# 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**

The global economic picture has improved since last month's report. The U.S. data included a slight disappointment (but well within the margin of statistical error) on the "official" jobs report. The ADP private employment report might actually be better for the question of general jobs growth, and it was pretty solid. All of the other U.S. macro data has shown improvement --- ISM manufacturing and services, regional Fed reports, the trade balance, and the weekly initial claims series.

There are also positive reports – for a change – from Europe, where the recession seems to be ending. Japan is improving. The China story is not one of recession, but it does matter how much Chinese growth slows. This serves to provide a floor for energy prices.

## Potential Risks

Short term oil pricing is uncertain leading into mid-August. The Washington Post reports that market trading volume has decreased in anticipation of new reports from a number of sources.

*"The U.S. Energy Department, the International Energy Agency and the Organization of the Petroleum Exporting Countries all this week release their latest assessment of the energy markets, which includes a forecast for worldwide demand for oil. Analysts are anticipating some downward revisions, given a slowdown in China's economy.*

*'The slowed Chinese growth will be demanding of additional downward adjustments in global demand estimates by the various agencies,' wrote Jim Ritterbusch, president of energy consultancy Ritterbusch and Associates, in a note to clients.*

*The market did have a swing of about $2 during Monday's trading. A week ago, oil jumped nearly $5 on Wednesday and Thursday as the global economic picture seemed to brighten, even as central bankers in the U.S. and Europe indicated they'd maintain programs that helped to keep interest rates low. Then Friday, disappointing figures on hiring in the U.S. pushed oil down by 95 cents, though it still ended the week with a gain of more than $2 a barrel."*

Over the last month, a number of factors have heavily influenced global markets. As always, turmoil in the Middle East proved to be a major force in global markets. While no sources reports a direct impact of the new terrorist threat on global energy markets, this move almost certainly contributed to an air of geopolitical instability. According to the Wall Street Journal:

*The State Department has extended the closure of many American embassies in the Middle East by a week and has shuttered additional* *diplomatic missions, underscoring what U.S. officials said was the continued threat posed by al Qaeda and its affiliates.*

*U.S. officials on Sunday said the decision to close the embassies was based on the same intelligence that led the State Department on Friday to issue a global alert on the possibility for al Qaeda attacks across the broader Mideast and possibly into Europe and the U.S.*

*Obama administration officials said they are particularly tracking the operations of al Qaeda in the Arabian Peninsula as the primary organization behind the threat. These officials said they've monitored communications traffic between the Yemen-based group's members indicating a major terrorist plot has become operational.*

An August 6 commodity report from Bank of America corroborates this increasing uncertainty in oil and gas markets.

*"Crude had a volatile day yesterday, with the market selling off heavily from the highs in the overnight hours but managing to gain back some of the losses during the US session. The overnight highs for WTI and Brent were $107.69/bbl and $109.44/bbl, respectively, and both contracts settled over $1/bbl below those levels. WTI structure gave back some of the gains made last week, with Sep13/Dec13 now ~$-3.60/bbl compared to ~$-4.20/bbl in the middle of last week. Brent spreads remained firm in the front. At this juncture, both WTI and Brent have failed to push higher and look technically weak, with WTI potentially having more room to fall.*

*In products, RBOB fell apart yesterday on news that Irving FCC is warming up for a restart, calming any fears about a full turnaround being brought up from October. RBOB cracks lost $1.50/bbl as a result. Imports continue to put pressure on August cash, with the Gulf Coast hit harder on forward diffs as well. There is not a whole lot bullish for RBOB at present except for the fact that shorts are crowded, which may lead to a reversal if any covering triggers some fear. Distillates were under pressure yesterday as slower exports amid closed arbs are backing up barrels into the Gulf Coast and keeping barrels in pipes as RINs slow their ascent."*

## 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.

The newest forward price curve shows that overall prices in August are projected to be at their highest since April, when a number of refinery setbacks began to push prices higher – earlier than is usually expected.

The normal seasonal pattern is in evidence. What could change things? Hurricane season. We all hope that everyone stays safe and well, but hurricane risk is a part of the energy business.