
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

For most of June the US economic data were a bit stronger, suggesting a rebound after a weather-influenced first quarter. In the last week the picture became mixed. The final results for Q1 GDP were revised to a negative 2.9%, the worst level outside of a recession in many decades. Housing data have been mixed. Regional Fed surveys and the Institute for Supply Management reports have been strong. Initial jobless claims have held the lower recent levels. Personal spending and business investment have been weaker.

Most estimates are that weather accounted for about half of the Q1 decline with inventories and lower than expected health expenditures also important. It is not a recession in the US, but the gap between current levels and potential remains wide. Next week's employment data will be a major focus of interest.

European economies remain weak. The "flash" PMI data from Japan and China show a little rebound. Overall, it has been a continuing sluggish background, helping to reduce world energy demand.

Potential Risks

The near-collapse of the modern Iraqi nation has rocked global energy markets for weeks. As the Islamic State of Iraq and the Levant has spread outward from Syria, a staggering number of key oil fields and refineries have found themselves the focus of territorial conflict. A Bank of America commodities report from June 23 reads:

"Brent spiked back above \$115/bbl following headlines over the weekend that ISIS militants had taken control of Iraq's border crossings with Jordan and Syria and following stronger than expected Chinese PMI data overnight. Iraq's production in the south remains unaffected so the move is once again fear and headline driven. WTI is higher this morning as well, breaking through \$107/bbl. The backs of both curve continue to mark new highs."

While there have not yet been reported issues in oil exports from the south of Iraq, market makers consider continued militant gains to be very dangerous. According to [Oil Price Online](#):

"Iraq is burning, and now its largest refinery has quite possibly been taken over by Sunni insurgents."

On June 18, reports on the ground remained unclear as to who controls the refinery, with Iraqi security forces saying they were close to retaking full control, but other sources suggesting the refinery was surrounded by insurgents allied with anti-government tribes from the area.

By June 19, the Iraqi Oil Report was twittering that the Iraqi security forces were inside the refinery, but that the Sunni militants from the Islamic State of Iraq and the Levant (ISIS) and their loose alliance with local tribes were controlling everything around the refinery, and that production had been completely halted.

What does it mean for global markets? Well, not much—yet, at least in direct relation to the Baiji refinery. Baiji is billed as Iraq's largest refinery, but that's skewing the picture a bit. It is perhaps Iraq's largest refinery in terms of square footage. But it refines products for consumption on the domestic market only—not for export."

We will continue to monitor the situation in Iraq. The shocking developments over the last month only underscore the instability of global energy markets. Without fuel price protection, fuel managers and everyday consumers alike are at the mercy of geopolitical power struggles.

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.

Clearly, the forward curve for the month of May has far exceeded anything seen since last fall. This drastic change goes far beyond what we would normally expect from seasonal adjustments. The ongoing

conflict over control of oil-producing regions in Iraq and Syria have seriously altered the geopolitical landscape for the foreseeable future.

