The HO HO L1-L6 Winter Carry Signal: Overlay for Heating Oil

Why HO L1-L6 Winter Carry delivers a 1.45 pp spread on Heating Oil forward 60-day returns via the winter-heating term carry channel.

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What this signal is

Elevated L1-L6 Heating Oil carry reflects premium pricing on near-term winter-heating contracts relative to summer-grade deferred contracts and transmits bullish via the seasonal winter-demand term-carry channel.

The composite is bounded between minus one and plus one through tanh. Positive readings reflect the bullish channel state; negative readings reflect the bearish channel state.

Today the composite reads +0.781 in the Extreme POS band after 98 trading days in the current phase. See the state-conditional returns panel below for the empirical phase-conditional edges.

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How the inputs compose

Elevated L1-L6 Heating Oil carry reflects premium pricing on near-term winter-heating contracts relative to summer-grade deferred contracts and transmits bullish via the seasonal winter-demand term-carry channel. The signal takes Heating Oil L1 minus L6 nearby proportional spread, z-scored, tanh-bounded.

State thresholds plus or minus 0.2 (moderate) and plus or minus 0.5 (extreme). Phase +1 at composite above +0.3, phase −1 below −0.3. Target: NYMEX Heating Oil front-month continuous.

What the state-conditional returns have actually done

Computed over 9,023 daily observations from the live-window sample. The baseline Heating Oil forward 60-day return is mean plus 2.71 percent and median plus 1.69 percent across the live-window sample.

Baseline Heating Oil forward 60-day return: mean plus 2.71 percent / median plus 1.69 percent across the live-window sample.

Phase-conditional pattern on Heating Oil forward 60-day returns: Phase +1 (Carry elevated, 3,864 days / 43 percent): plus 3.94 percent fwd60d, edge +1.23 pp above baseline. Phase 0 (Normal, 1,302 days / 14 percent): minus 0.23 percent fwd60d, edge −2.94 pp. Phase −1 (Carry compressed, 3,857 days / 43 percent): plus 2.48 percent fwd60d, edge −0.22 pp.

1.45 pp Phase +1 minus Phase −1 spread via the winter-heating term carry channel.

Three cases that frame how to read the signal

Case 1: Carry elevated, 2022 winter-heating premium peak

L1-L6 winter carry ran to historic highs through winter 2022 as Russia-invasion shock combined with cold-winter demand. Signal held Phase +1 elevated carry.

Case 2: Carry elevated, 2008 pre-crisis winter premium

L1-L6 winter carry ran elevated through 2008 H1 as peak demand supported winter-grade premium. Signal held Phase +1 territory.

Case 3: Carry compressed, 2015 shale-era summer-heavy curve

L1-L6 winter carry compressed through 2015-2016 as shale oversupply flattened the term curve and winter-grade premium decayed. Signal held Phase −1 territory.

How to use the signal today

Composite is currently reading +0.781 in the Extreme POS band. Phase Healthy firing for 98 trading days.

Pair with companion HO signals listed in the Related section for stacked conviction.

Reader rule: Phase +1 firings reflect carry elevated regime via the winter-heating term carry channel. Phase −1 firings reflect carry compressed regime. The 1.45 pp spread demonstrates the signal has directional edge via the stated channel.

Methodology notes

The signal takes Heating Oil L1 minus L6 nearby proportional spread, z-scored, tanh-bounded. State thresholds plus or minus 0.2 (moderate) and plus or minus 0.5 (extreme). Phase +1 at composite above +0.3, phase −1 below −0.3. Target: NYMEX Heating Oil front-month continuous.

Validation computed on 9,023 post-warmup daily observations. Phase +1 (Carry elevated) Heating Oil fwd60d plus 3.94 percent, edge +1.23 pp on 43 percent sample. Phase 0 (Normal) Heating Oil fwd60d minus 0.23 percent, edge −2.94 pp on 14 percent sample. Phase −1 (Carry compressed) Heating Oil fwd60d plus 2.48 percent, edge −0.22 pp on 43 percent sample. 1.45 pp spread via winter-heating term carry channel. Daily IC not individually significant on all sampling windows.

What this signal does not cover

Three limitations. Strong seasonal component that z-score partially normalizes. Compressed during oversupply periods regardless of winter demand. Signal does not capture per-nearby grade-transition dynamics.

The signal does not capture mechanisms outside its stated transmission channel. It does not substitute for broader Heating Oil supply + demand + inventory + crude overlays; pair with companion signals in the Related section for complete context.

Disclaimer

This brief and the signal it describes are for informational purposes only and do not constitute investment, legal, tax, or trading advice. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. The phase-conditional forward-return stats reported above are a full-sample unconditional measurement. Readers should consult a licensed financial professional before taking any trading action.

References

NYMEX Heating Oil futures daily settlement, CME Group.

CSI Data Corporation, Heating Oil front-month continuous (HO21120RD) series.