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 economic data have created a climate of uncertainty. There is clearly a soft patch in employment, retail sales, construction, and housing. The question? How much can be attributed to weather effects?

We insist on objectivity -- without any excuses – but it is unwise to be dogmatic. The simple fact is that we have a couple of months of data where the implications are unclear. The recent Fed minutes said as much. We expect continuing modest growth in the spring.

China looks a little weaker based upon the HSBC "flash PMI" but still slightly positive on the "official" version. We prefer to look at harder data, and that seems to show continuing growth in the 7 – 7.5% range.

The extreme cold is also influencing energy demand, mostly natural gas prices. There is spillover into gasoline.

And finally, we have the potential for increased supply. It was a pretty lucky season for hurricanes and other weather effects. This has shifted the official forecasts in a friendly direction.

We shall see if this holds up, but so far, so good.

Potential Risks

As the month of February draws to a close, the rise in crude oil prices that accompanies the spring and summer becomes more apparent. According to Newsday:

"The price of gasoline held steady into early February, but an increase is almost inevitable this time of year. Pump prices have gone up an average 31 cents per gallon in February over the past three years. And although this year's rise might not reach the heights of years past, there are reasons for drivers in some regions — like the Northeast — to worry about a painful spike.

'We're going to get increases and they are going to be noticeable,' says Tom Kloza, chief oil analyst at Gasbuddy.com and the Oil Price Information Service. 'We're going to get that pop relatively soon.'

The price of crude oil has risen 8 percent over the past month, to $100 per barrel. And analysts expect fuel supplies to begin to decline as refineries dial back production to perform maintenance and make the switch to summer fuels."

PennEnergy corroborated these reports with analysis showing steady increases in crude oil prices for the past month.

As of Feb. 14, US light, sweet crude oil futures prices have climbed for 5 consecutive weeks.

"'Over the coming weeks, however, we expect the upward momentum in West Texas Intermediate to slow down if it crosses the $101/bbl level again --partly from the weight of softening US Gulf Coast balances,' Barclays analyst Miswin Mahesh said in a research note.

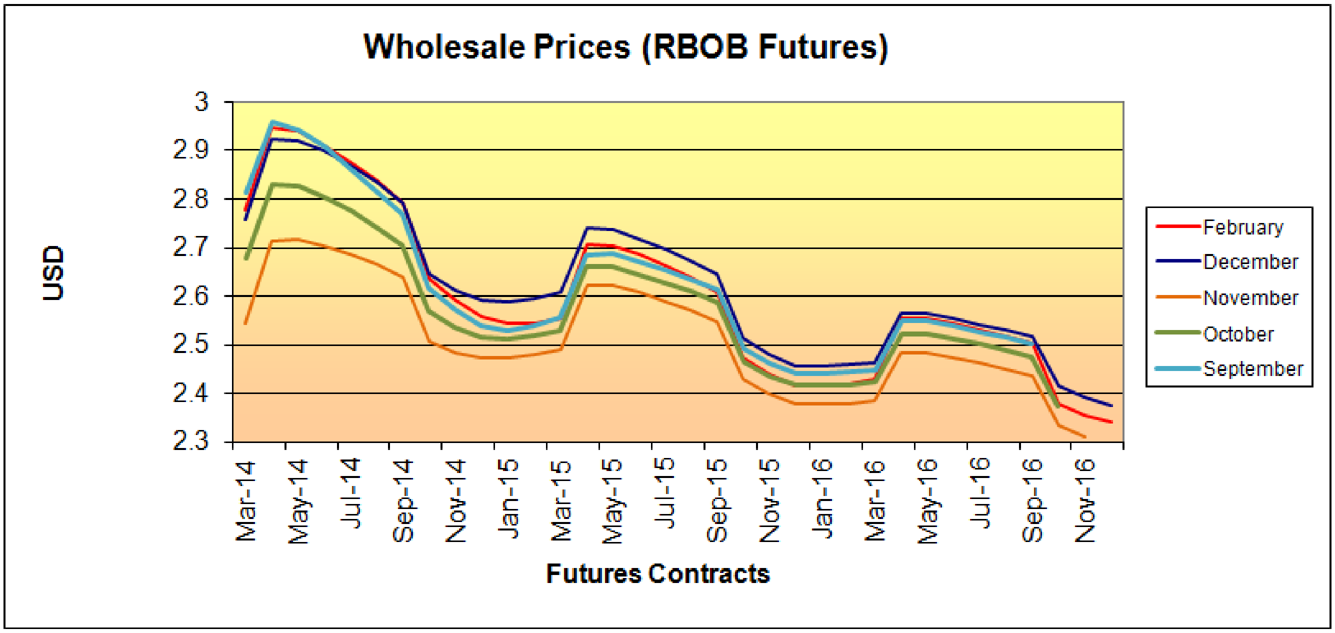
He noted gulf coast refinery maintenance will likely peak in early March, and refiners already have started to slow processing runs in anticipation of that. In addition, a larger-than-usual fleet of oil tankers is bound for US waters, and arrival of those oil supplies could dampen US oil futures prices."

These increases in price generally do not factor in other unforeseen consequences that accompany seasonal change. Aside from switching to more expensive blends of fuel, refineries generally perform standard maintenance between the winter and spring. Past issues associated with this practice have caused significant bumps in price at the pump for highly populated regions – sometimes for months on end.

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 forward price curve for the month of February appears a bit higher than the year-end projections, but levels out in the distant future. This indicates that the market expects geopolitical pressures to push crude oil prices up to levels not seen since the beginning of fall.



Wholesale Prices (RBOB Futures)
USD
3
2.9
2.8
2.7
2.6
2.5
2.4
2.3
Mar-14
May-14
Jul-14
Sep-14
Nov-14
Jan-15
Mar-15
May-15
Jul-15
Sep-15
Nov-15
Jan-16
Mar-16
May-16
Jul-16
Sep-16
Nov-16
Futures Contracts
February
December
November
October
September