Monthly Energy Report

DEVO CAPITAL MANAGEMENT
COMMODITY TRADING ADVISOR
INTRODUCING BROKER

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Energy Price Outlook ------September 2013

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Over the past month, the energy complex has traded in a volatile, two sided range. Over a two week period we saw WTI rally by almost $10, followed by an eight dollar break. During the rally, which was driven by the political turmoil in Syria, we saw spot WTI briefly trade above $110 a barrel. The subsequent break was caused by a deal brokered by Russian President Vladimir Putin for Syria to turn over its weapons to the United Nations.

Syria has been getting all of the headlines, but there are numerous other fundamental factors that could have a significant impact on future oil prices. We've seen the crack spreads plummet, especially for gasoline. It's difficult to say if the crack spread deterioration has been because of slipping demand or it is has been a result of the rising WTI prices because of the Syrian driven run-up. Either way, if we do not see a turnaround in these spreads, we are going to see further weakness in the LLS – Brent/WTI spreads, which have sold off sharply over the past few months. There is also a very good chance we will start to see oil pricing points such as Clearbrook and Midland deteriorate relative to NYMEX.

Over the past couple months, the events in Syria and the possible response by the rest of the world has been the driving force pushing crude oil prices higher. The fear is that any outside military action in Syria could escalate to surrounding oil producing nations, which could jeopardize the flow of oil around the world. If you are involved in energy trading these type of political events must be taken seriously Even though a disruption of oil flow that is not offset by a decline in demand is unlikely, a strong upward spike is always a possibility. Fundamentally, it is hard to build a bullish case for the energy markets at this time. Supplies are adequate; production has been steadily increasing while demand has been flat.

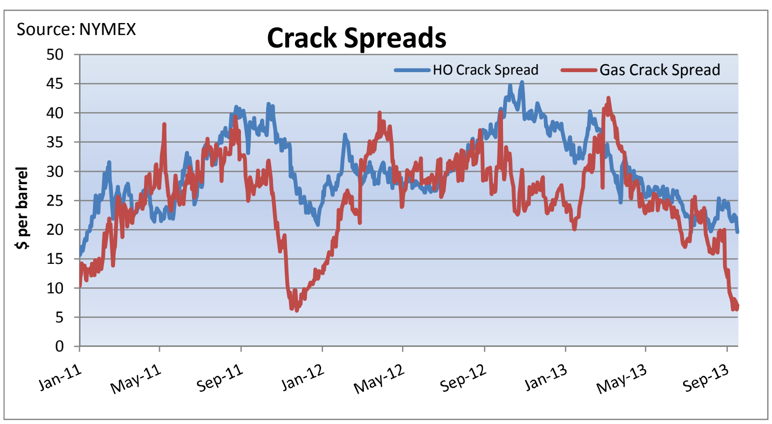
When markets are moving contrary to the fundamentals, caution is in order if you are in the markets. It has been our feeling that once the $95 level was broken on the upside, we would hold off on additional short hedge sales.

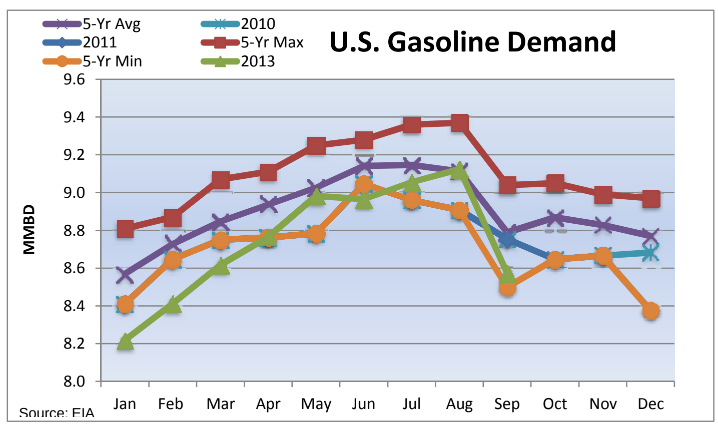
With the break of the $105 level to the downside, we feel the trend has changed and we are now recommending increasing short hedge positions.

The past month's highlights:

- **The Fed announced they will continue their bond buying program at the same rate**
- **The S&P reached an all time high**
- **Crude Oil continues to trade in a steep backwardation**
- **The Heating Oil and Gasoline crack spreads continue to deviate from each other**

Charts of Interest





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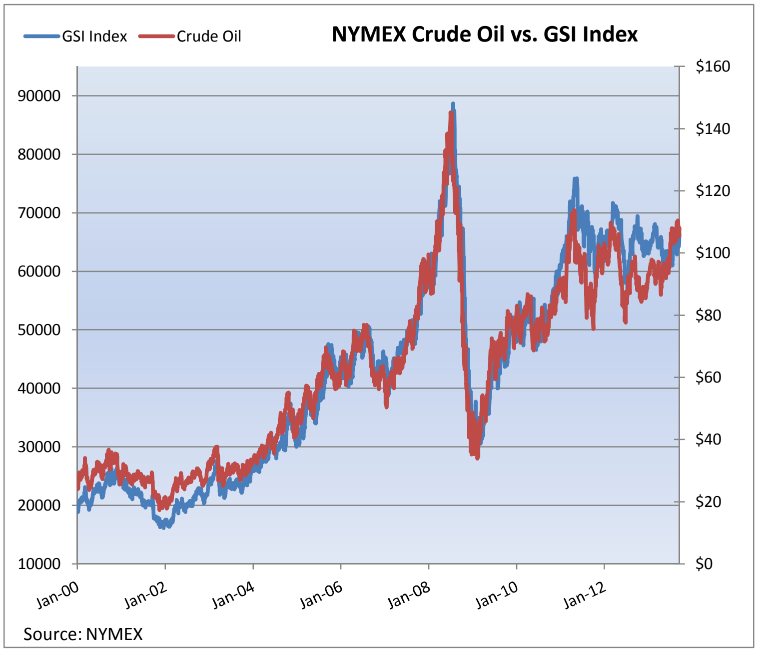
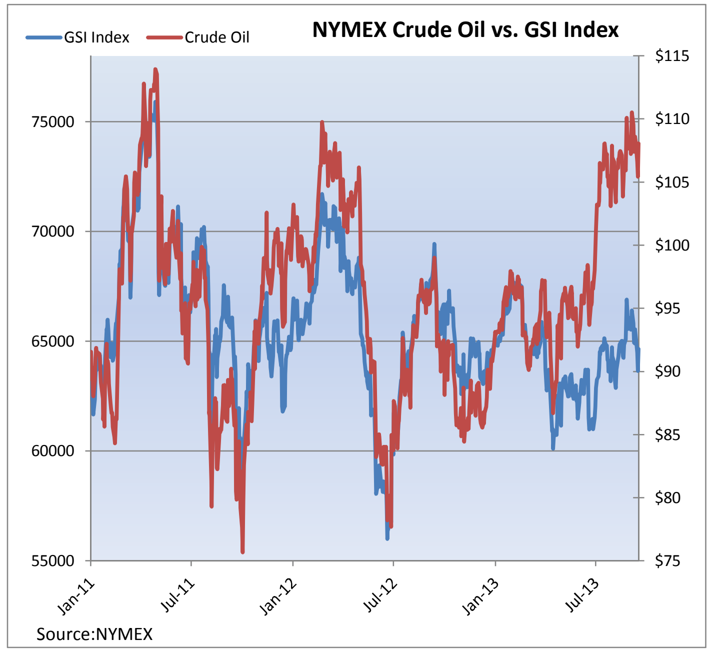
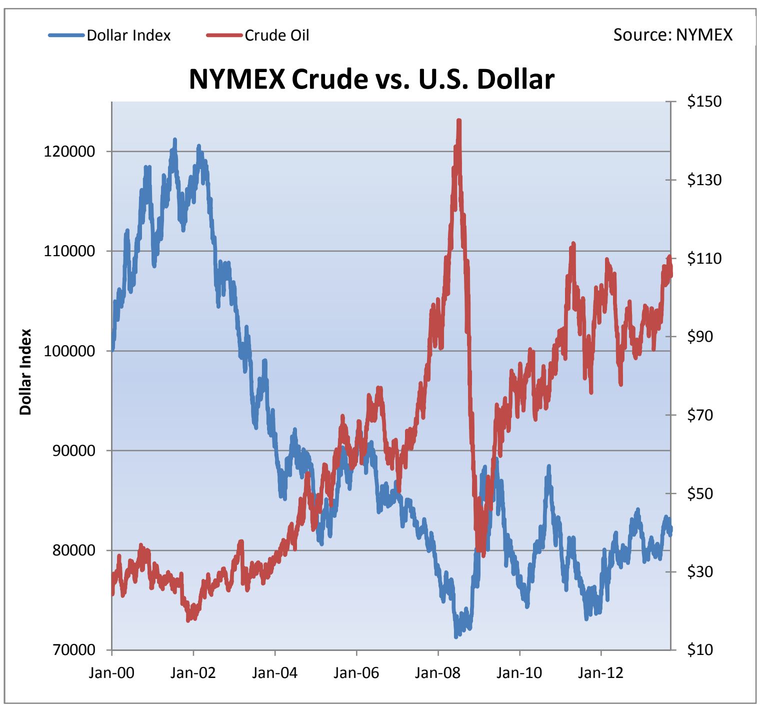
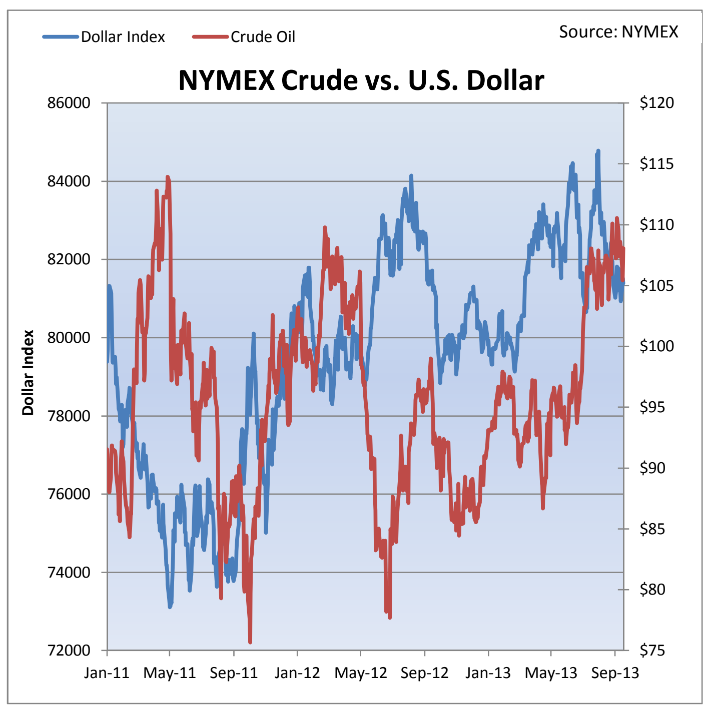




Crude Oil and the GSI index decreased in value over the past month.





The U.S. dollar and crude oil often trade with an inverse relationship. Both the U.S. dollar and Crude Oil decreased in value over the past month.

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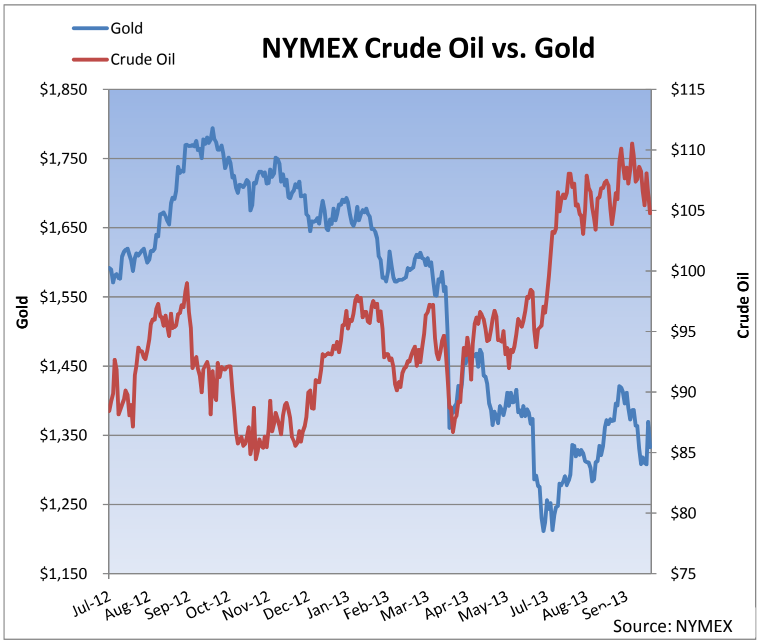
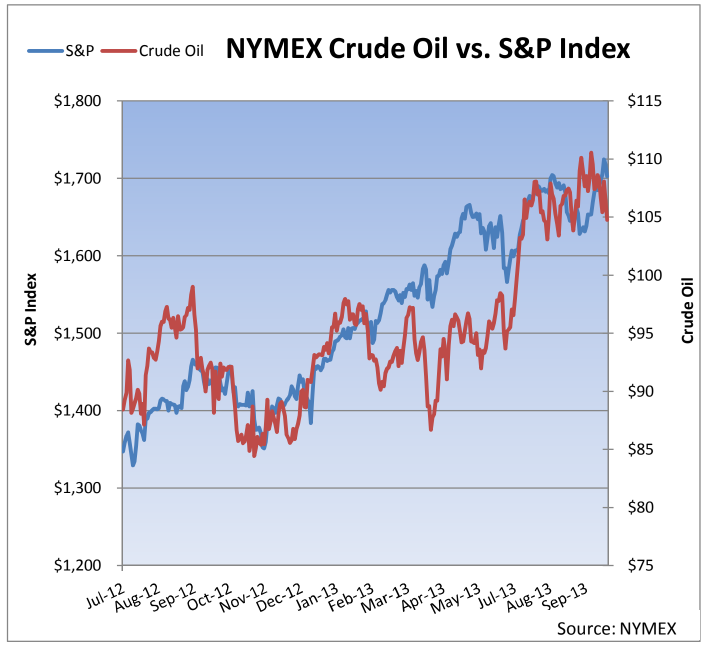
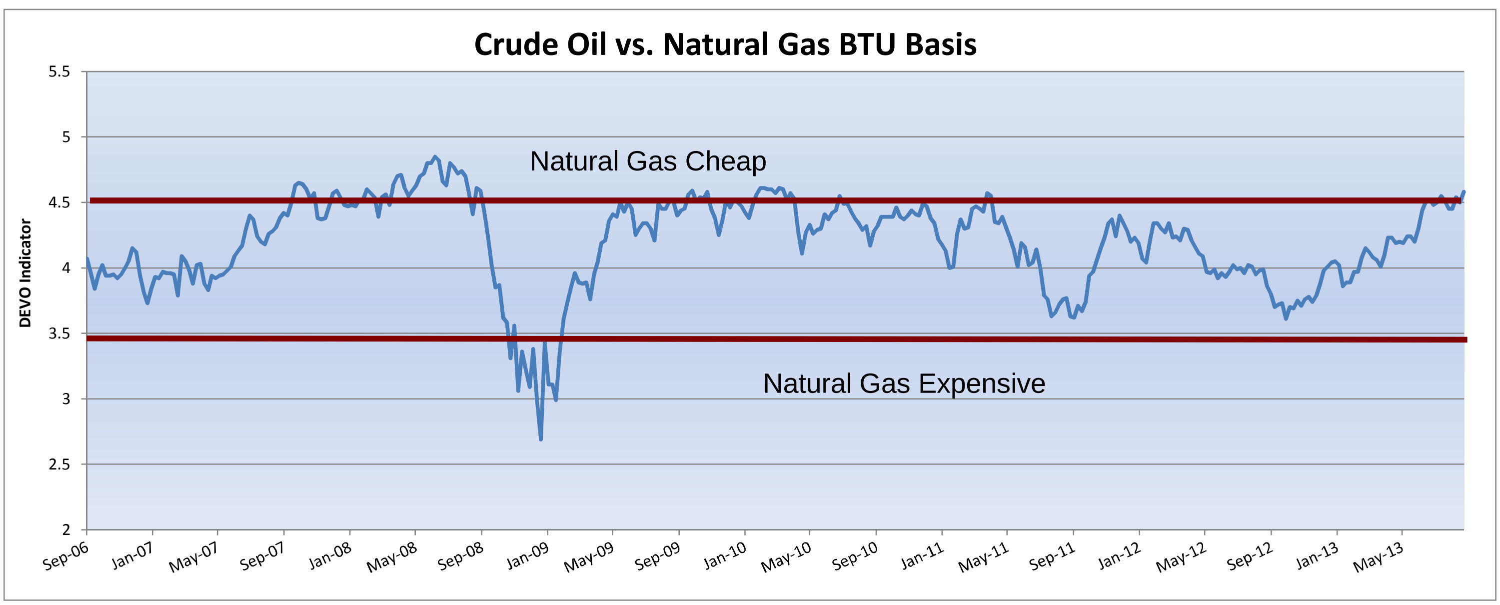




Crude Oil and Gold decreased in value, while the S&P increased in value over the past month.



The crude oil/natural gas btu spread has widened out over the past few month.

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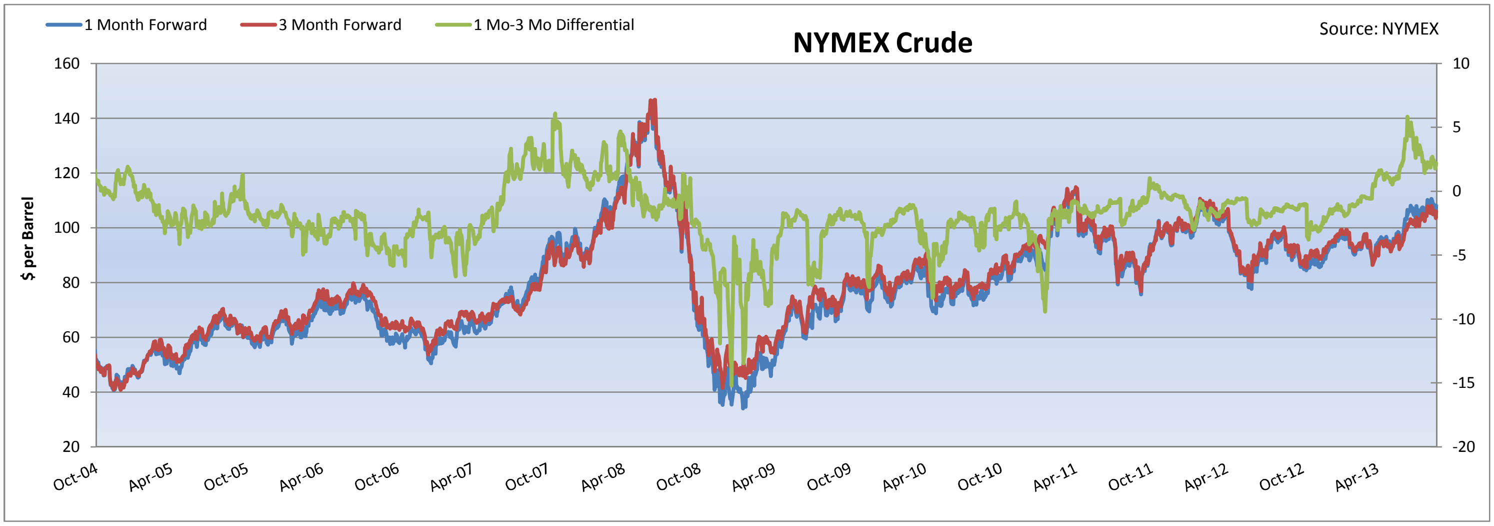
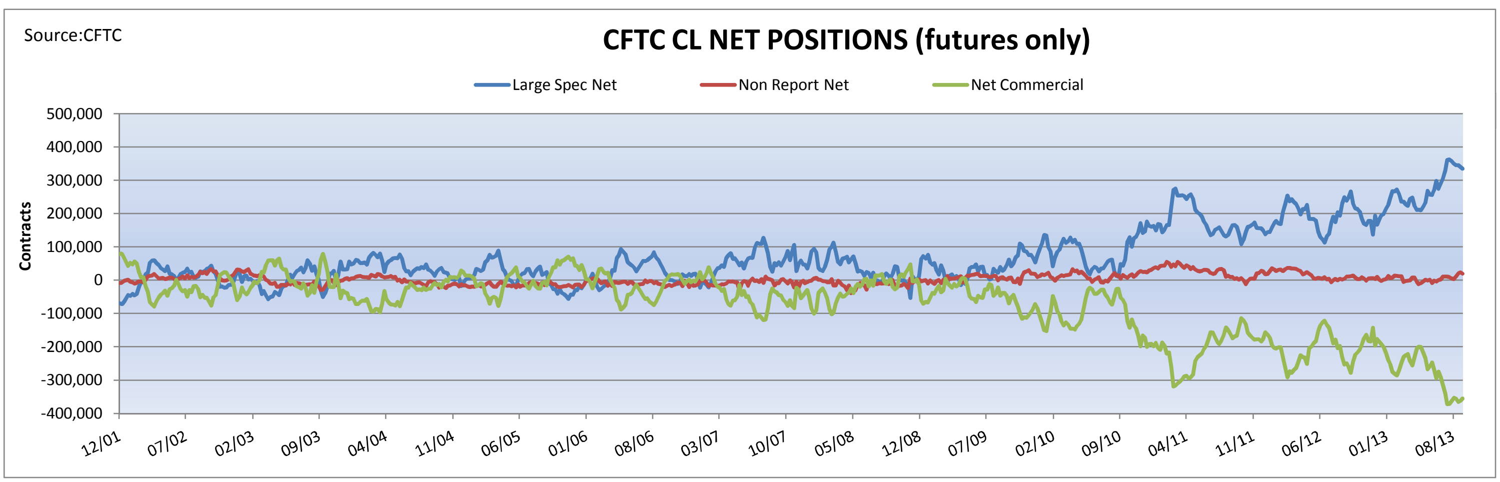
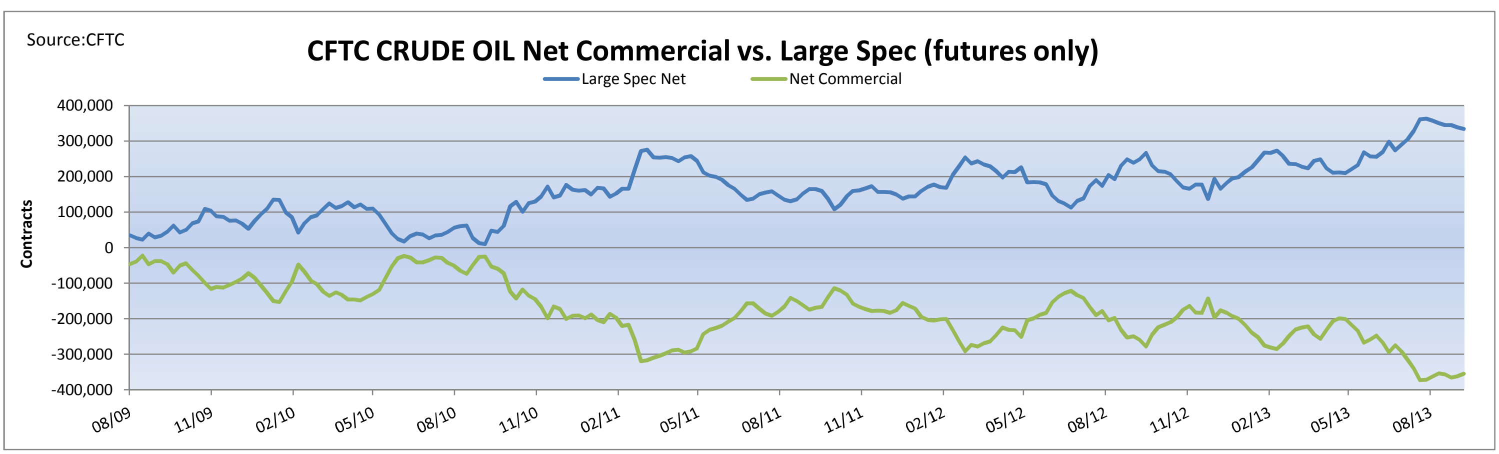


The front to back crude oil spreads have tightened in over the past month. However the front month contract is still trading at a premium to the back month contract.





Over the past month, the large speculator has held onto to their long positions and are close to record highs.

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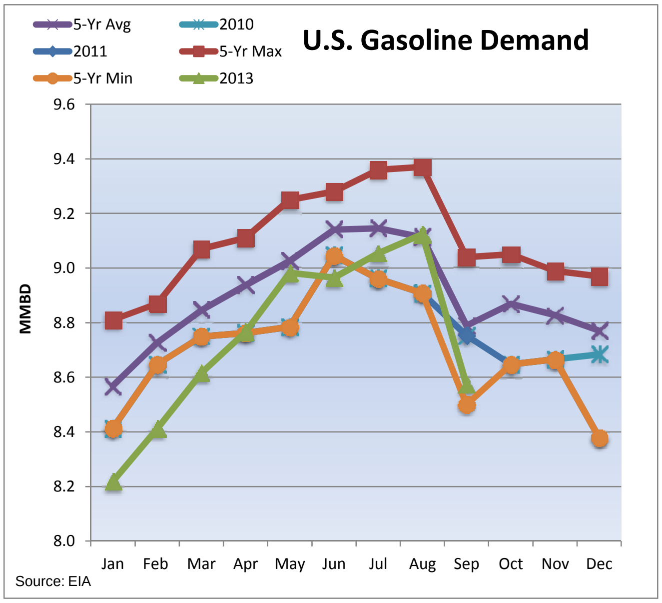
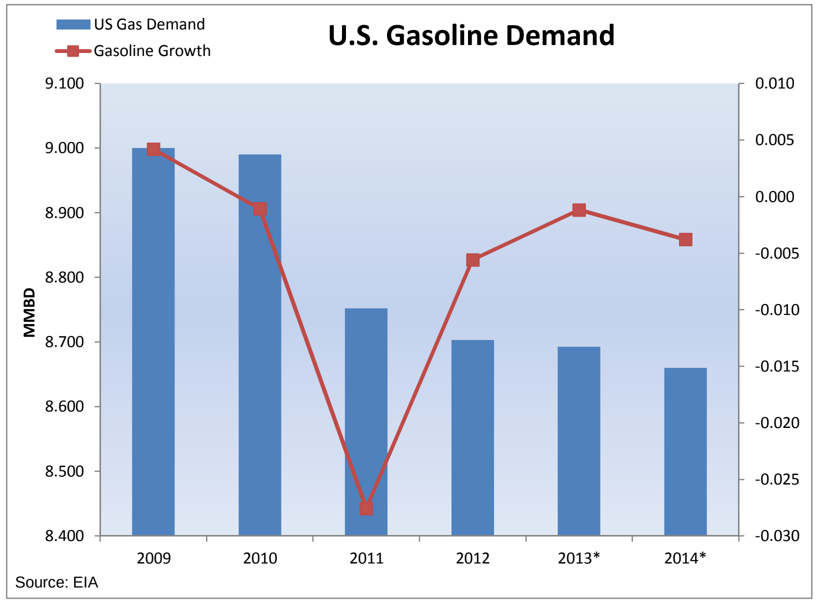


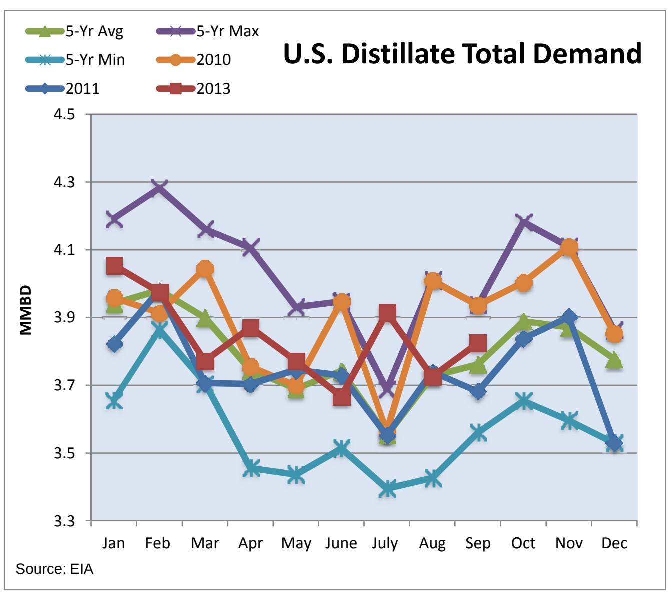


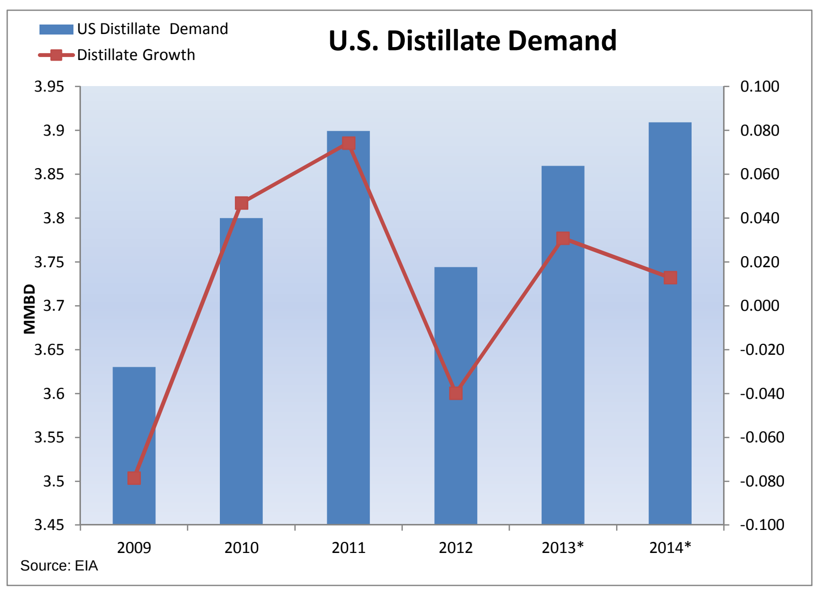
Motor Gasoline Consumption

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	8.19	8.62	8.63	8.82	9.00	9.03	8.82	9.13	8.57	8.70	8.54	8.38

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	8.22	8.41	8.62	8.77	8.98	8.97	9.05	9.12	8.57	*8.63*	*8.50*	*8.48*

Number in italics are projected numbers





Distillate Fuels Consumption

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	3.82	3.98	3.71	3.70	3.75	3.73	3.55	3.74	3.68	3.84	3.90	3.53

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	4.05	3.98	3.77	3.87	3.77	3.67	3.91	3.73	3.82	*3.91*	*3.84*	*3.99*

Number in italics are projected numbers

Distillate demand is tracking the five year average, while Gasoline demand is close to the five year low.

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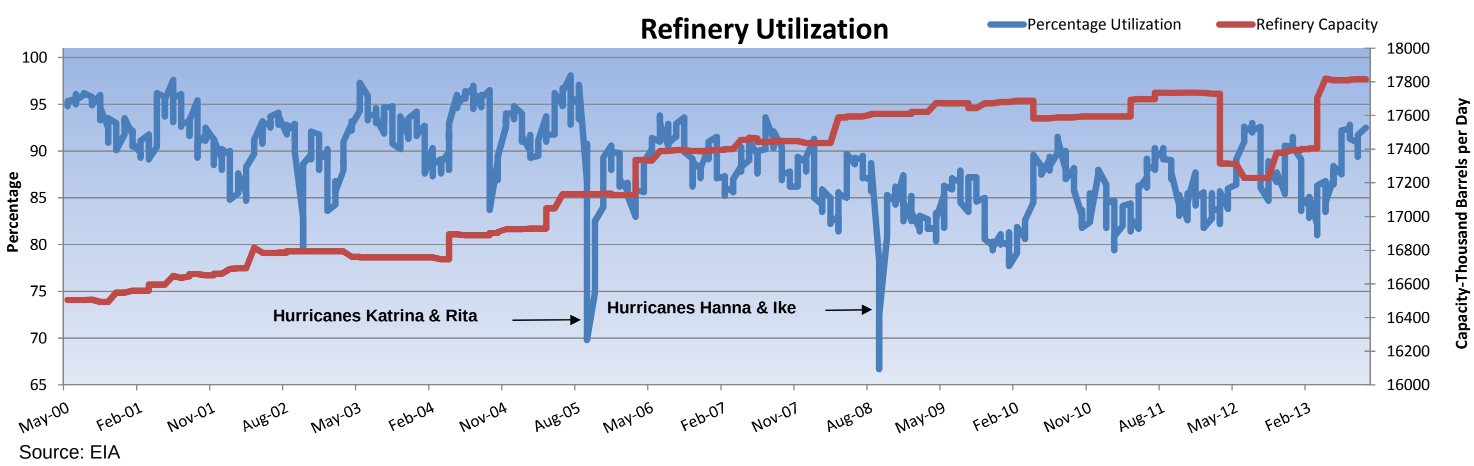
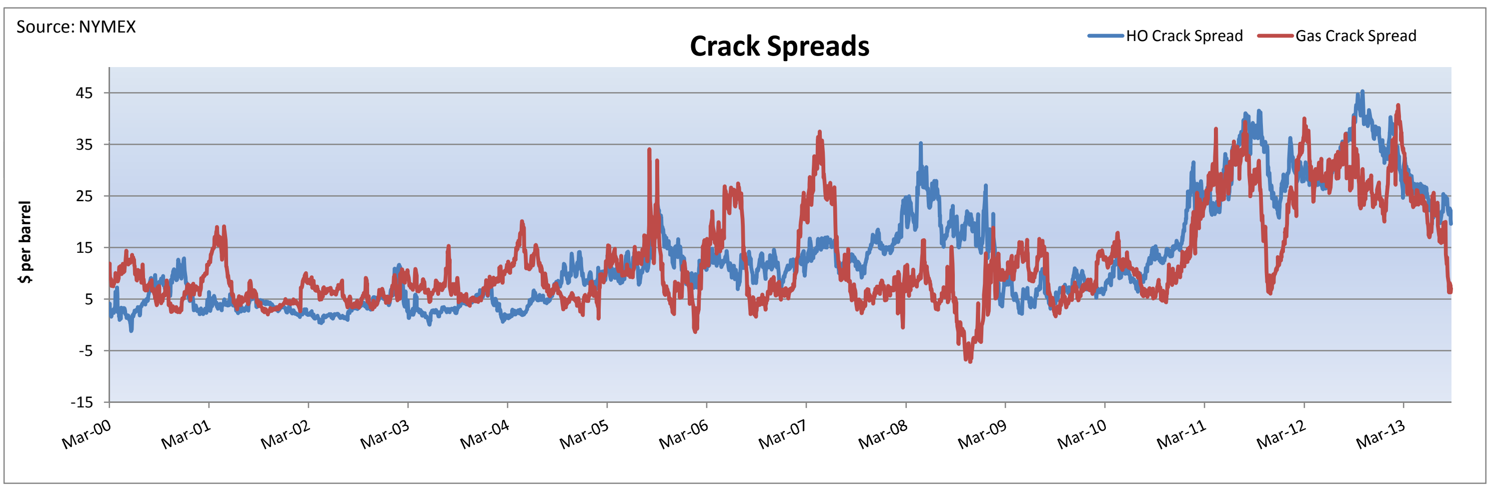
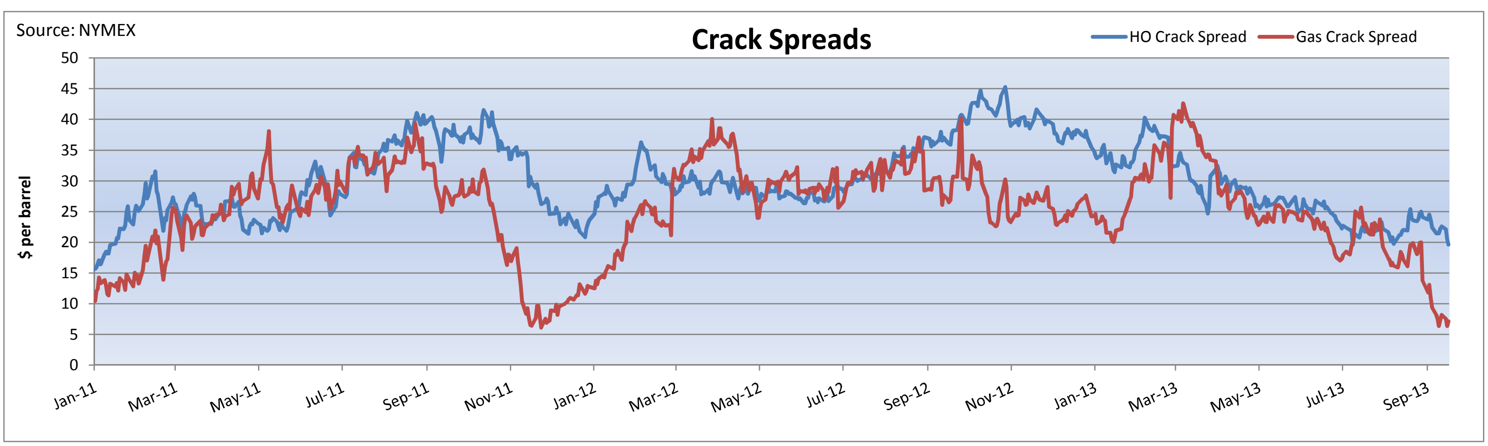


Refinery utilization increased this past month, while refining capacity remained unchanged.





Both the heating oil crack spread and the gasoline crack spread decreased in value over the past month.

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monthly report as of 9/23/2013

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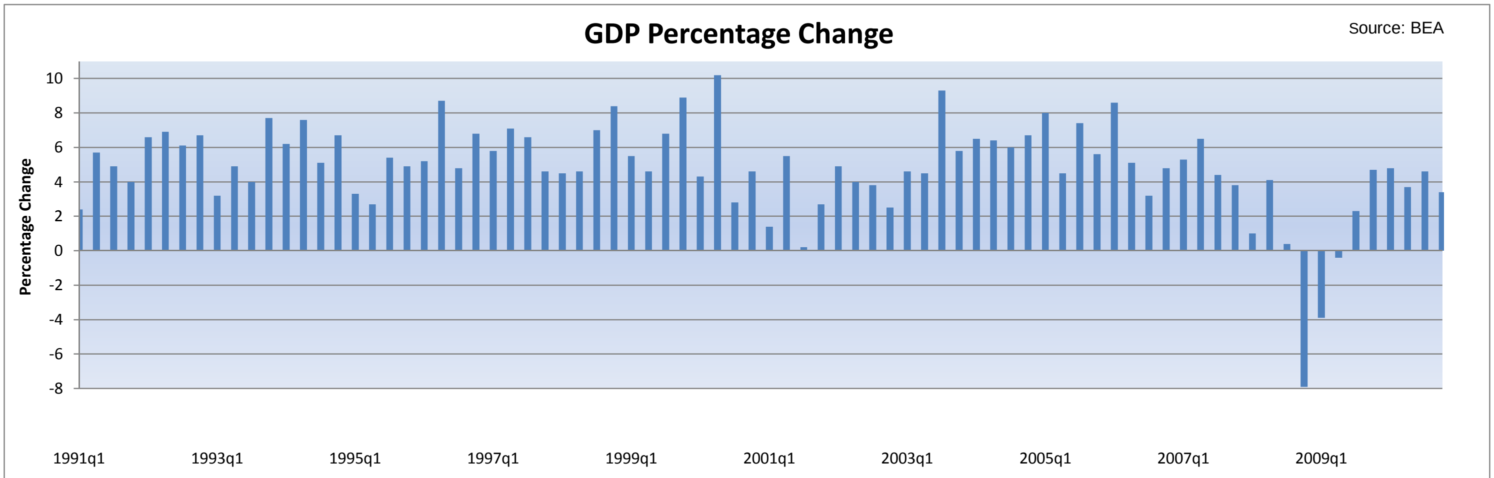

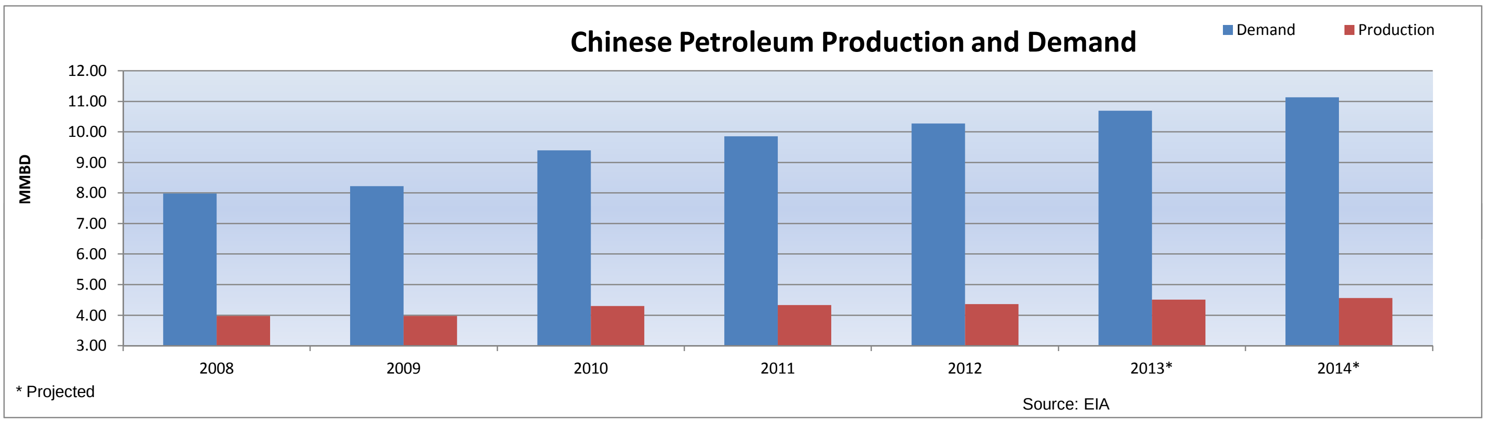

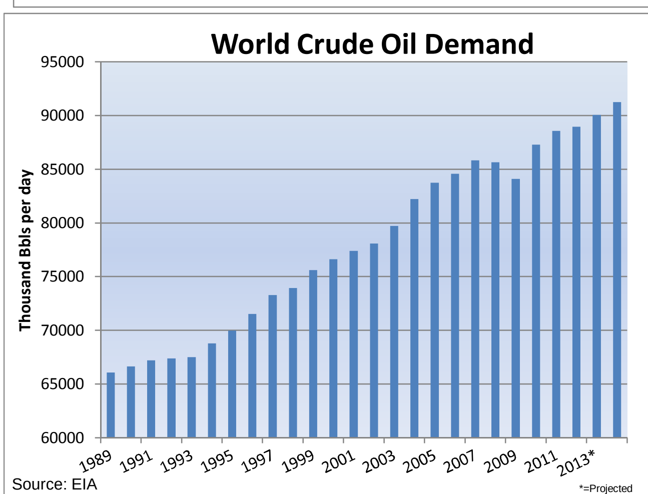

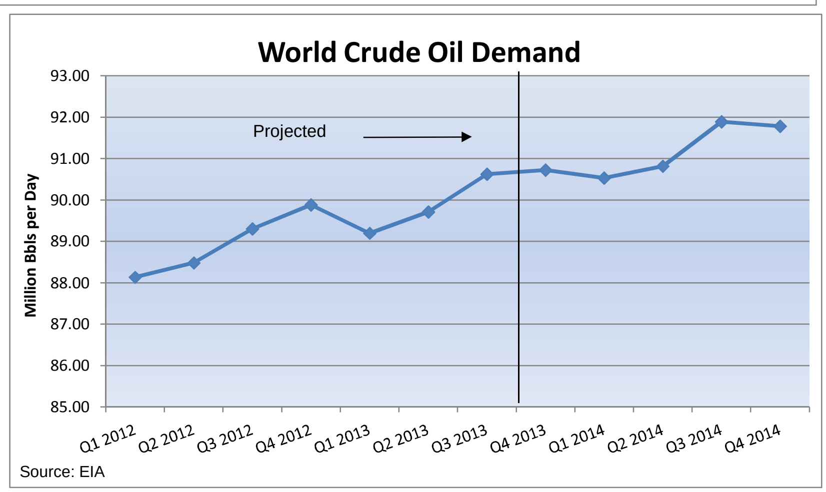

	2012											
Total World Demand	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
	86.97	**89.68**	**87.74**	**87.81**	**88.57**	**89.06**	**89.27**	**90.08**	**88.56**	**90.09**	**90.07**	**89.48**

	2013											
Projected Total World Demand	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
	89.03	**89.96**	**88.61**	**89.91**	**89.40**	**89.82**	**90.75**	**90.67**	**90.46**	*90.69*	*90.75*	*90.73*

Number in italics are projected numbers

The supply demand picture is fairly well balanced. Demand is expected to increase slightly in 2013.

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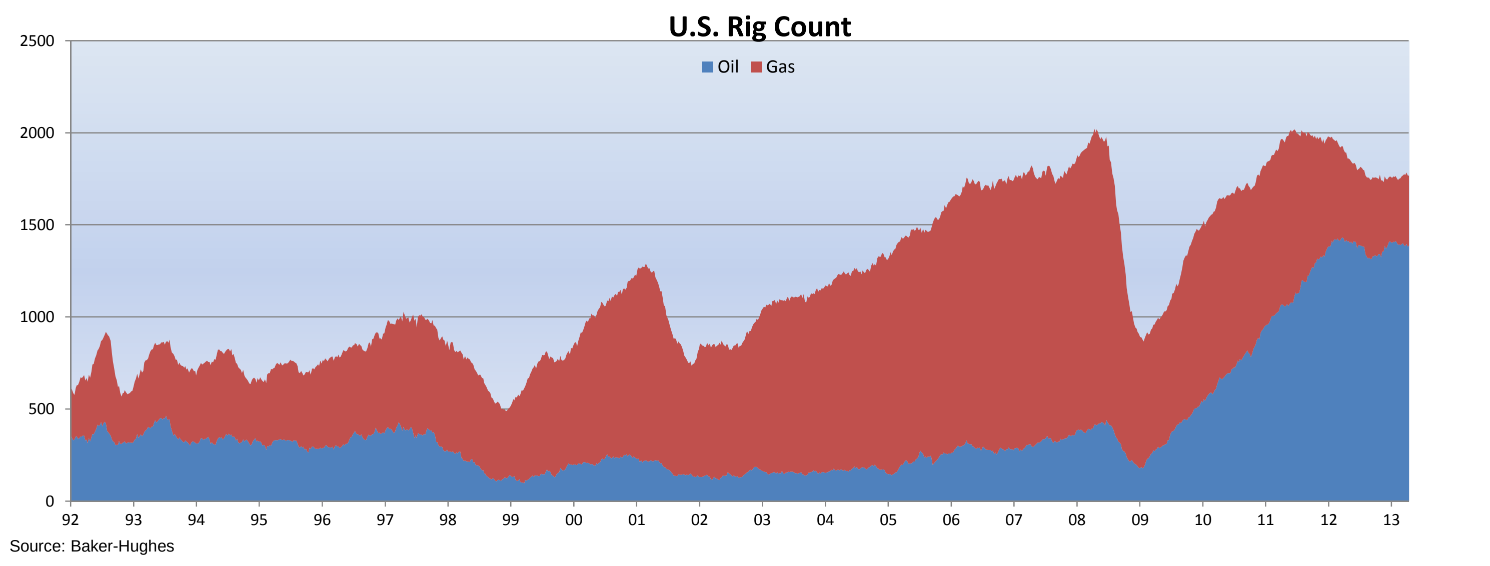

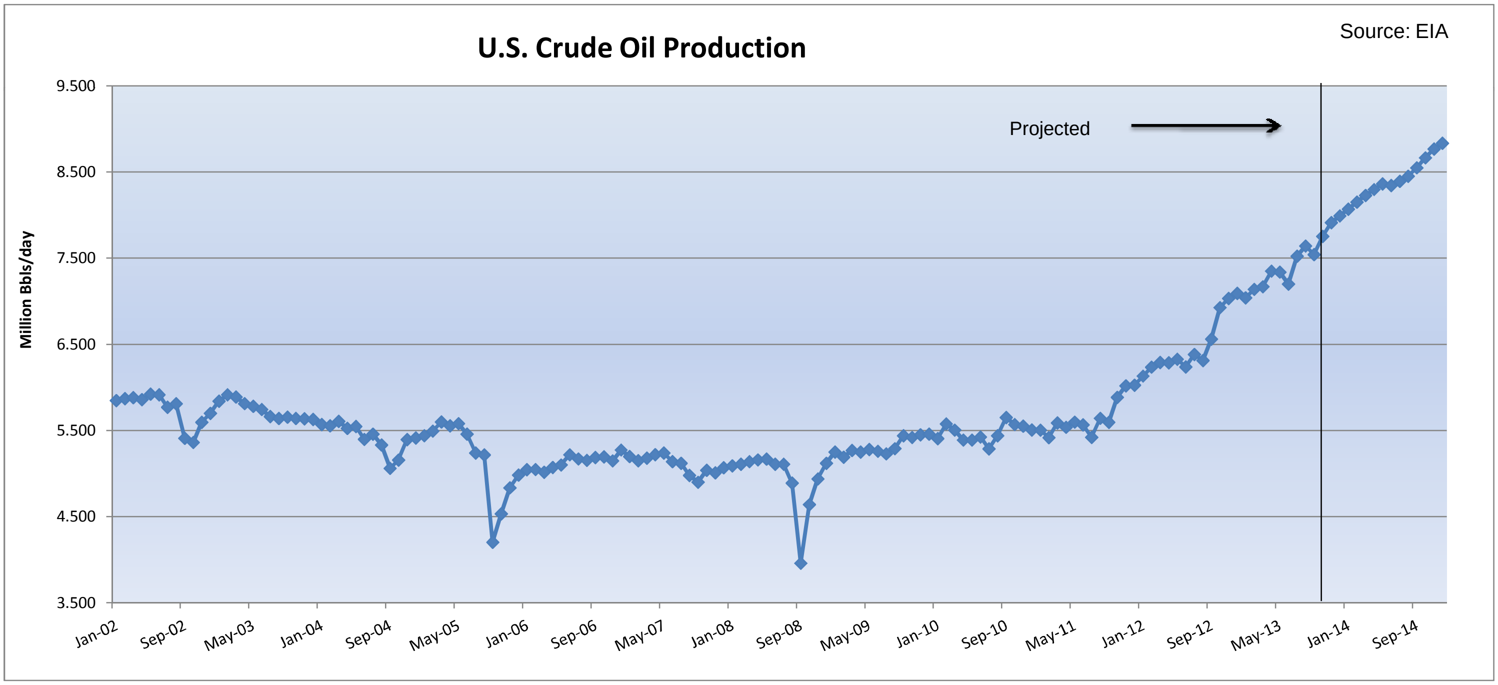

Crude Oil Production	2012											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	6.13	6.24	6.29	6.29	6.33	6.24	6.38	6.31	6.56	6.93	7.03	7.09

Crude Oil Projected Prod.	2013											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	7.04	7.14	7.17	7.35	7.34	7.20	7.52	7.64	7.54	*7.75*	*7.91*	*7.99*

Number in italics are projected numbers

Crude Oil and Natural Gas rig activity are relatively unchanged over the past few months. However, crude oil production in the US continues to increase.

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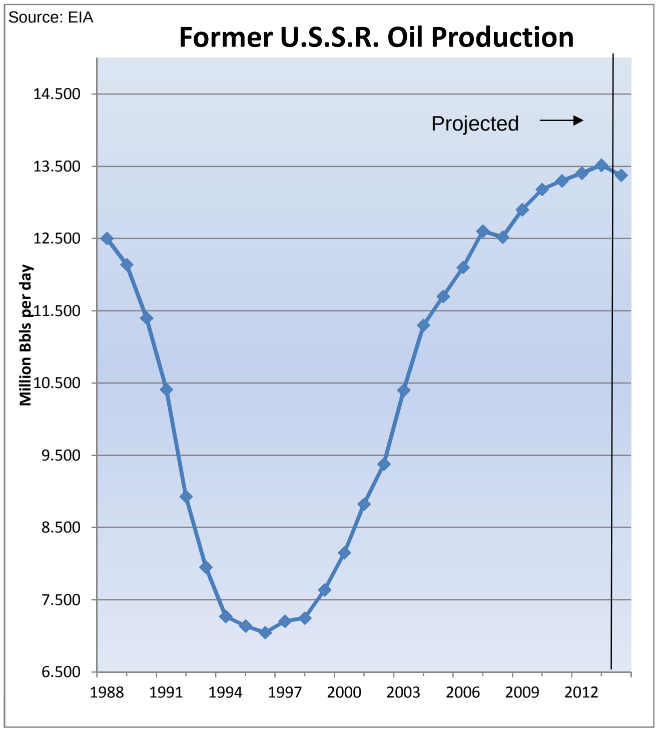
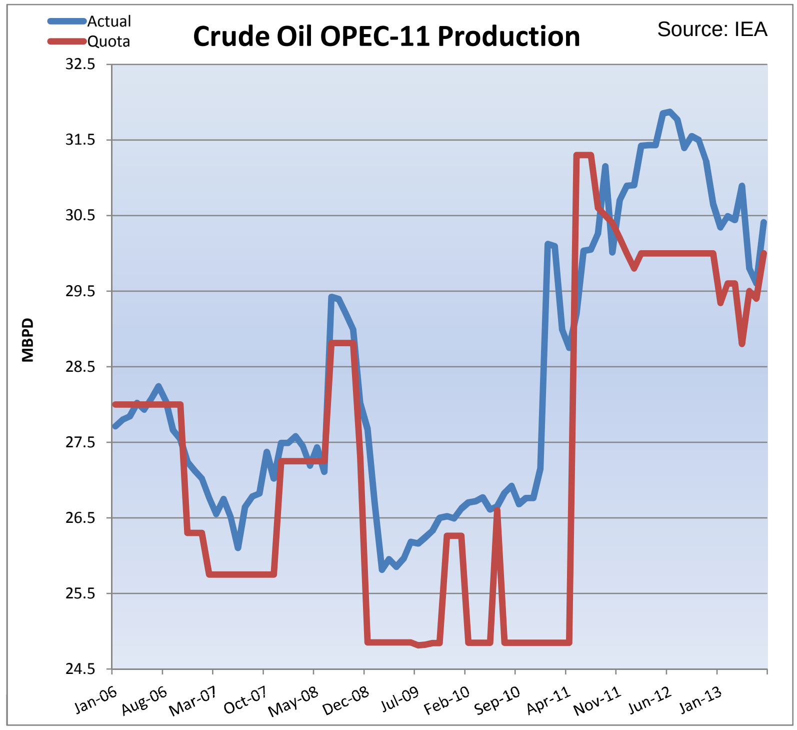
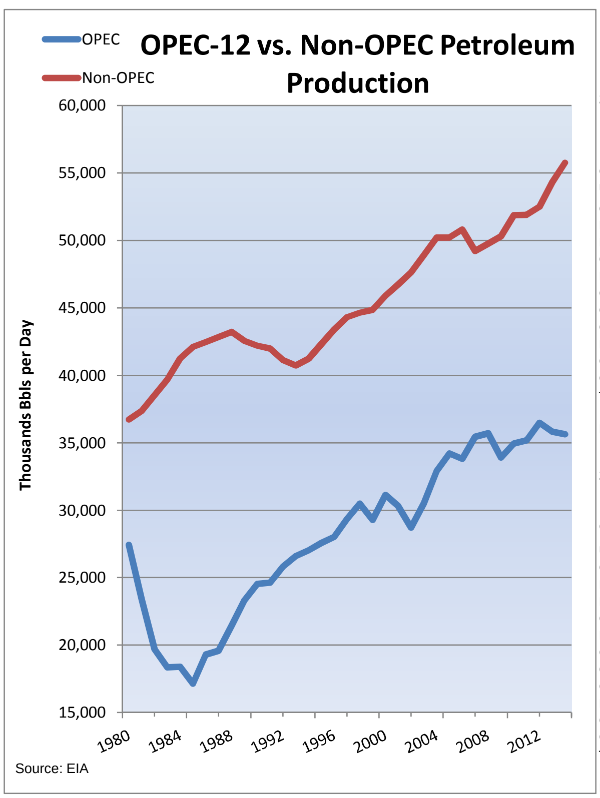




OPEC production remains stable.



2013 Supply (million barrels per day)

Source EIA

	Jan	Feb.	March	April	May	June
OECD (b)	23.04	23.24	23.64	23.82	23.61	23.56
U.S. (50 States)	11.60	11.66	11.80	12.09	12.09	12.02
Canada	4.05	4.26	4.36	4.36	4.22	4.26
Mexico	2.95	2.94	2.89	2.90	2.89	2.90
North Sea (c)	2.98	2.90	3.09	2.95	2.90	2.85
Other OECD	1.45	1.48	1.49	1.53	1.52	1.54
Non-OECD	65.85	65.76	65.54	66.12	66.92	67.28
OPEC (d)	35.77	35.73	35.76	36.24	36.37	36.07
Crude Oil Portion	30.03	29.99	30.01	30.49	30.60	30.30
Other Liquids	5.73	5.74	5.75	5.75	5.77	5.77
Former Soviet Union	13.52	13.53	13.51	13.50	13.40	13.86
China	4.45	4.43	4.44	4.45	4.45	4.53
Other Non-OECD	12.12	12.07	11.83	11.93	12.69	12.83
Total World Production	88.89	89.01	89.18	89.94	90.53	90.85
		0.00				
Non-OPEC Production	53.13	53.28	53.42	53.70	54.16	54.78

2011 Supply (million barrels per day)

	July	Aug.	Sept.	Oct.	Nov.	Dec.
OECD (b)	23.76	23.96	23.80	*24.22*	*24.53*	*24.72*
U.S. (50 States)	12.22	12.41	12.30	*12.50*	*12.73*	*12.81*
Canada	4.27	4.29	4.26	*4.19*	*4.24*	*4.32*
Mexico	2.85	2.89	2.88	*2.91*	*2.91*	*2.90*
North Sea (c)	2.80	2.76	2.76	*3.03*	*3.07*	*3.10*
Other OECD	1.62	1.62	1.61	*1.59*	*1.59*	*1.60*
Non-OECD	66.94	66.59	66.17	*66.26*	*66.13*	*65.95*
OPEC (d)	36.03	35.73	35.21	*35.61*	*35.60*	*35.75*
Crude Oil Portion	30.26	29.93	29.47	*29.83*	*29.70*	*29.83*
Other Liquids	5.78	5.80	5.74	*5.78*	*5.90*	*5.92*
Former Soviet Union	13.55	13.38	13.42	*13.48*	*13.51*	*13.52*
China	4.53	4.56	4.56	*4.57*	*4.58*	*4.53*
Other Non-OECD	12.83	12.92	12.98	*12.60*	*12.44*	*12.15*
Total World Production	90.71	90.55	89.97	*90.48*	*90.66*	*90.68*
Non-OPEC Production	54.67	54.82	54.76	*54.87*	*55.06*	*54.93*

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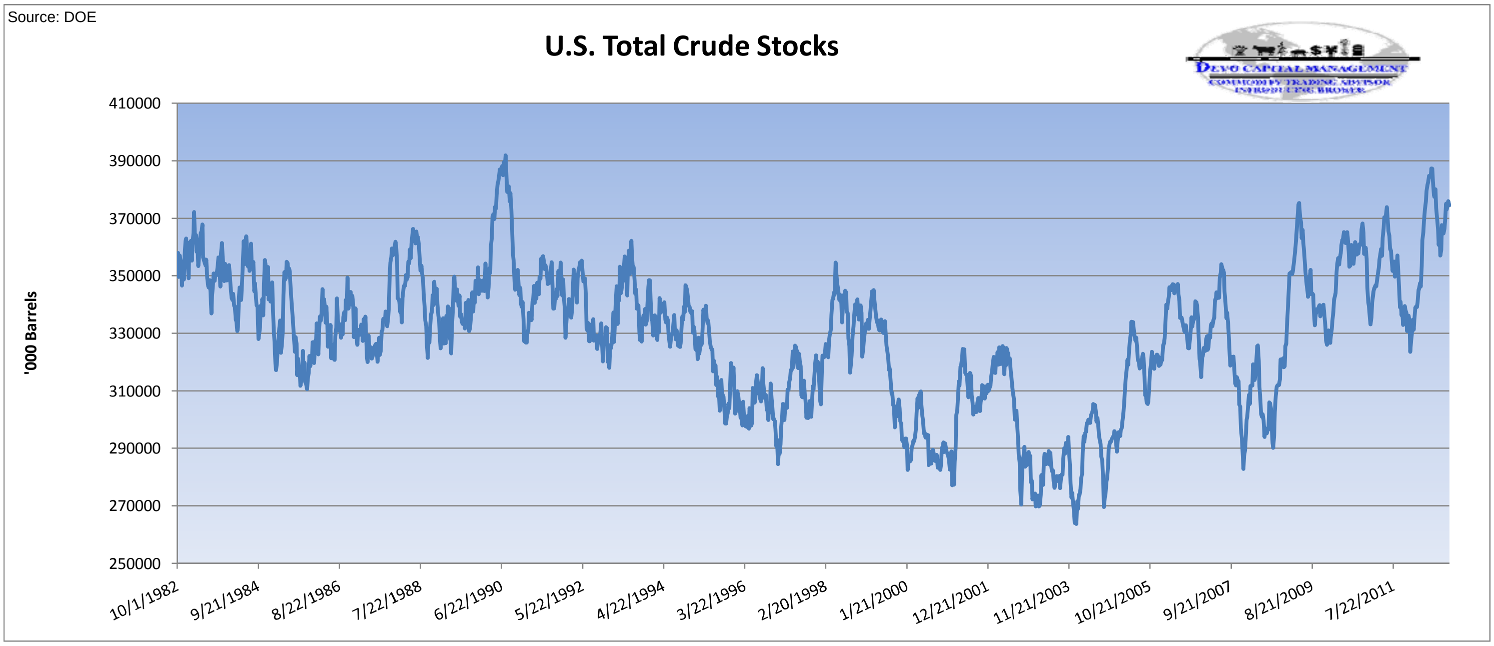
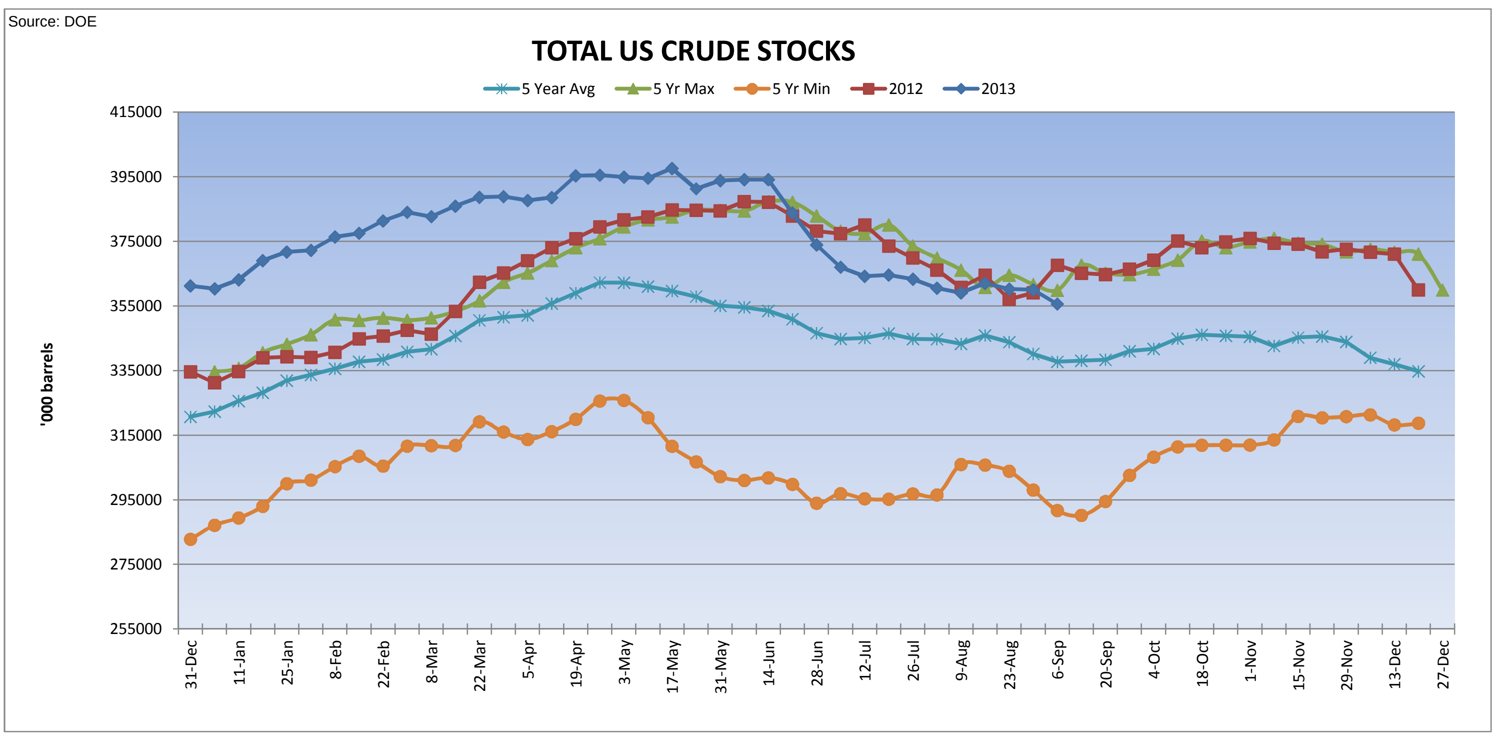
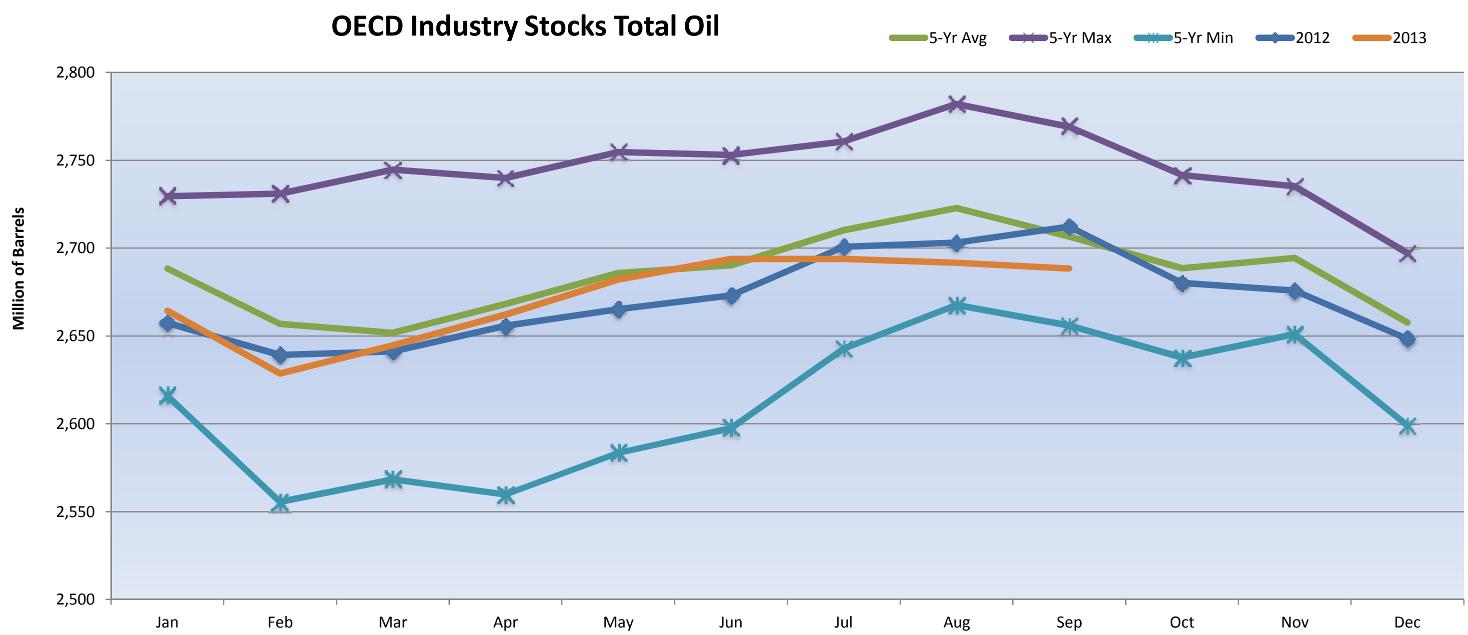
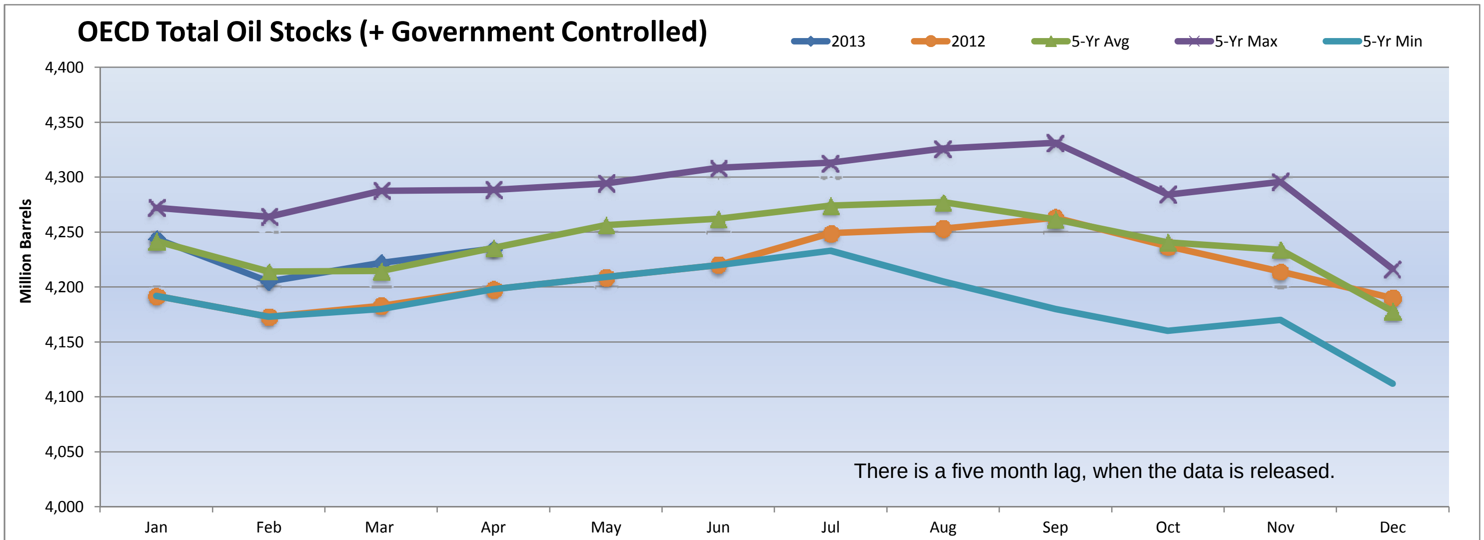




Crude Oil inventories are above the five year average.



Source: EIA



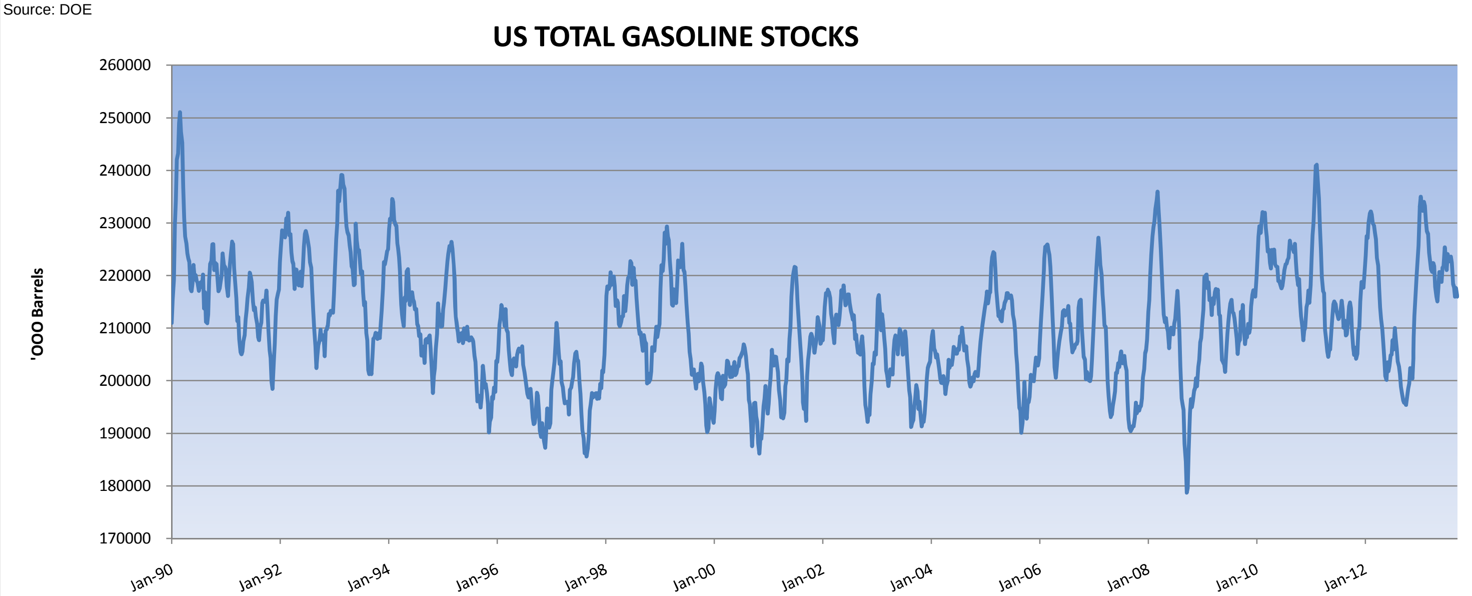
Source: EIA

World OECD stocks are tracking the five year average.

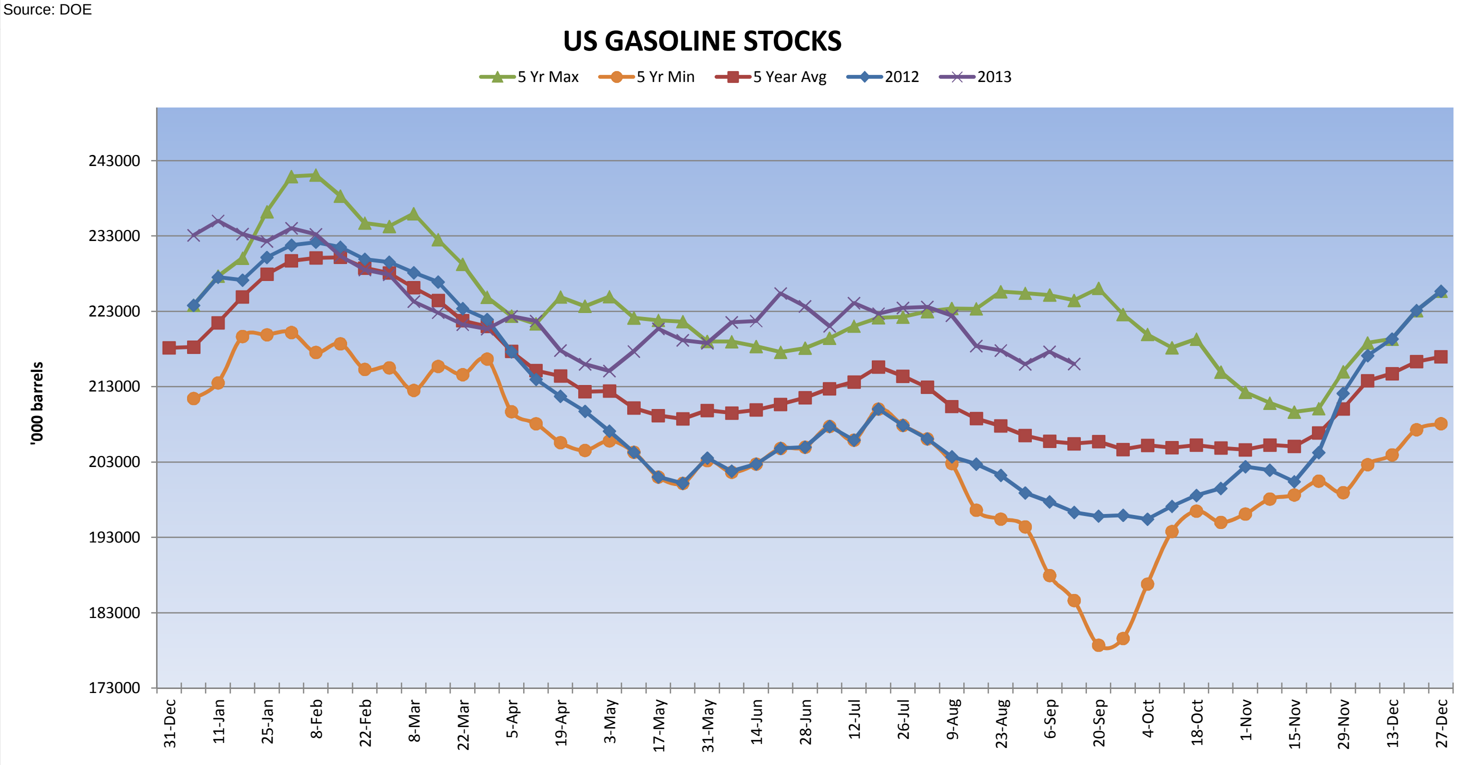
Monthly Energy Report

monthly report as of 9/23/2013

Source: DOE

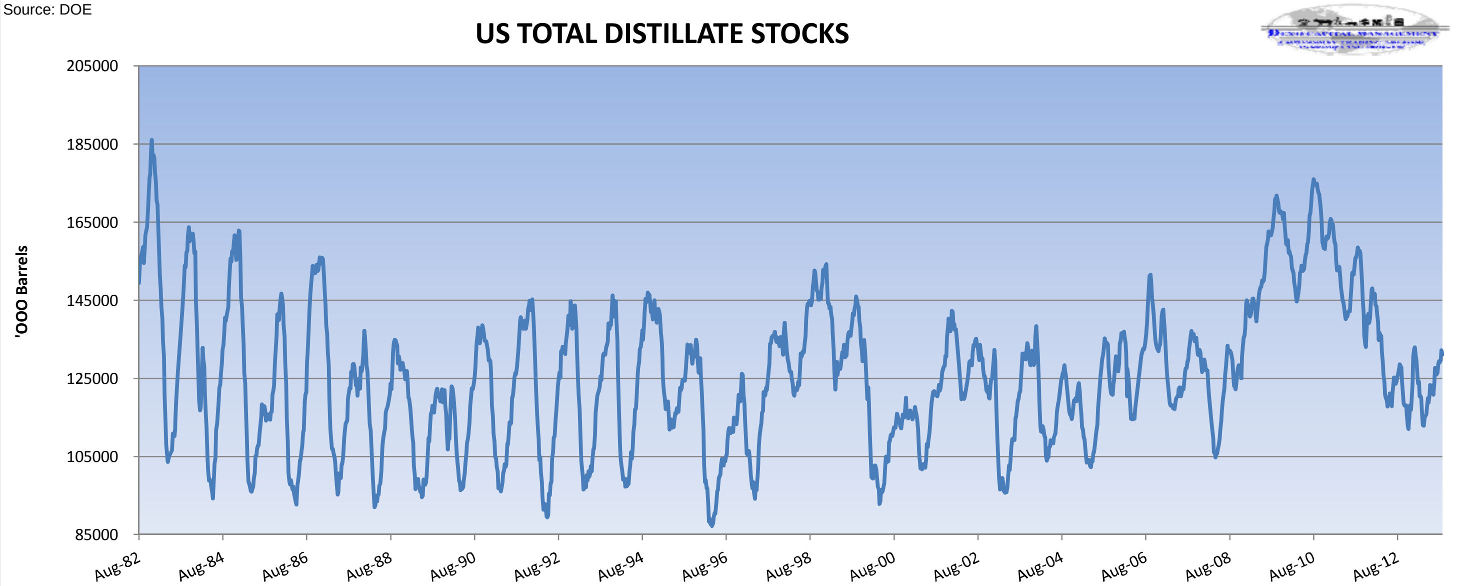


Source: DOE

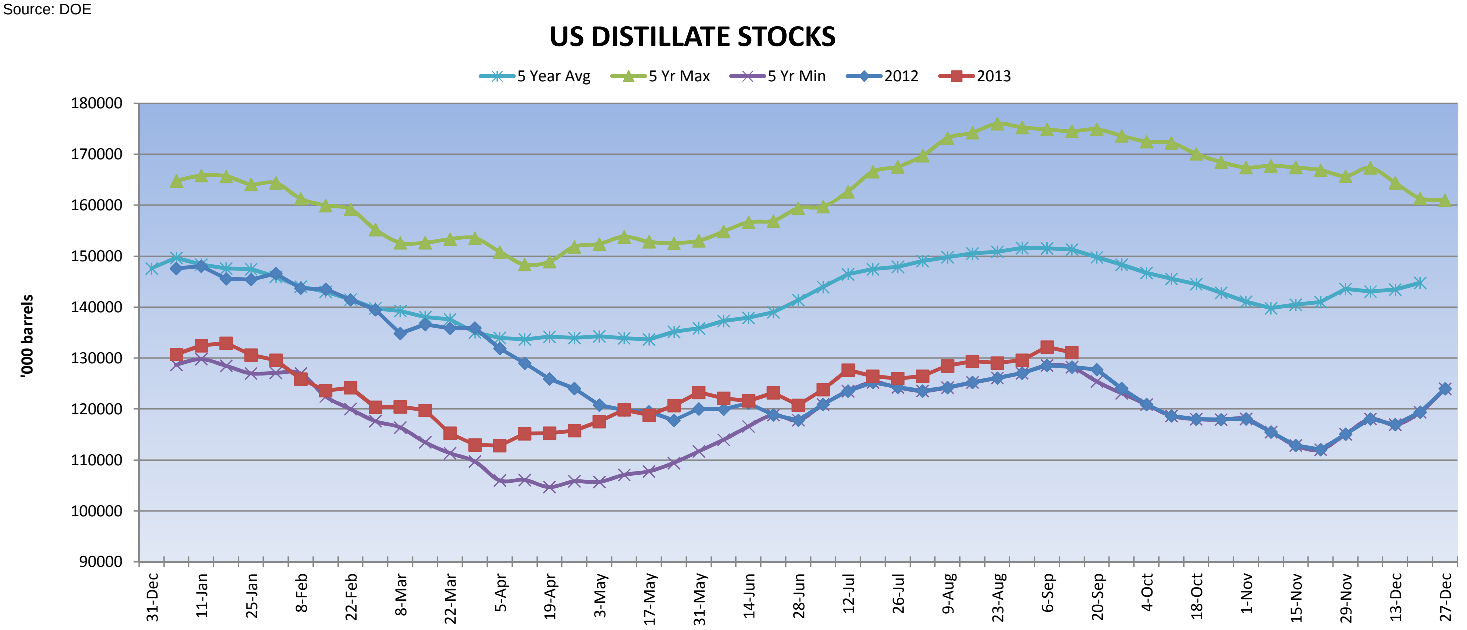


Gasoline stocks are above the five year average.

Source: DOE



Source: DOE



Distillate stocks are tracking 2012 levels.

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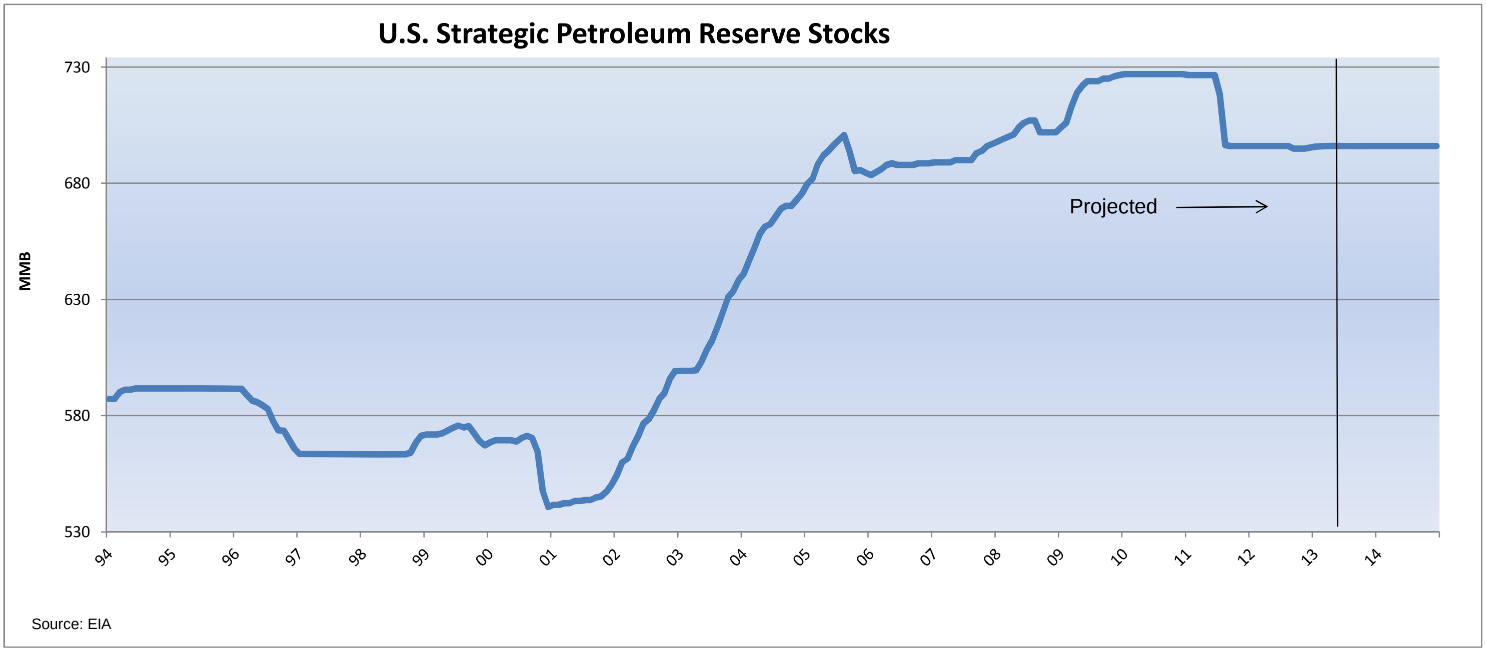
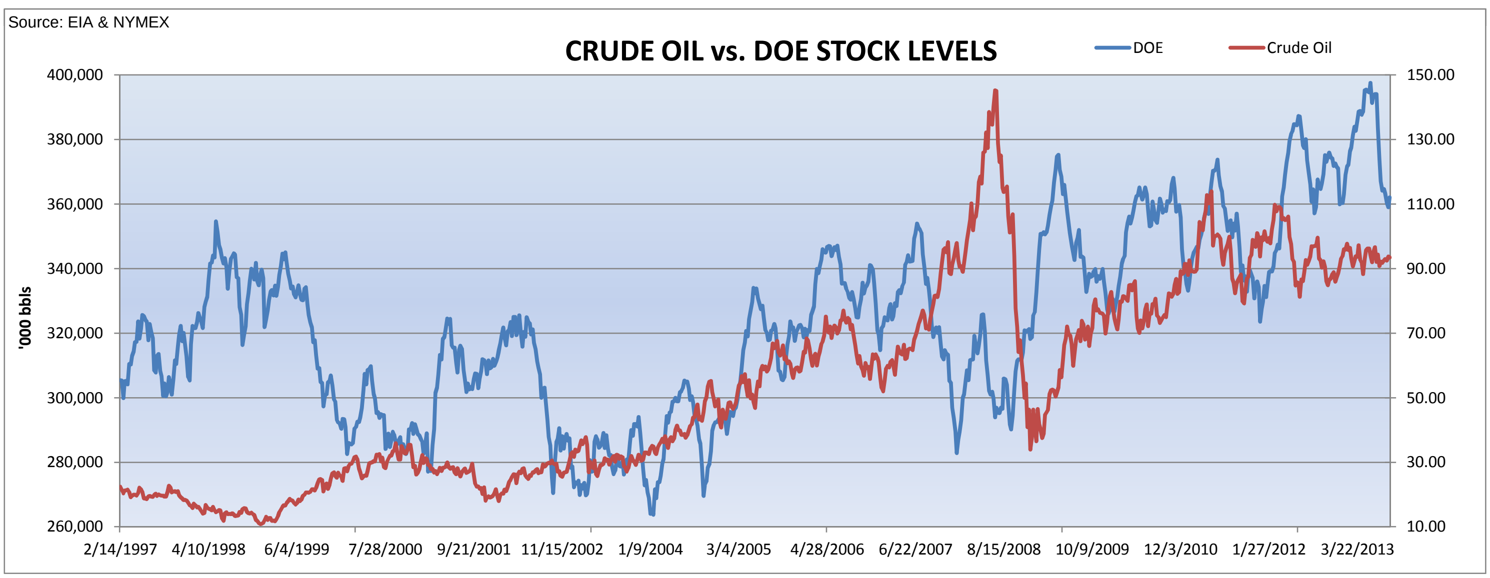
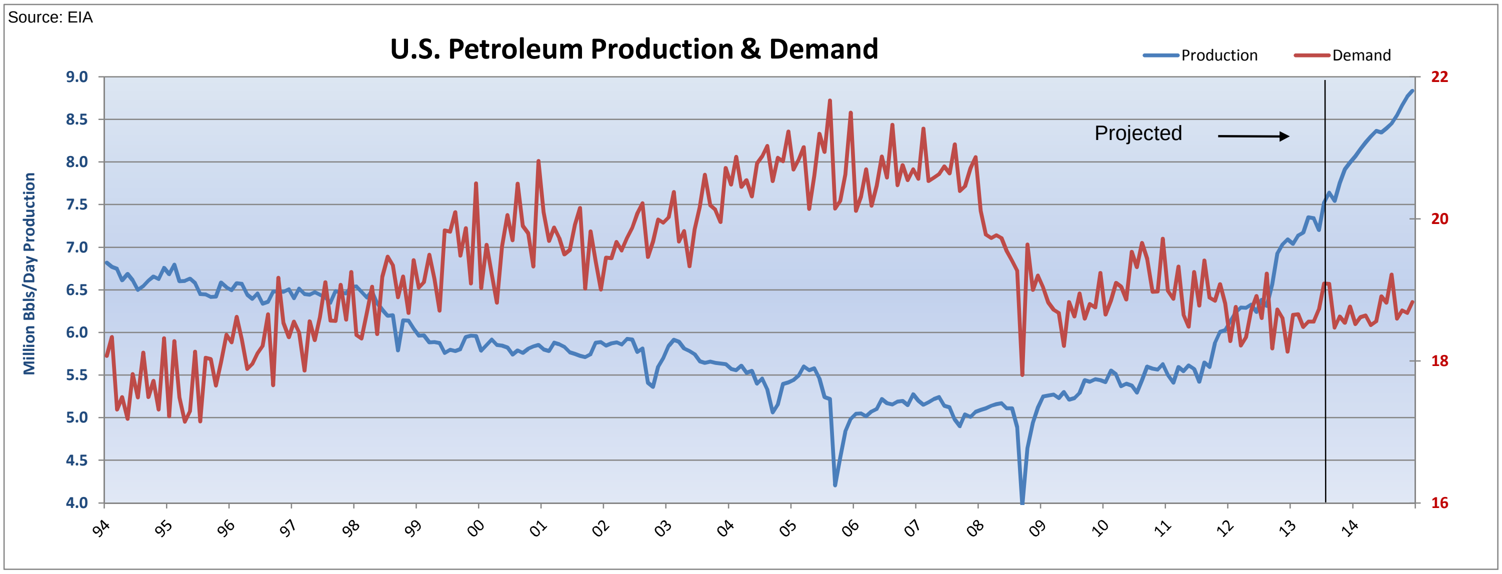
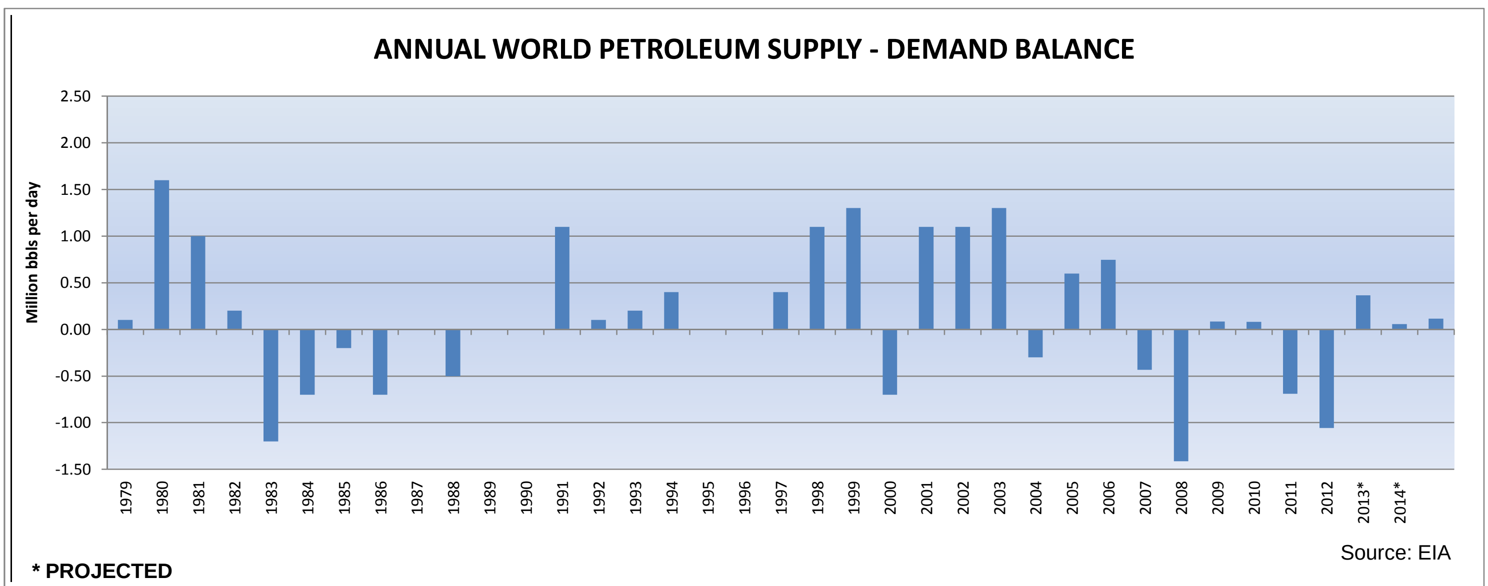




Crude oil inventories decreased this past month while crude oil gained in value over the past month.



US production continues to increase while demand remains relatively flat.



Supply is now projected to surpass demand for 2013.

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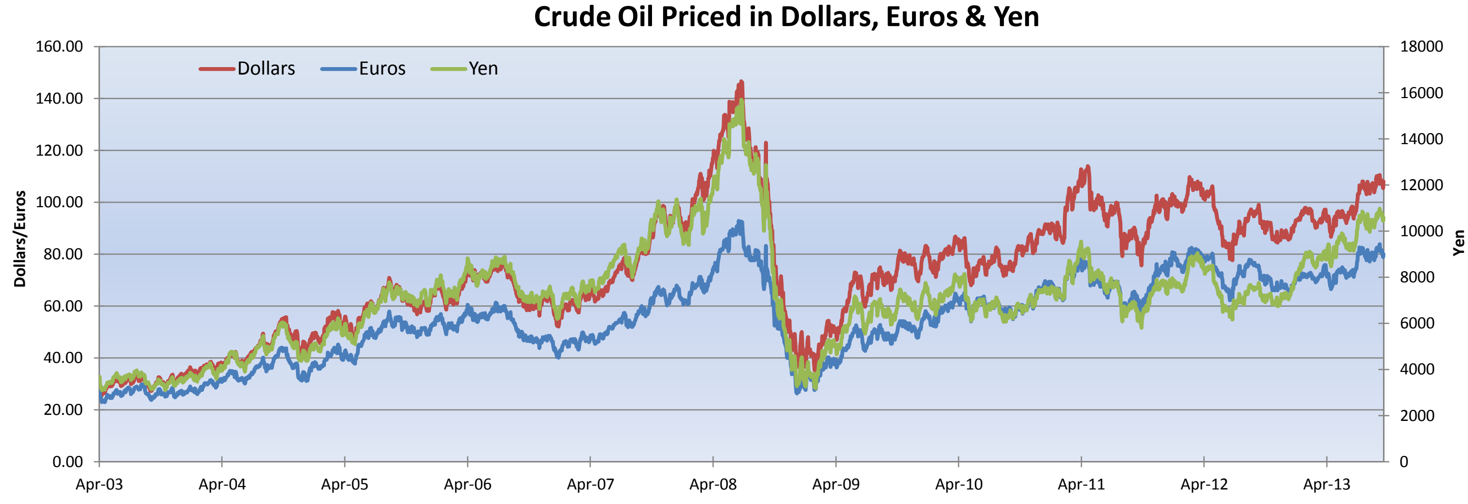
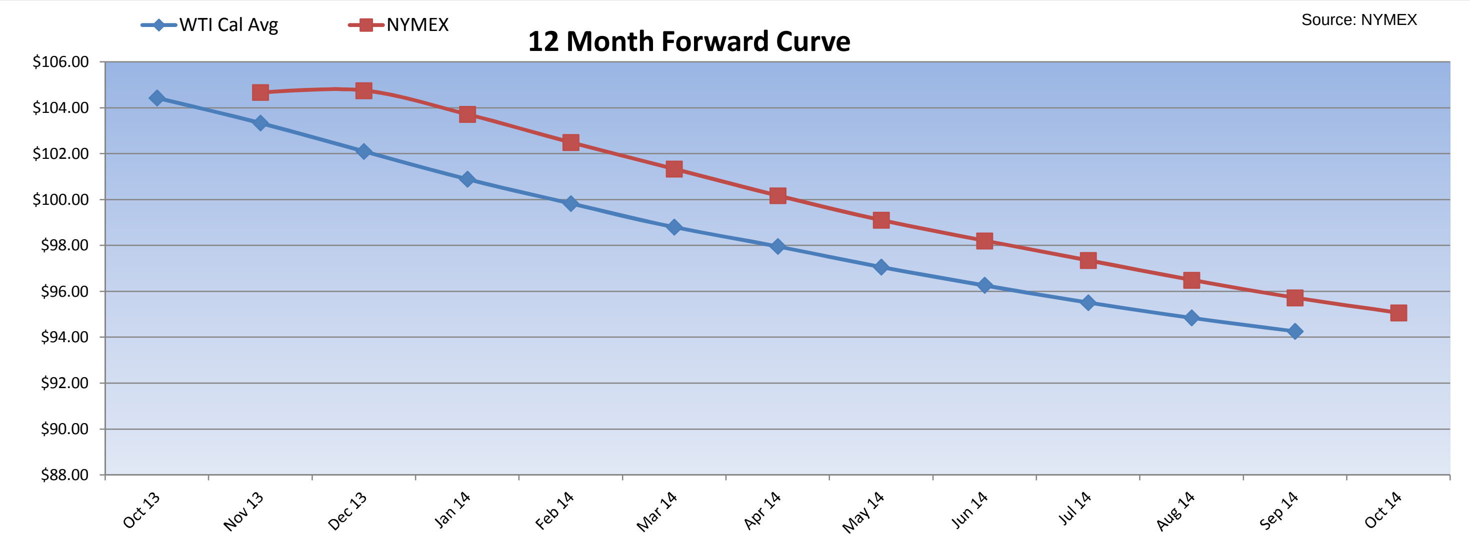
Source: NYMEX



Source: NYMEX



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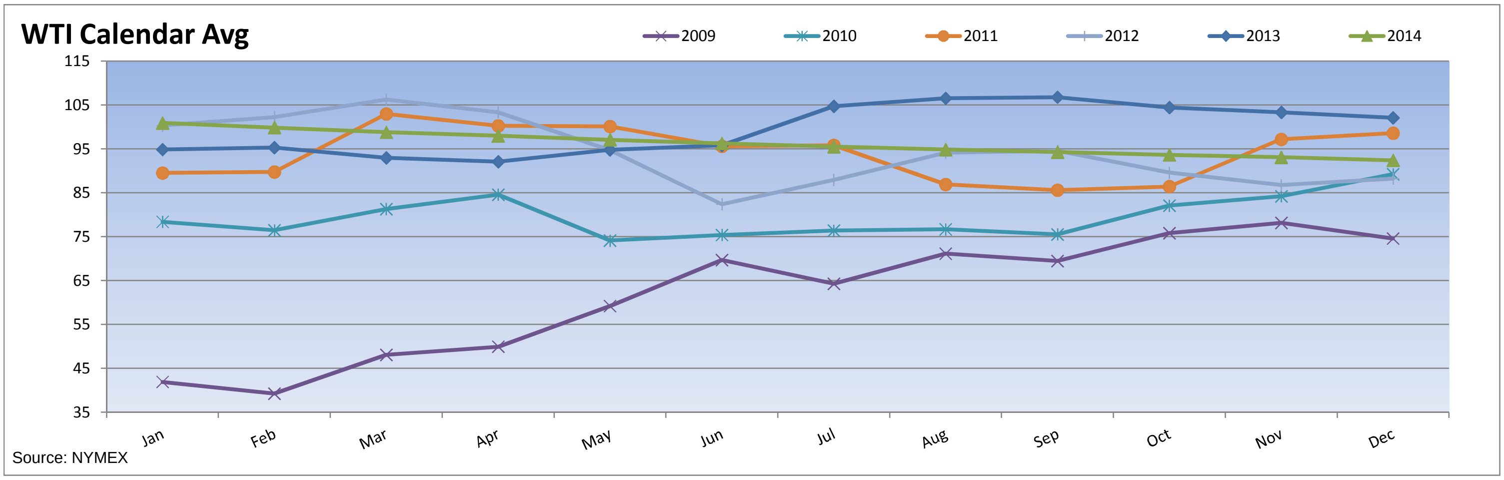
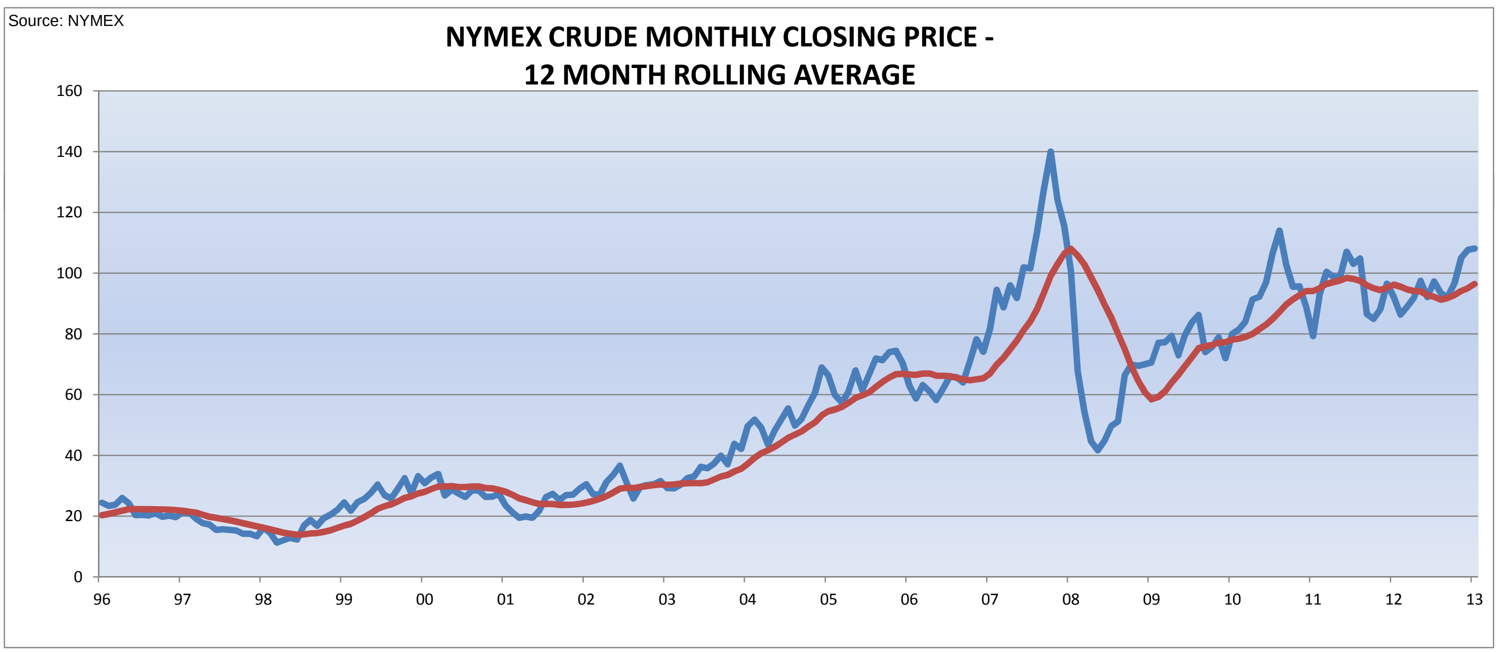




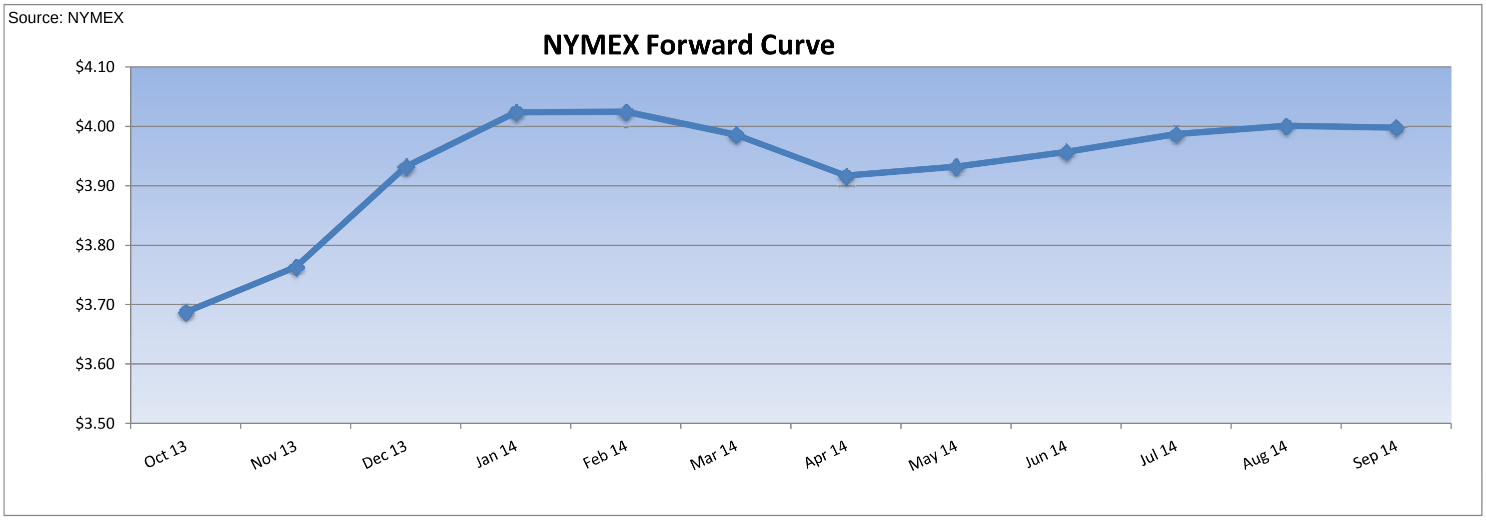
Trades to Consider

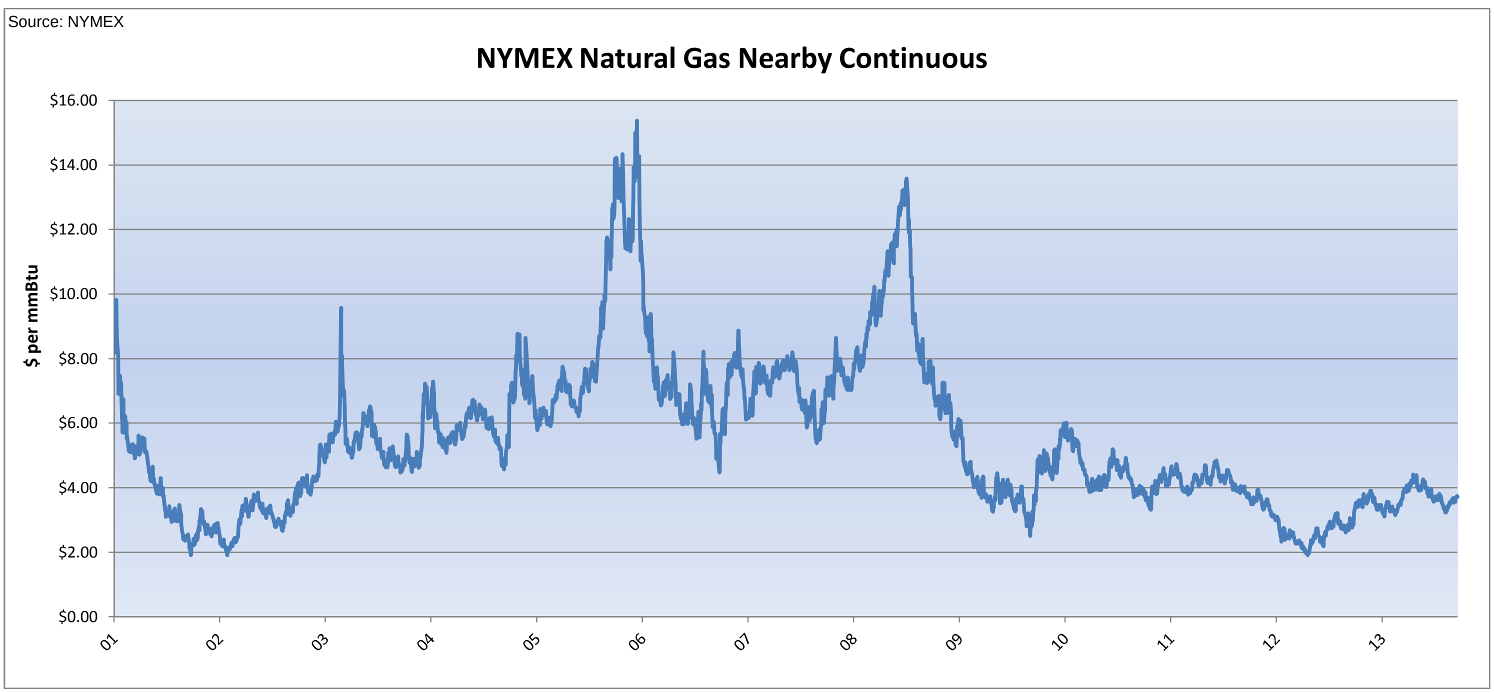
Current Prices
NYMEX Crude Oil Prices as of 9/20/2013

12-Month Fixed Price	6-Month Producer Collar	12-Month Producer Collar
Nov 13 - Oct14	(no-cost)	(no-cost)
$97.88	(Nov 13 - Apr 14)	(Nov 13 - Oct 14)
	$90-$108	$85-$107

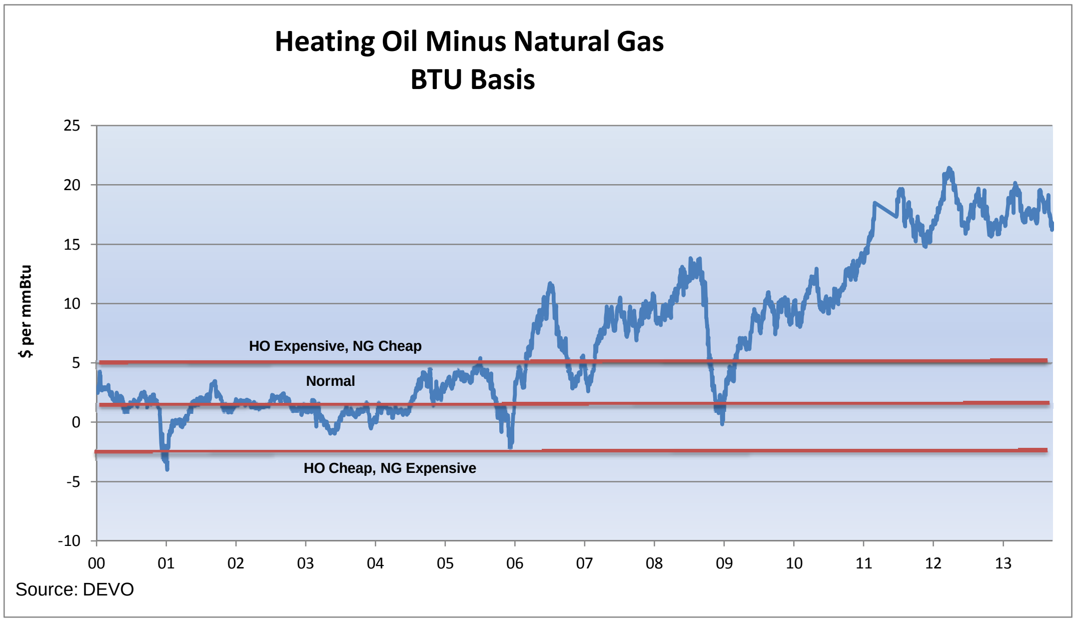
Natural Gas

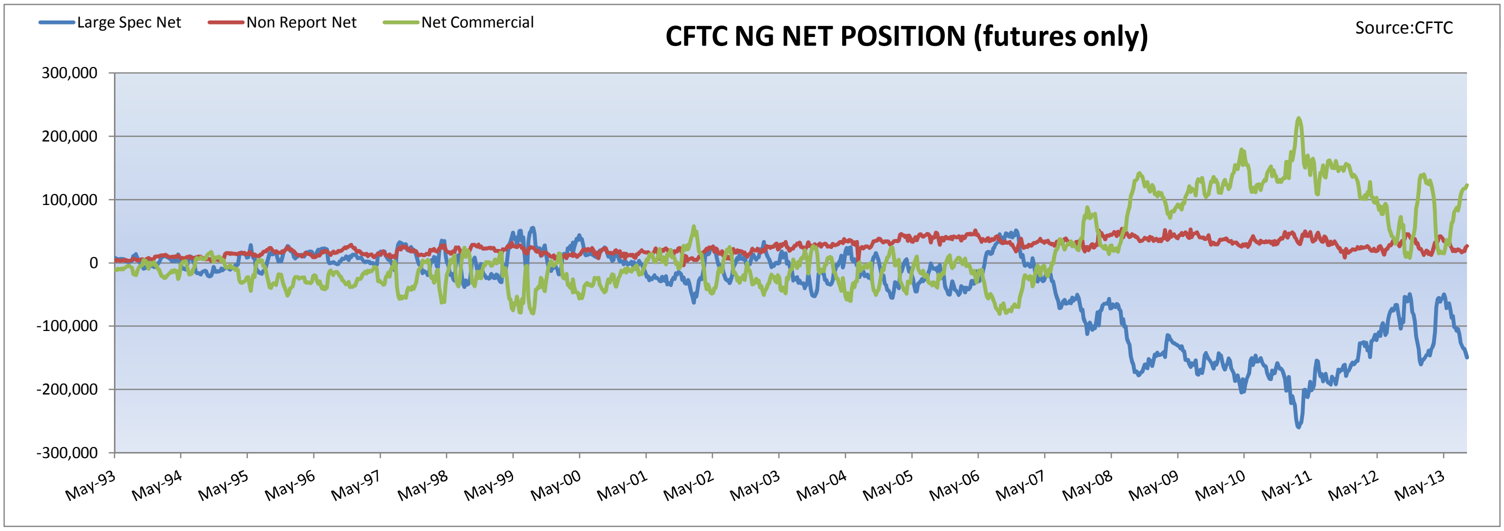
Over the past month natural gas hit a two month high. Fundamentally, it is difficult to make a bullish case for natural gas. It seems that the greater likelihood is that we continue to trade in the low $3 to the low $4 range for the foreseeable future.





Heating Oil continues to be expensive relative to Natural Gas on a BTU basis. The heating oil/natural gas btu spread tightened in over the past month.





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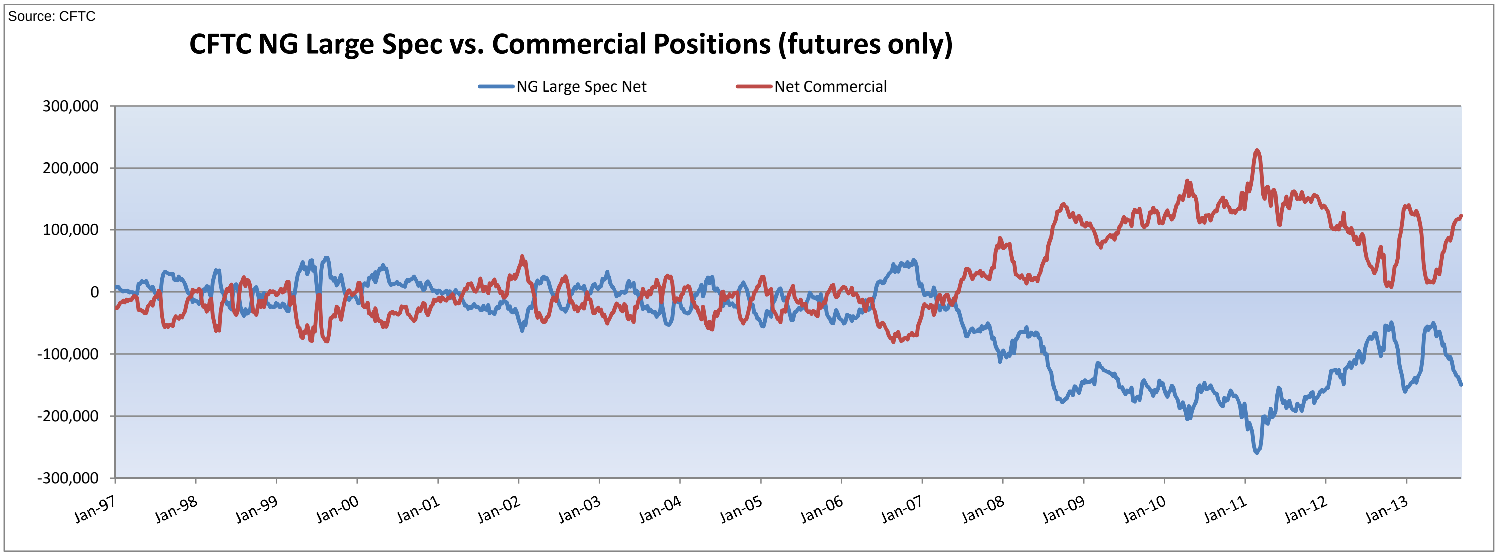
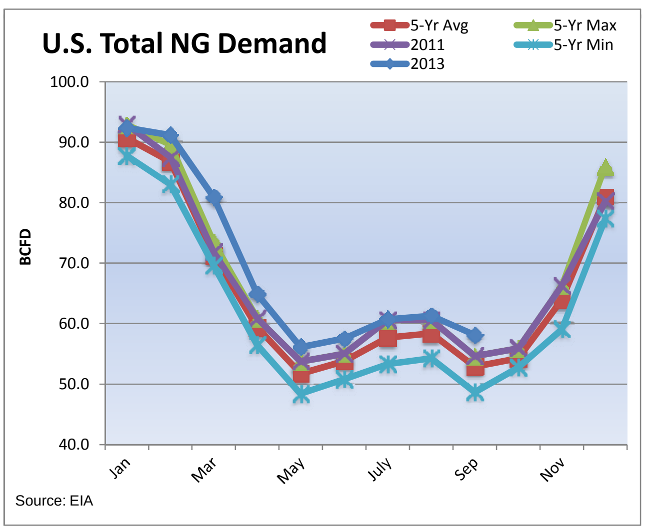
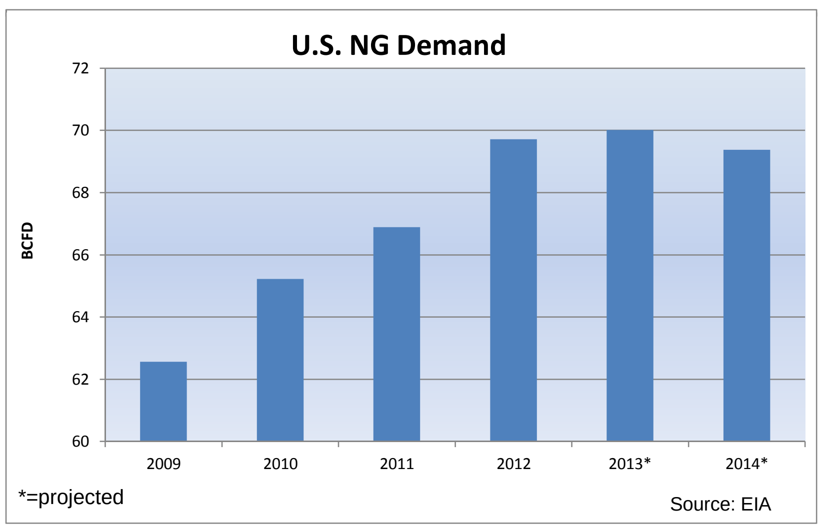
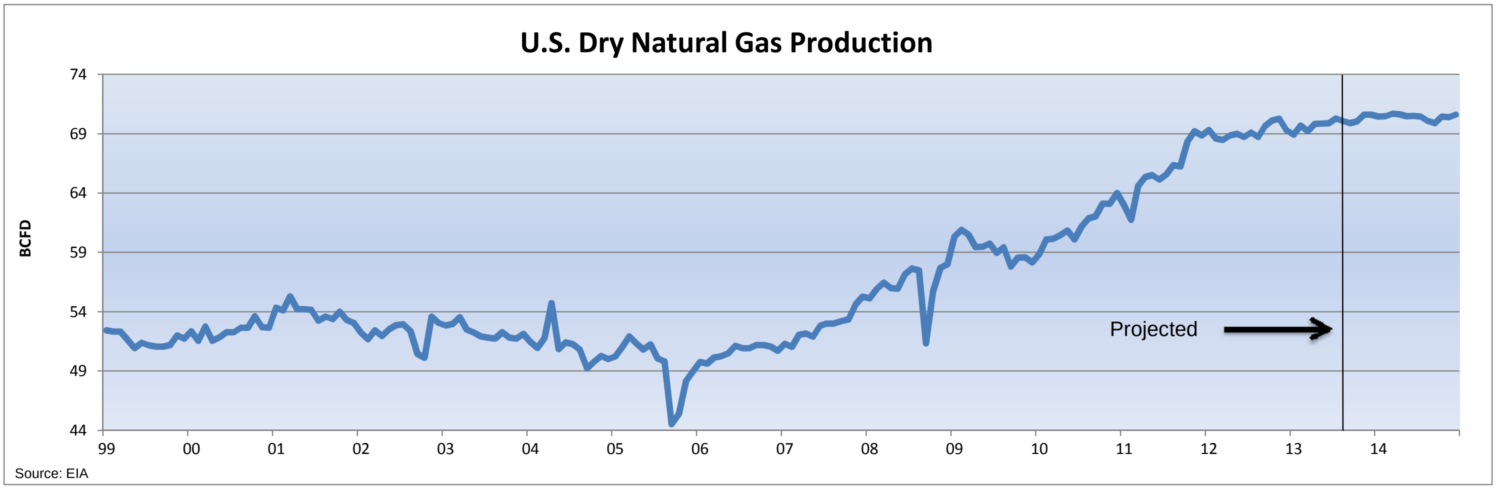


Funds continued to add to their long positions on NYMEX over the past months.

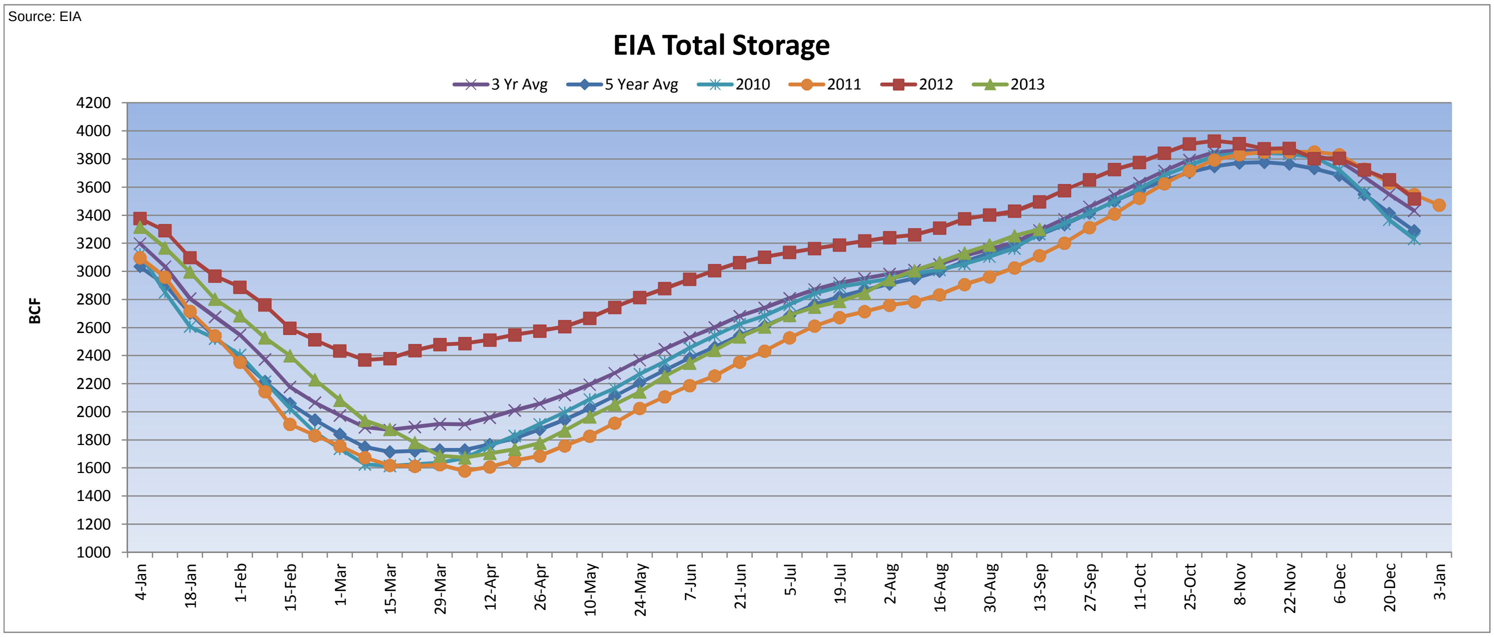




Natural gas demand is above the five year average. Demand is expected to increase in 2013.



Dry natural gas production has remained steady over the past few months.



Storage levels are tracking the five year average.

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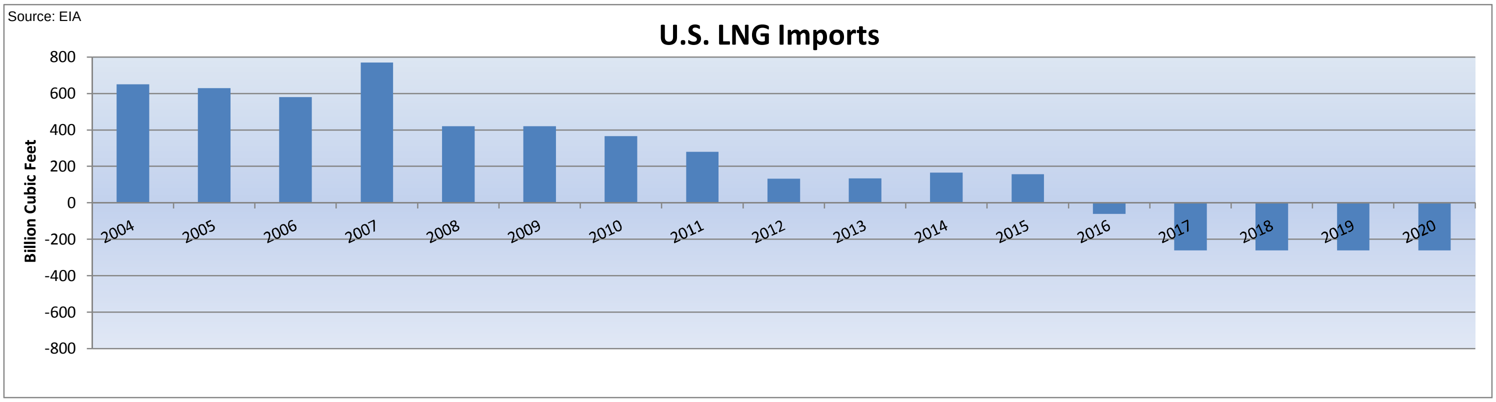
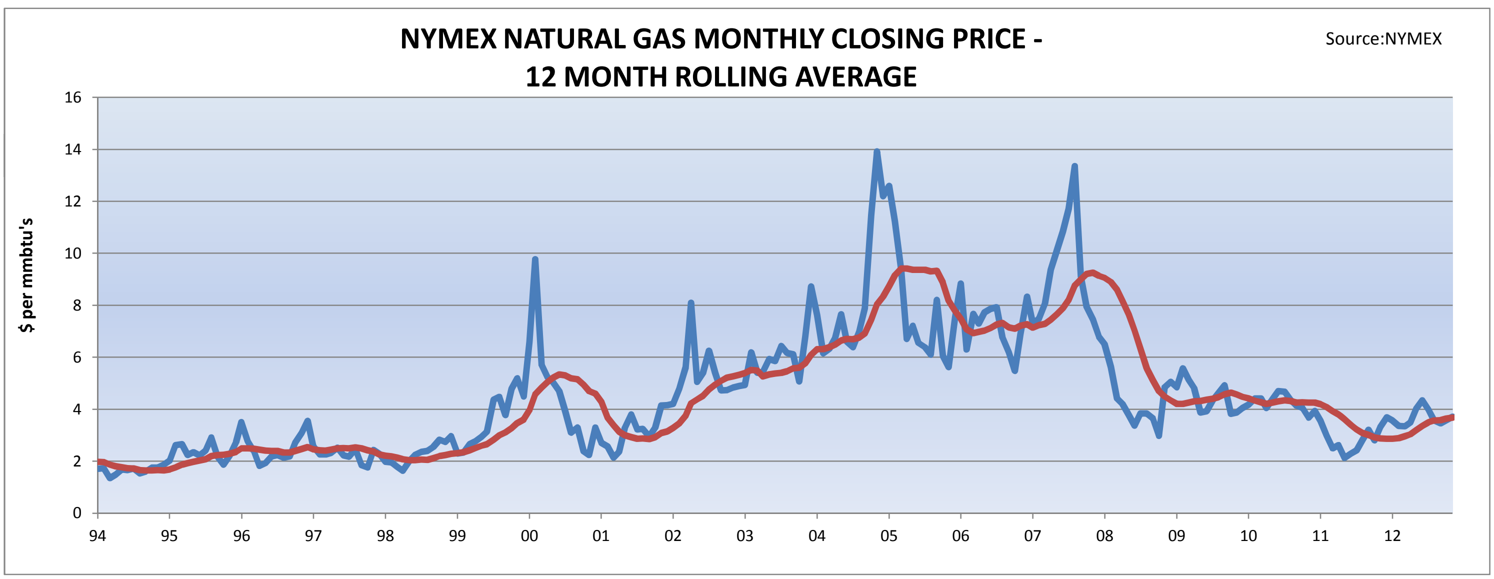


The US is projected to be a net exporter of LNG by 2016.

Trades to Consider



Current prices
NYMEX NG Prices based on settlements from 9/20/2013

12-Month Fixed Price	6 - Month no cost collar	12 - Month no cost collar
Nov 13 - Oct 14	(Nov 13 - Apr 14)	(Nov 13- Oct 14)
$3.962	$3.75- $4.20	$3.50- $4.60