

THE ANGUS ENERGY REPORT

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Post-report Calls:		HEATING OIL (OCT)	GASOLINE (OCT)	NATURAL GAS (OCT)	CRUDE OIL (OCT)
	Crude -----	HIGH	1.8370	1.6225	5.860
.70 higher Products ----- Heat-200 lower Gasoline 250 lower Natural Gas --- .10 lower	LOW	1.7550	1.5350	5.520	63.59
	SETTLE	1.7597	1.5521	5.574	63.76
	CHANGE	-.0457	-.0425	-.096	-1.85
	14 DAY RSI	21	21	30	20
	5 DAY MA	1.7152	1.5531	5.065	63.19
	9 DAY MA	1.7635	1.5737	5.330	64.32
	14 DAY MA	1.8355	1.6261	5.587	66.03

-D.O.E. stats.... Crude oil stocks fell 2.85 mmbbls. **Distillate stocks** rose 4.08 mmbbls. **Gasoline stocks** rose .56 mmbbls.

Operating capacity rose 0.4% to 93.4%. The build in distillates stocks is taking the focus of the market bears, as they continue to drive prices lower. While “bottom picking” is a very dangerous sport, you are starting to get the feeling that the technically oversold status, along with the “what other bullish information is left to go away?” sentiment might start to take over soon. The fact is that the summer rally went too far. It seems that this sell-off might be doing the same. Staying away from speculation, the question is what will happen to profits now that the season is here? How is your oil priced, and how will the weather impact the volumes that you sell?

- It was just a little over a month ago that oil companies were wondering why in the world they had “wasted” money buying put options on heating oil. After all, the mantra went, “prices are never going to fall”. Prices for the winter were over \$2.30 per gallon, and everything was being viewed in the most bullish of lights – despite the fact that the fundamentals in the market did not support those price levels. The notion that “prices just won’t fall” had some companies who offered caps filling up storage, or locking in wetbarrels with suppliers, with nary a care in the world that prices might fall. Well, here we are just about 5

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '07 futures
09/13/06	1.6778	09/13/06	1.7428	09/13/06	1.9116
09/14/06	1.6460	09/14/06	1.7110	09/14/06	1.8976
09/15/06	1.6398	09/15/06	1.7023	09/15/06	1.8767
09/18/06	1.6707	09/18/06	1.7257	09/18/06	1.8857
09/19/06	1.6316	09/19/06	1.6916	09/19/06	1.8471

weeks later, and there are a number of companies who are feeling the pain of “knowing better”. A 55-cent drop in prices, while making many oil dealers ecstatic, is causing some restless nights to those who have offered fixed prices, or those who have improperly hedged cap offerings. It’s most interesting to note that during the strong rally from late winter into early-August, most would willingly accept the fact that dropping prices were good for everyone. However, as prices have fallen, the savings that were achieved by some by “underhedging” might be coming back to bite them. **Today’s** mantra? “Prices are never going to rise”. Famous last words.....

- After the continued sell-off over the past week, which brought crude oil down into the low-60’s, traders tried to stage a short-covering rally a few times. Though prices did move higher – as much as 5 cents per gallon, on an intra-day basis- the rallies fizzled out both days, as traders lacked the conviction to take prices higher. The bears are still in control of this market, until something changes. Some, not many, but some, are pointing

to the big drop in prices yesterday, after an early rally, as perhaps a sign that the “longs’ had finally gotten beaten up enough, and were exiting the market.

- **In a related story**, a very large Hedge Fund (remember those “evil people” who were BIGGER than the market?), named Amaranth Advisors reported to investors a staggering loss in their energy trading portfolio. The loss is estimated to be somewhere between \$3 and \$4 Billion, as the final positions – primarily, as it is being reported, in natural gas – are being offset. Long summer-to-winter spread positions in natural gas got hammered as nat gas plunged to below \$5.00/dkt. for October delivery in the NYMEX.

- **Is there any real news?** Political/military tensions in parts of Russia, and a military coup elsewhere have been nothing but a blip on the radar. News items, such as these might have rallied prices in July, but are now being ignored.

- **What about Iran?** Iran is certainly the wild card, and the issue with the greatest potential to spike prices as we enter the heating season. Although all of this could have been, and possibly was, scripted several months ago, the Iranians continue to defy the U.N. deadline for ceasing uranium enrichment, and the rest of the world (aside from the U.S. and a dwindling few allies) wants to know how we can reward the Iranians for ignoring the deadline. Secretary of State Rice has been talking about the fact that as each day passes (and each French Beurocrat shows his or her anti-American feathers), the world is battling a credibility issue. The deadline has come and gone. As recently as yesterday, Iran’s Vice-President, Aghatadeh, was quoted as saying that Iran has “no legal obligation to accept such demands”. The West thinks that they know how to play the diplomatic game – set up meetings, hold news conferences, negotiate, a little give and take, etc. The Iranians REALLY know how to play. Ignore, criticize, threaten, accuse, etc. The result? It’s almost like dealing with an insolent child by giving in to every outburst, and threatening to “pull this car over, right now!!”, but never doing it.

- **Interesting to see how newspaper articles**, and some industry “consultants” are starting to see the

value in capping prices instead of fixing them. Many of these “experts” are the same ones who were questioning the high cost of price caps, and suggesting to just lock in wetbarrels, and selling fixed-prices just a few months ago. Monday-morning quarterbacking never seems to fail.

- **Early, early forecasts for the winter** are calling for a mild start to the heating season. Bearing in mind that a few lost HDD’s in October are easily replaced in the colder months, BUT the weather market seems to be leaning a little to the “warm side”. Accordingly, we have seen a slight “up-tick” in the cost of weather put options. As we are but 10 days from the start of the October-April heating season, if you have the exposure, and have not yet covered yourself, it is time to make that decision.

- **Out of respect for all of my friends in New England**, I am not going to gloat over the Mets clinching – nor will I comment on the Yankees Magic Number of 1. BUT, I will acknowledge the Patriots victory over the Jets. I’m just that kind of guy!!