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 over the last few weeks have shown continuing improvement, especially in the US. Employment growth has resumed the higher trajectory from the middle of 2013. If there was an impact from weather, it was moderate. Initial jobless claims have dropped to a fresh post-recession low of about 300,000 per week. The number of job openings also reached a fresh high and labor force participation has improved. Data from March have been better on income, spending, and retail sales. The key economic question for the rest of the year relates to housing. How much new family formation will occur? Gains in building permits have moderated.

The most recent data on Chinese GDP shows growth of 7.4%, slightly lower than the target of 7.5%, but in line with most estimates. Judging from the reaction in financial markets, some expected even worse. Since China is a big customer for other emerging markets, this is important news for energy markets.

Growth in Europe has improved slightly, and European central bankers have shown more attention to fighting deflation. This has been reflected by successful bond auctions in Spain, Italy, and even Greece.

To summarize, the economic data have improved with the weather in the US, suggesting modest upside pressure on energy prices.

Potential Risks

Russia's sudden invasion and subsequent occupation of the Crimean Peninsula rocked international energy markets in the month of March. Given that Russia is the world's largest exporter of oil and gas, financial media was quick to hype the potential impact this could have on the rest of the world. Thankfully, cooler heads prevailed in more detailed analysis, like this excerpt from a BoA Merrill Lynch Global Research Report:

"Russian oil does indeed flow in large quantities through the Black Sea, making the Russian Navy station of Sevastopol as well as the whole Crimean peninsula crucial strongholds to control both Azov and Black Sea commerce flows. These routes are, for now, secure and diverse. Thus, while oil has risen in sympathy with other commodities, we believe the upside risks are rather modest from here unless the conflict escalates…

…Moreover, we believe Russia is extremely unlikely to disrupt oil exports to the world, as it would destroy its reputation as a reliable and non-cartelized supplier to the world's largest energy market. Also, oil-related sanctions against Russia are unlikely to happen, as we believe Europe cannot really afford to relapse into a third recession in six years. As

nothing meaningful in terms of sanctions came on the back of Russia's conflict in South Ossetia and Abkhazia in 2008, it is also unlikely that anything would happen now…"

Still, there have been some residual effects attributable to escalated geopolitical tensions. Some recent daily BoA commodities report suggests as much:

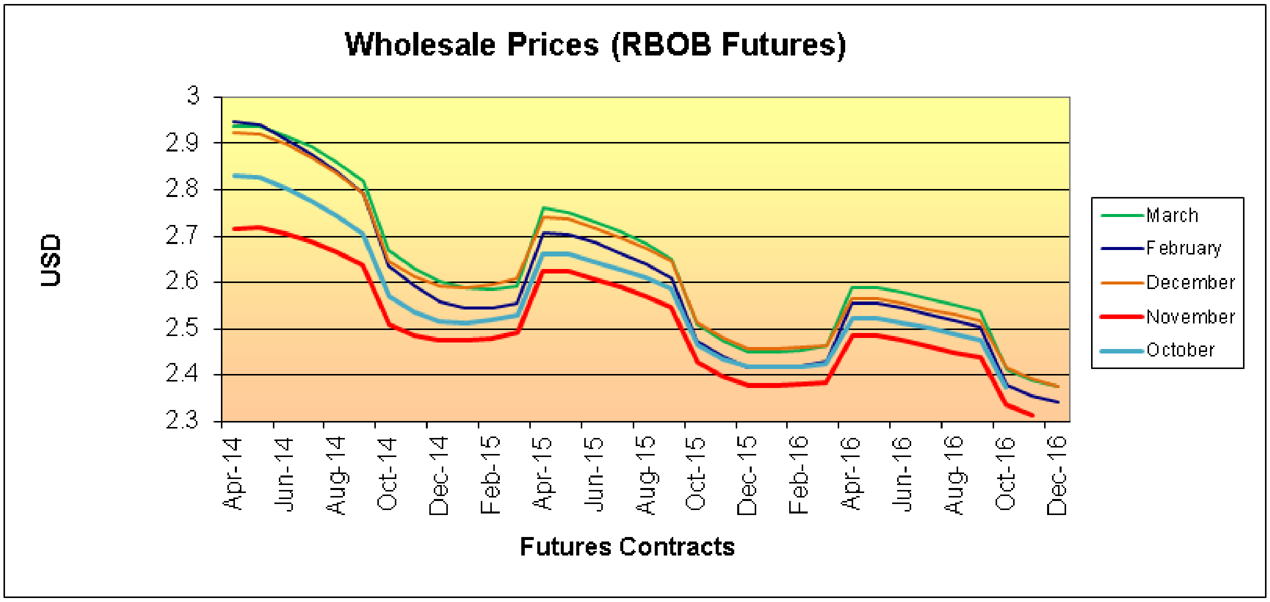
"WTI continued its recent strength on Friday as it gained 39 cents on the day to settle at $101.67/bbl. Front month spiked above $102/bbl for the first time since the escalation of the Ukraine crisis, though it was capped by some end of week/month profit taking. Spreads were firmer as well, with the prompt spread rallying to 78 cents backward."

We will continue to monitor the news closely for new developments on this story, as well as countless other potential risks in global energy markets.

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.

This month's forward curve does not appear to have shifted significantly from February – or even the prior December. However, when projected out into the spring of 2015, it is clear that the market now projects oil prices to be higher than it had in February.



Wholesale Prices (RBOB Futures)
USD
3
2.9
2.8
2.7
2.6
2.5
2.4
2.3
Apr-14
Jun-14
Aug-14
Oct-14
Dec-14
Feb-15
Apr-15
Jun-15
Aug-15
Oct-15
Dec-15
Feb-16
Apr-16
Jun-16
Aug-16
Oct-16
Dec-16
Futures Contracts
March
February
December
November
October