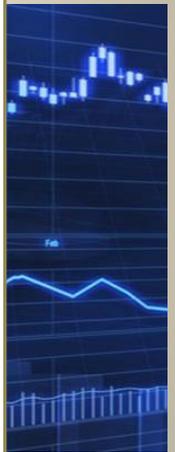


Oct. 2016 – Feb 2017



# Heating Oil

Market Report for Options trading



[www.goldmen-group.com](http://www.goldmen-group.com)

## Heating Oil – American Option Contract Specs

<b>Contract Unit</b>	A NY Harbor ULSD Put (Call) Option traded on the Exchange represents an option to assume a short (long) position in the underlying futures contract traded on the Exchange.
<b>Minimum Price Fluctuation</b>	\$0.0001 per gallon
<b>Price Quotation</b>	U.S. dollars and cents per gallon.
<b>Trading Hours</b>	<p>Globex: Sunday - Friday 6:00 p.m. - 5:00 p.m. (5:00 p.m. - 4:00 p.m. Chicago Time/CT) with a 60-minute break each day beginning at 5:00 p.m. (4:00 p.m. CT)</p> <p>ClearPort: Sunday - Friday 6:00 p.m. - 5:00 p.m. (5:00 p.m. - 4:00 p.m. Chicago Time/CT) with a 60-minute break each day beginning at 5:00 p.m. (4:00 p.m. CT)</p> <p>Open Outcry: Monday - Friday 9:00 a.m. - 2:30 p.m. New York time/ET (8:00 a.m. - 1:30 p.m. Chicago Time/CT)</p>
<b>Product Code</b>	<p>Globex: OH</p> <p>ClearPort: OH</p> <p>Open Outcry: OH</p> <p>Clearing: OH</p>
<b>Listed Contracts</b>	Current Year + 3 Years + 1 Month
<b>Termination Of Trading</b>	Expiration occurs three business days before the expiration of the underlying futures contract.
<b>Strike Prices</b>	One hundred strike prices in \$0.01 per gallon increments above and below the at-the-money strike price, and the next 20 strike prices in \$0.05 increments above the highest and below the lowest existing strike prices for a total of at least 241 strike prices. The at-the-money strike price is the nearest to the previous day's close of the underlying futures contract. Strike price boundaries are adjusted according to the futures price movements.
<b>Strike Price Interval</b>	
<b>Exercise Style</b>	American
<b>Underlying</b>	Heating Oil Futures

## Heating oil is refined from crude oil

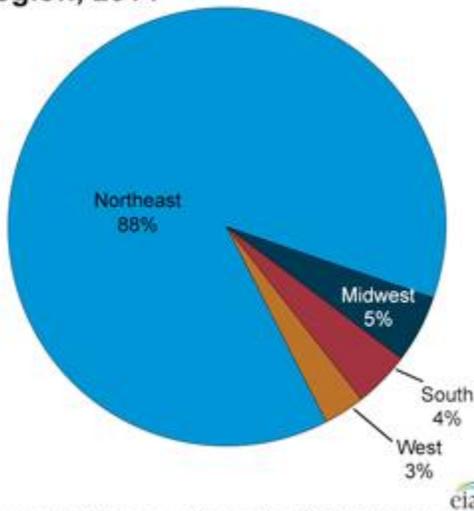
### Did you know?

Heating oil is dyed red.

The U.S. Internal Revenue Service (IRS) requires heating oil and distillate fuel oils that are not for highway use to be colored with a red dye. The red color indicates that the fuel is exempt from federal, state, and local taxes applied to fuels sold for use on public roadways. The red color also indicates that the fuel cannot be used legally in vehicles that normally operate on roadways.



### Sales of residential heating oil by region, 2014



Source: U.S. Energy Information Administration, *Fuel and Kerosene Sales 2014* (December 2015)

about 3.6 billion gallons of heating oil were sold to residential consumers in the Northeast, equal to 88% of total U.S. residential fuel oil sales. In 2015, about 37% of total commercial sector consumption of heating oil was in the Northeast.

### Who uses heating oil?

About 6 million households in the United States use heating oil as their main space heating fuel.<sup>1</sup> Some households also use heating oil for water heating, but in much smaller amounts than the amounts used for space heating. Some commercial and institutional buildings also use heating oil for space and water heating.

Because space heating is the primary use for heating oil, demand is highly seasonal, and it is affected by temperatures. Most heating oil use occurs during the heating season (October through March).

### Heating oil is important to consumers in the Northeast

Most of the U.S. households that use heating oil are located in the Northeast.<sup>2</sup> In 2015,

### Top five heating oil consuming states, 2014



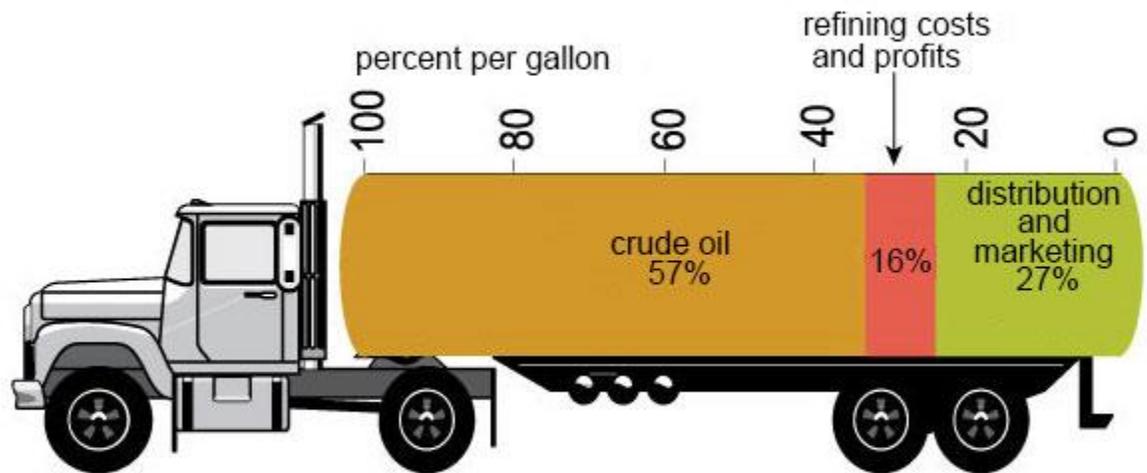
Source: U.S. Energy Information Administration, *Fuel and Kerosene Sales 2014* (December 2015)

## What are the main components of the price of heating oil?

Heating oil prices paid by consumers are determined by the cost of crude oil, the cost to produce the product, the cost to market and distribute/deliver the product, and the profits (and sometimes losses) of refiners, wholesalers, and local distributors. From the winter of 2005–06 through the winter of 2014–15, crude oil accounted for 57% of the average cost

of a gallon of heating oil during winter months. The next largest component, distribution and marketing costs and profits, accounted for approximately 27% of the cost of a gallon of heating oil. Refinery processing costs and profits accounted for another 16%.

### Major components of the price of residential heating oil<sup>1</sup>



<sup>1</sup>Based on national average monthly prices for refiner acquisition costs of crude oil, refiner wholesale heating oil prices, and average residential heating oil prices for months of October through March, 2005 to 2015.

Source: U.S. Energy Information Administration, *Petroleum Marketing Monthly and Heating Oil and Propane Update*

## Why do heating oil prices fluctuate?

### *Heating oil prices generally follow crude oil prices.*

Heating oil prices paid by consumers can vary for a variety of reasons:

- **Seasonality in the demand for heating oil**—When crude oil prices are stable, home heating oil prices tend to rise in the winter months when demand is highest. A homeowner in the Northeast might use 850 gallons to 1,200 gallons of heating oil during a typical winter, and then they may consume very little during the rest of the year.
- **Changes in the cost of crude oil**—The cost of crude oil is a major component of the price of heating oil. Crude oil prices are determined by worldwide supply and demand. Demand can vary worldwide based on the economy and weather in addition to other factors. Supply can be influenced by weather events in the United States and

by political events in other countries. The supply of oil produced by members of the Organization of the Petroleum Exporting Countries (OPEC) can also affect world crude oil prices.

- Competition in local markets**—The number of heating oil suppliers in a particular region can affect the level of price competition in that area. Heating oil prices and service offerings can vary substantially in locations with few suppliers compared to areas with a large number of competing suppliers. Consumers in rural locations may pay higher prices for heating oil because there are fewer competitors.
- Regional operating costs**—Heating oil prices also are affected by the cost of delivering heating oil to remote locations. The cost of doing business by dealers can vary substantially depending on the area of the country where the dealer is located.



## What causes a surge in heating oil prices?

Home heating oil prices can sometimes change dramatically for a variety of reasons. When refiners, wholesalers, dealers, and consumers have enough heating oil in storage, and if temperatures do not drop or if crude oil prices do not increase rapidly, retail prices may hold fairly steady. A large cold weather system can impact supply, demand, and prices. People typically use more fuel at the same time delivery systems are interrupted, such as during a winter storm.

*During cold weather, the amount of heating oil in storage may be used much faster than it can be replenished, and refineries may not be able to keep up with demand.*

Wholesale buyers become concerned that supplies are not adequate to cover short-term customer demand, and they bid up prices for available product.

In the Northeast, for example, additional supplies of heating oil may have to be delivered from other parts of the world like the Gulf Coast or Europe. Transporting heating oil from these sources to the Northeast is expensive, and delivery can take several weeks. During that time, storage inventories drop further, buyers' anxiety about available short-term supply rises, and then prices rise—sometimes sharply—until new supply arrives.



## **Heating Oil Futures: WINTER IS COMING**

Hedge funds and refiners are hoping distillate will get a further boost from a pick-up in freight movements and a colder winter in 2016/17.

The weather outlook for winter 2016/17 should offer a strong support for heating oil demand toward the end of the year and into early 2017.

The first half of winter (Oct-Dec) is likely to be warmer than normal across the United States, especially in the Southwest, according to the National Weather Service Climate Prediction Center , but temperatures in the second half of winter (Jan-March) are likely to be below normal across much of the northern United States, where winter heating oil demand is concentrated.

# Ready to get started?

## Open a Trading Account Online Today

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