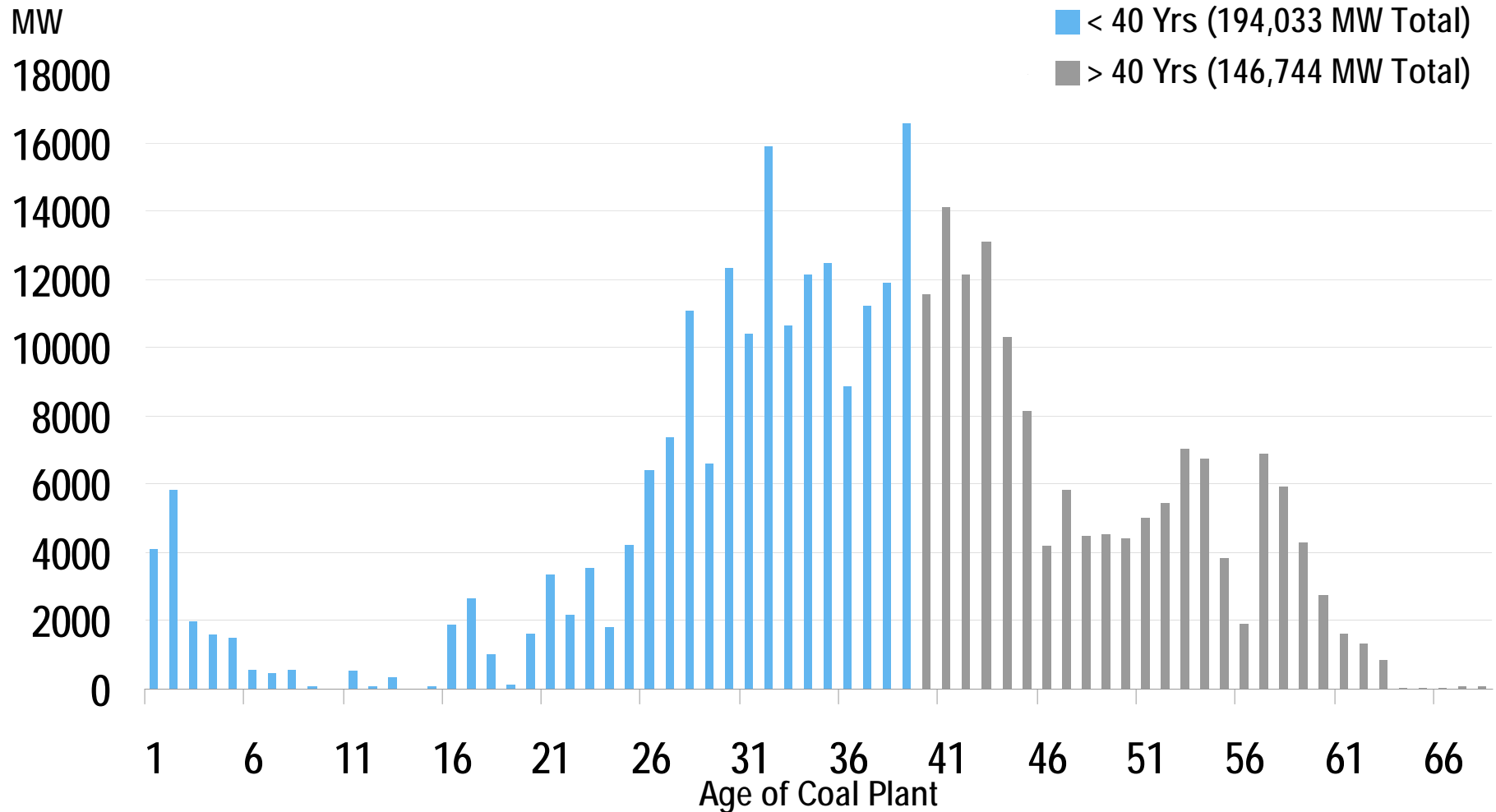
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Evolution of Coal Generation Retirement Schedule



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US Coal-Fired Generation Capacity By Age

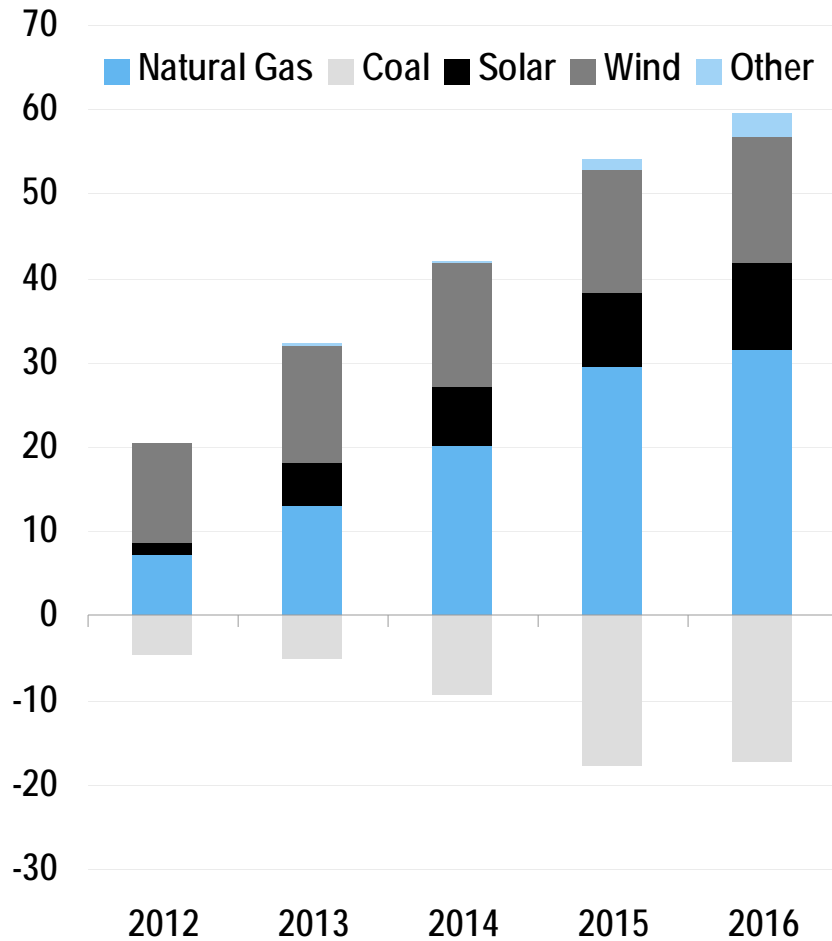


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A Conservative View Of Future Power Generation

Net Capacity Chg In Power Gen By Fuel Source

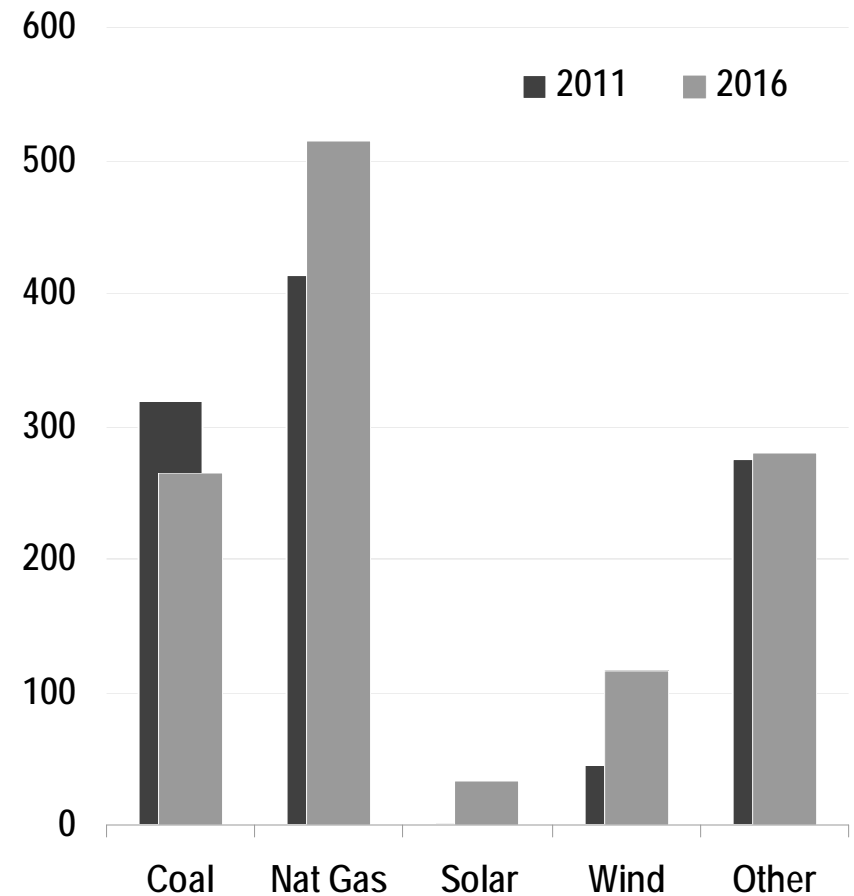
Cumulative Gigawatts



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US Power Gen Slate In 2011 Vs. 2016

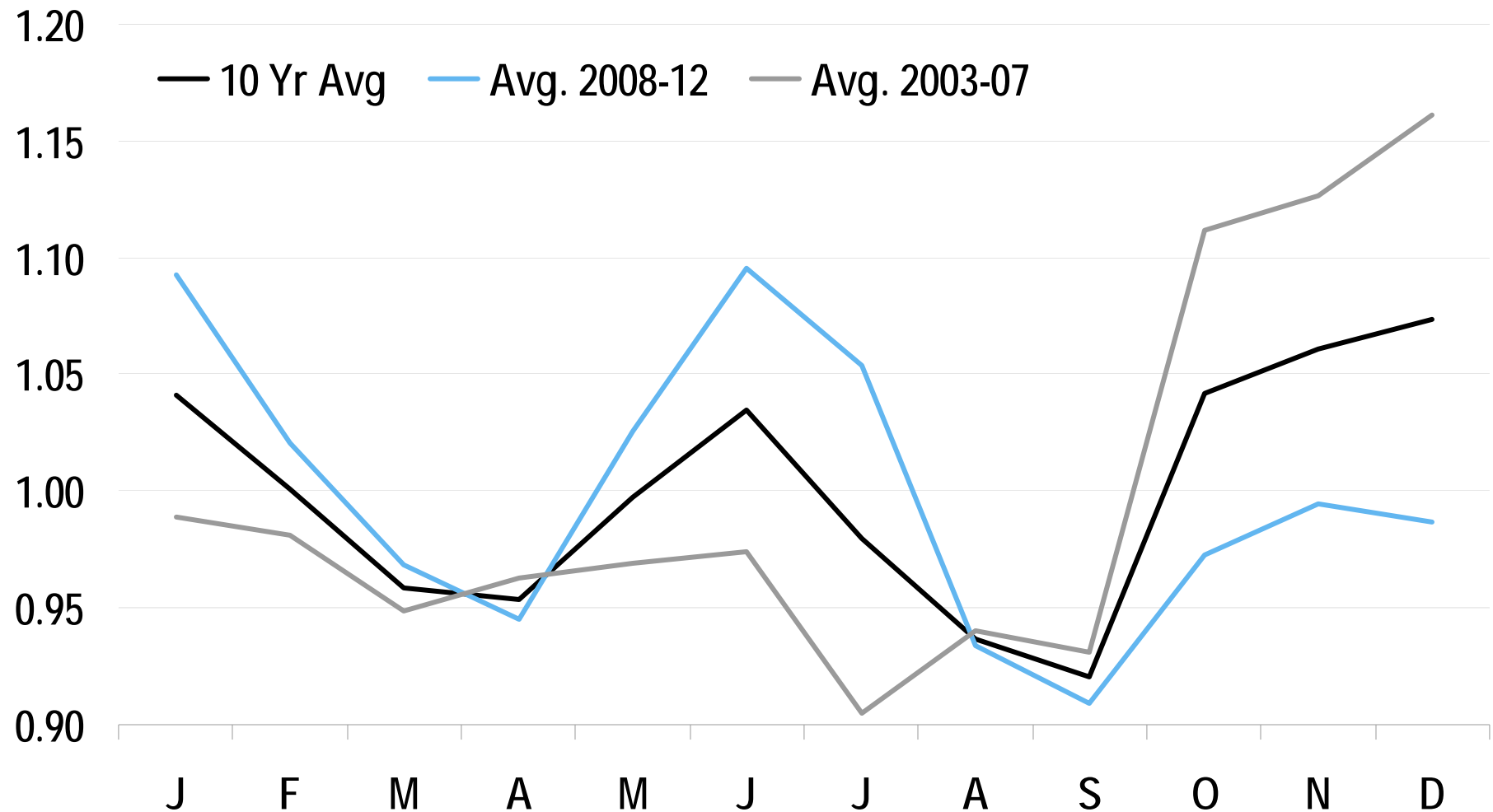
Gigawatts



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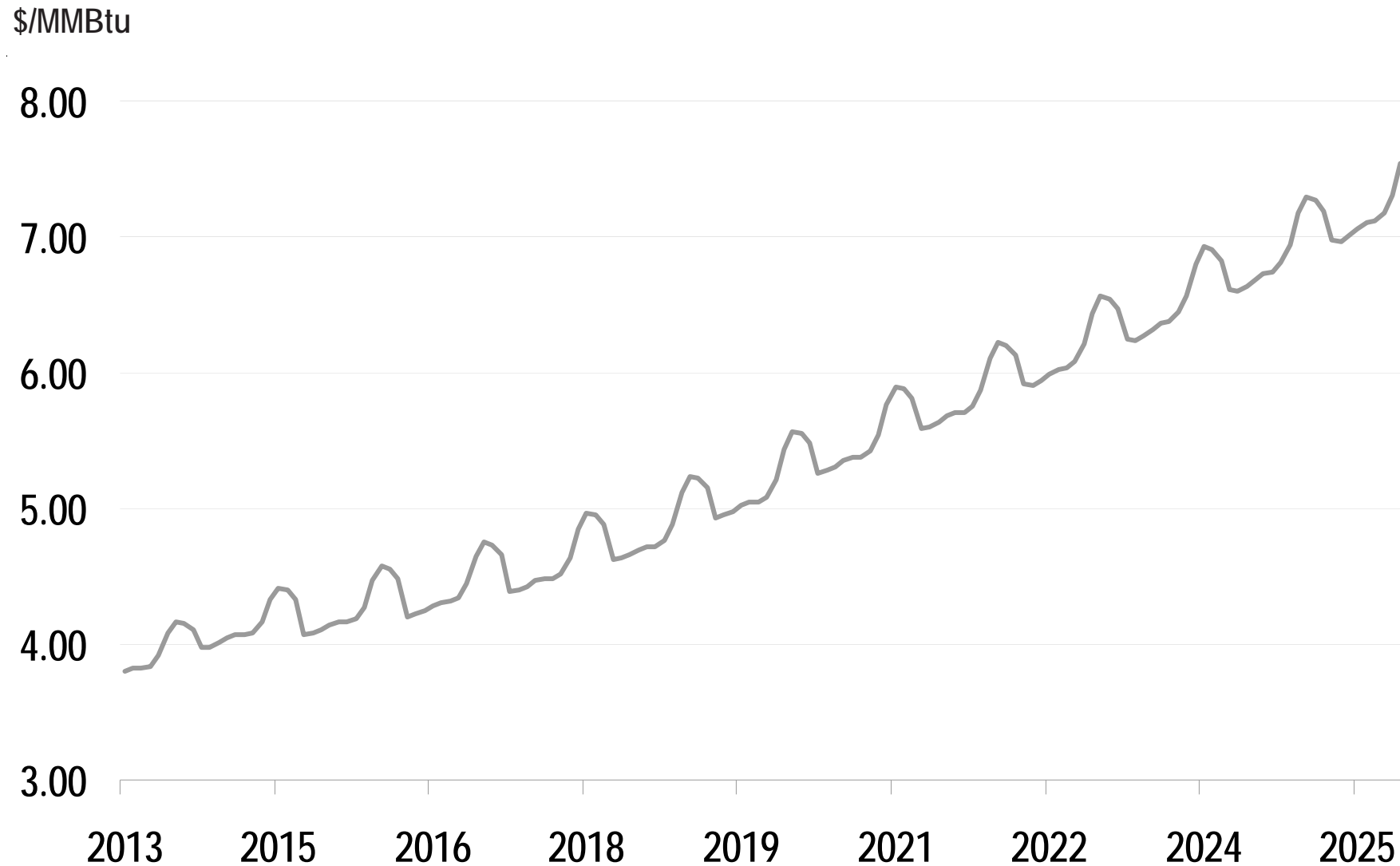
Summer Gas Price Peaks Get More Pronounced...

Annual Avg. Price = 1



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...But That Is Not Reflected In The Forward Curve Yet

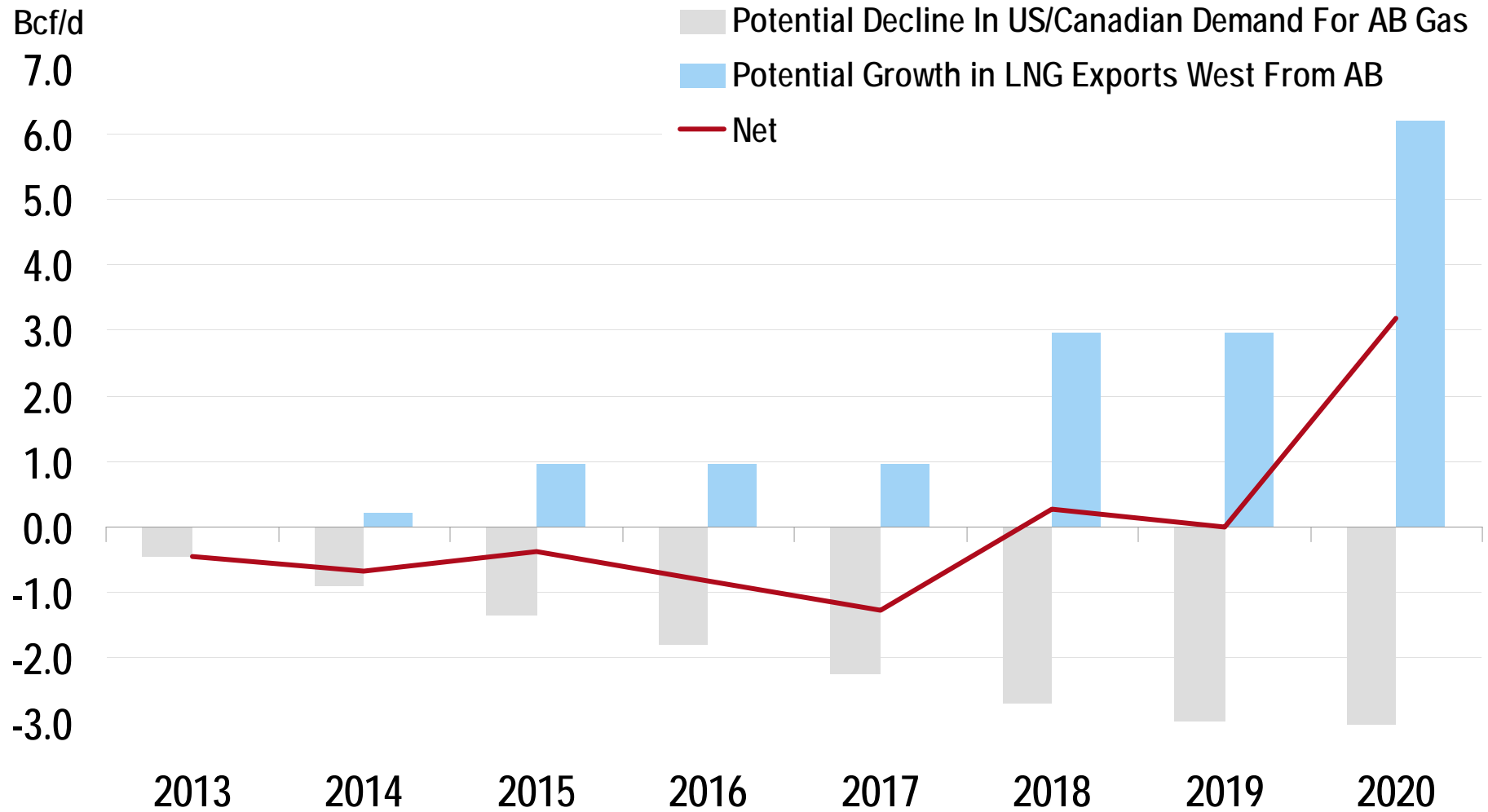


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LNG Now Seems Like a Reality

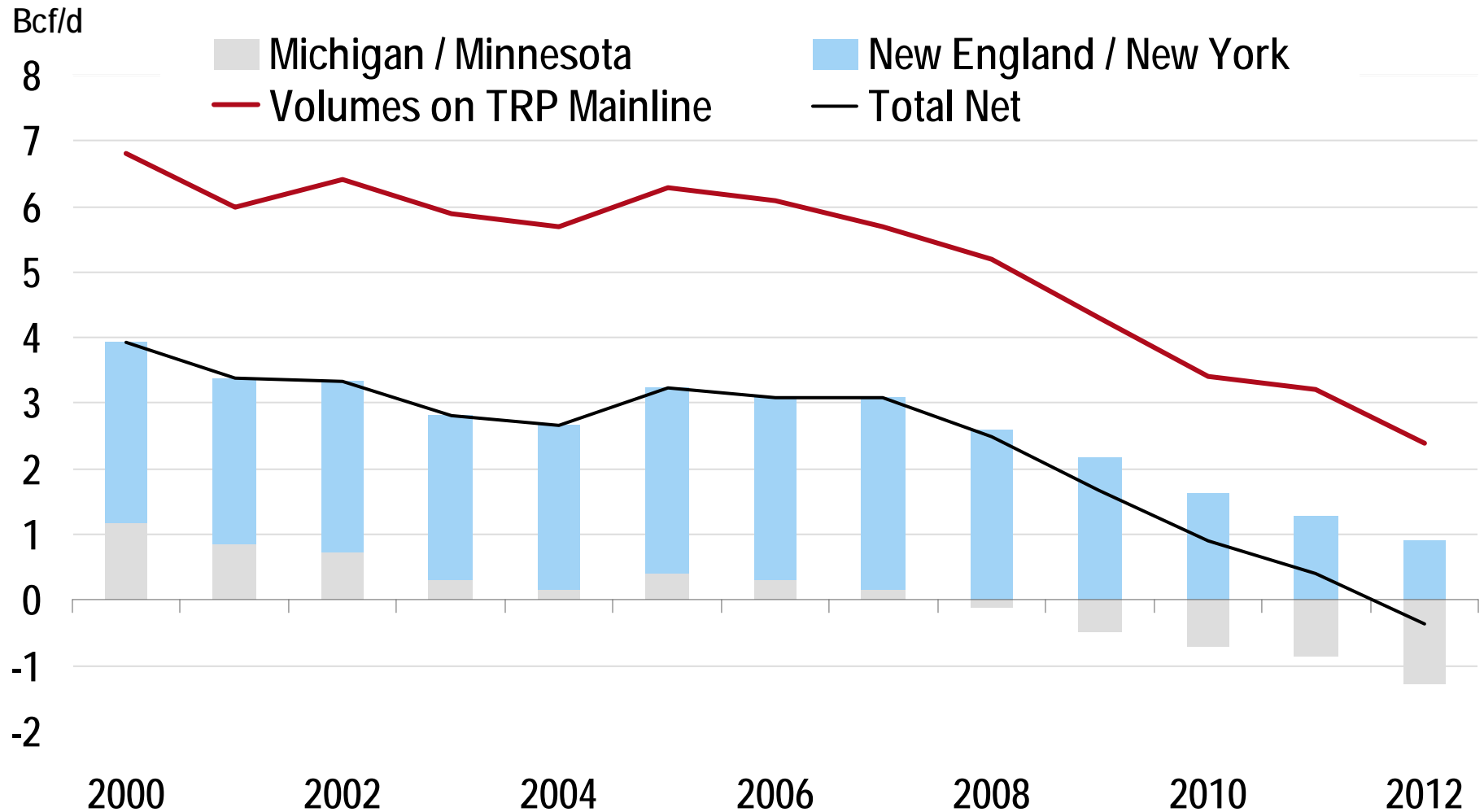
- It is not clear to us that LNG will make or break the US gas balance... The market will ultimately cap export volumes, not policy.
- But there will be interesting seasonal implications. The US will be the one place in the world that can both import and export LNG. The US also has significantly more gas storage capacity than Europe does.
- LNG will matter more for AECO, but not for a while.

Alberta Gas Balance Looks Heavy...Until 2020



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Net 'East of Mississippi' US Imports Of CAD Gas



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