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# EYES ON ENERGY

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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 overall macroeconomic picture has not changed much from last month. While US GDP was revised downward for the first quarter, that is “old news.” Second quarter growth is continuing the same sluggish path of about 2%, with estimate revisions moving lower because of the trade figures. The bright spot in the U.S. continues to be housing, where there is continuing strength in sales and prices and a reduction in inventory. Employment gains continue at a moderate pace with more people entering the labor force.

The European economy has actually shown a small improvement in forward indicators. This has been offset by a slight weakening in estimates for China.

Surprising to many has been the strength in the U.S. dollar which is now at a three-year high on a trade-weighted basis (the best measure). This has served to keep dollar-denominated prices lower than would otherwise be the case.

Recession risks in the U.S. remain very low. The overall economic tilt, despite the scary headlines, remains for improving growth. Central bank policy around the world supports this viewpoint. We must remember that Europe, Japan, and China are all trailing the US on this front.

## **Potential Risks**

So far – fingers crossed – we have not had major weather disruptions. While the market initially appeared stable in the run up to the July 4 holiday, oil prices have shot up rapidly following the civil and military unrest in the state of Egypt. During the same weekend of the American Independence Day, civilian protests reached a critical level that pushed the Egyptian military to overthrow the newly elected Islamist president Mohamed Morsi. The effect of these new developments has been similar to the initial Arab Spring uprisings in that they have caused a price shock due to increased uncertainty. According to [CNN Money](#):

*“While oil production from Egypt is negligible, the country controls the Suez Canal and pipeline, which move about 4 million barrels of oil per day.*

*Plus, the country is one of the largest and most powerful in the Middle East and North Africa -- home to about a third of the world's oil production.*

*With Egypt on the verge of a meltdown, fears of supply disruptions will likely drive oil prices higher.*

*‘It's anyone's guess as to how high crude oil can go when crisis erupts in the Middle East,’ said analysts at Lido Isle Investors. ‘We believe this is a key breakout move and would not be surprised to see crude head higher from here.’”*

The [Wall Street Journal](#) reports a similar market reaction:

*“Violent clashes between the Egyptian military and supporters of ousted President Mohammed Morsi have claimed dozens of lives and ignited a rally in oil prices, at a time when exports from Libya also have been disrupted.*

*Traders said talk of timeline for a new Parliament to be in place in six month and presidential elections to follow ensures that the concerns will have a lasting effect in the market, while at the same time offering some promise for potential stability in the near term.*

*“The situation in Egypt means we are not going to see oil under \$90 a barrel anytime soon and maybe not under \$100 a barrel, if the U.S. economic recovery kicks in,” said Carl Larry, analyst at Oil Outlooks and Opinions.”*

So far, the month of July has served as a stark reminder that geopolitical events have enormous potential to sway market prices – even when domestic indicators suggest predictable growth. We will monitor the situation in Egypt closely on [our blog](#), which you can check for periodic updates.

## **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, the July curve remains basically unchanged from the June projection. Though we are no longer anticipating higher prices due to the summer driving season, international turmoil has compensated for those changed expectations.

As such, opportunities remain to lock in more favorable prices beginning in the fall of 2013.

