
EYES ON ENERGY

FROM GAS-LOCK ADVISORS, LLC

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At Gas-Lock Advisors we track major developments in the energy markets following the leading sources from industry, government and academic research. When conditions warrant, usually about once a month, we refine the crude information and deliver a simple, readable product.

We present the most important information from three perspectives:

1. Economic trends affecting energy
2. The risk level from short-term threats and events
3. Current fuel pricing

We are your eyes on energy.

Macroeconomic Factors

Economic data during the first quarter of 2013 showed much more strength than at the end of the year. During March, the picture was more mixed in the U.S. Last week's data showed employment growth below recent trends. Leading indicators have remained solid and consumer confidence rebounded. The effects of the budget sequestration have still not been realized, but the resumption of normal payroll tax rates has had some effect.

The European economy continues to muddle along at recession levels, but the Chinese economy is seen by most to be growing at close to 8%. Energy prices – especially natural gas in the U.S. – were supported by cold weather in March. The overall conclusion is for continued modest growth in the U.S. and a mixed picture in the rest of the world.

Potential Risks

The energy risk factors were showing improvement until about a week ago, when bellicose statements from North Korea caused tension there to ratchet higher. While this is not an “energy region” the market reaction demonstrates how international tension anywhere can affect markets. Our discussion of this topic will be a little longer this month, and we will split it into two parts.

Korea

The most pressing international issue is the potential for escalating violence on the Korean Peninsula. Since the North Korean government successfully conducted its third nuclear test last February, the international community has become increasingly uncomfortable with the stability of the region. The United States has been conducting joint military exercises with South Korea and Japan to show support for its allies, which has in turn prompted strong rhetoric from North Korea. On March 30, the North Korean government [repudiated the cease-fire](#) that served to end the hostilities of the 1950-53 Korean War.

Most recently, their government has issued safety warnings to foreign embassies in the event that there is an outbreak of violence near the border between North and South Korea. [The Guardian](#) reports:

“North Korea has warned foreign embassies in Pyongyang that it cannot guarantee their safety from the threat of conflict after 10 April, and has advised them to consider pulling their staff out of the capital.

The message to diplomats came as tensions in the region continued to escalate despite international efforts to defuse the situation.

South Korea's Yonhap news agency cited Seoul military sources as saying two Musudan missiles had been positioned on mobile launchers on North Korea's east coast. The missiles are believed to have a range of at least 1,875 miles. That would cover South Korea and Japan and possibly the US territory of Guam in the Pacific Ocean.

South Korea reacted to the missile activity by deploying two battleships capable of intercepting and destroying ballistic missiles. The US has

already moved interceptor missiles and warships to the region to defend against a possible attack.”

The initial effect on oil markets was to push prices higher, without any clear reason. We will continue to monitor the situation closely.

Other Points of Interest

Aside from the troubling turn of events in Korea, there have been a number of promising developments in key hotspots elsewhere in the world.

Most notably, President Obama’s recent trip to Israel resulted in positive news from a region that is usually embroiled in conflict. According to the [New York Times](#), President Obama was instrumental in repairing a relationship between Israel and Turkey, which had soured in recent years.

“After forging very close ties during the 1990s, Jerusalem and Ankara have of late gone their separate ways. The estrangement peaked as a result of Israel’s 2010 interdiction of the Mavi Marmara, a Turkish ship that was attempting to break the blockade of the Gaza Strip. The Israeli operation resulted in the death of nine activists on board the vessel. The Turkish government was incensed, and an Istanbul court went on to indict four Israeli commanders allegedly responsible for the mission.

On March 22, Obama succeeded in orchestrating a phone call from Benjamin Netanyahu, the Israeli prime minister, to his Turkish counterpart, Recep Tayyip Erdogan. Netanyahu apologized for the loss of life on the Mavi Marmara, a gesture that sets the stage for the repair of relations between the two countries.”

This is a clear step towards maintaining stability in the Middle East – and therefore discouraging the rampant speculation that tends to accompany rising tensions.

Secretary of State John Kerry made similarly encouraging progress last month in Afghanistan. [NBC reports](#) that a surprise visit by Kerry has reaffirmed President Karzai’s commitment to working with the United States.

"I'm confident that the president absolutely does not believe the United States has any interest except to see the Taliban come to the table to make peace," Kerry said.

State Department officials told reporters traveling with Kerry that he is optimistic the U.S. and Afghanistan can overcome recent differences, including the awkward moment earlier this month when Karzai accused the U.S. and the Taliban of colluding to convince Afghans that foreign forces were needed beyond 2014.

The officials said Kerry was not in Kabul to lecture or chide Karzai, adding that he acknowledged the relationship was 'not always going to be easy.'

Kerry is optimistic the two countries can move in from Karzai's anti-U.S. rhetoric, which the commander of U.S. forces in Afghanistan warned was putting the lives of Western troops in danger.

While not directly related to the price of oil, this move is a step in the right direction.

Pricing

The best way to look at energy prices is through what is called the forward curve. This is much more informative than the popular media reports of the front month spot price. Sometimes the front month price moves, but the rest of the curve does not.

After an anomalous move near the beginning of March, the forward price curve for the month of April has moved higher while retaining the expected seasonal pattern. While spot prices are expected to move lower later in the year, the overall curve is higher than at any point so far in 2013.

