# 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

US economic news reflects solid improvement after a weak first quarter of the year. The reports on retail sales and housing have shown significant downturns. Industrial production increased due to utilities and then weakened with the warmer weather. Employment has improved, as measured in both job losses (lower initial claims) and net job creation. There is still significant slack in the labor market. The housing market is the subject of much debate. Today's reports on new home sales show strength in March and April, once again after the worst of the weather. Mortgage rates have hit another new low. Most economists expect a growth acceleration for the rest of 2014.

 

Foreign markets are more mixed in outlook. China seems to be growing at slightly less than the 7.5% government target. The UK is doing well. The rest of Europe is weaker, but the government policy has shifted from austerity to growth stimulation. The stronger growth projections suggest an increase in global energy demand.

**Potential Risks**

The turmoil in Eastern Ukraine over the Russian Federation's role in the region continues to dominate headlines in energy markets. A recent Bank of America commodities report suggests this is the most significant factor in moves this week:

*"Crude continued its choppy, albeit range bound, trading yesterday as it rallied on stronger equities, increased tensions in the Ukraine over the weekend, and on expectations of crude stocks declining for this week's stat. WTI rallied 60 cents in the prompt, breaking through its 200 day moving average to settle at $100.59/bbl. Front spreads were lower, however, as they remain in a tight range while the spreads further out the curve were stronger. Brent rallied as well, ignoring headlines of a further ramp up in Libyan exports given similar reports in the past haven't materialized. Brent's gains were capped around $108.80/bbl as it gained 52 cents on the day to settle at $108.41/bbl."*

While past general trends suggest an increase in gas prices in the weeks prior to Memorial Day, most analysts expect small decreases in the near future. TIME reports:

*"The commonly held theory is that gas prices rise hand in hand with both temperatures and consumer demand. In other words, gas prices tend to inch up in spring and peak in the height of summer. Many years, this theory holds true. For instance, the priciest day ever for gas in the U.S. was*

*in July 2008, when the national average spiked over the course of a few short weeks, eventually hitting $4.11.*

*In more recent years, however, the summer spike hasn't been quite as reliable. In 2012, the national average for a gallon of regular reached a summertime low of around $3.35 in early July, before shooting to over $3.80 in mid-September, after the peak summer travel period had passed. And the peak time for gas prices in 2012 was actually reached in early April, when the average topped $3.90.*

*Last year, the trajectory was a little different. Gas prices rose in early winter, then took the nearly unprecedented step of retreating in March, remaining in the vicinity of 3.50 through mid-summer. In any event, prices at the pump didn't inch up slowly and steadily as the days grew warmer and longer, like the theory holds. Analysts say that 2014 is shaping up as yet another year that blows a hole in the theory."*

We will continue to keep a close eye on geopolitical events and short-term market trends to assess the potential risk of price increases at the pump. The summer months hold much potential for unforeseen conflicts to bump up prices around the nation.

**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.

In April, the forward curve maintained the relatively stable prices seen in the market over the winter. May futures reflect an increase across the entire curve. The market expects a substantial rise in coming months due to the summer driving season and the potential for hurricanes in the Gulf of Mexico. Those acting to lock in prices do not buy the high current spot price, of course. It is easily possible to assure price stability for the much lower future prices – and to do so before hurricane season.