

# THE ANGUS ENERGY REPORT

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Post-report Calls:		HEATING OIL (OCT)	GASOLINE (OCT)	NATURAL GAS (NOV)	CRUDE OIL (NOV)
	Crude -----	HIGH	1.6830	1.5250	5.940
.50 lower	LOW	1.6420	1.4875	5.648	60.60
Products -----	SETTLE	1.6578	1.4918	5.805	61.01
Heat-100 lower	CHANGE	+.0014	-.0073	+.072	-.44
Gasoline 150 lower					
Natural Gas ---	14 DAY RSI	25	28	19	25
.15 lower	5 DAY MA	1.6576	1.4859	5.890	61.07
	9 DAY MA	1.6798	1.5156	6.082	62.23
	14 DAY MA	1.7255	1.5422	6.541	63.75

**-D.O.E. stats.... Crude oil stocks** fell .11 mmbbls. **Distillate stocks** rose 2.61 mmbbls. **Gasoline stocks** rose 6.34 mmbbls. **Operating capacity** fell 1.0% to 92.4%. Distillate inventories came in about as expected, but the lack of a draw in crude stocks (lower refining activity?) and the large build in gasoline inventories were not expected. Accordingly, and perhaps fleetingly, prices are nominally lower across the board, after seeing some good overnight strength (heating oil 2 cents+ higher and crude oil 80 cents higher). A question that needs to be looked at is whether the 1% drop in refining activity has to do with "turnarounds", normal week-to-week vagaries, or whether the shrinkage of refinery margins has come home to roost, and is moving refiners to lower their output. Either way, the drop in activity with the increases in product inventories should give the bears another shot at pushing prices lower. That said, it does seem like this market is not really all that concerned with the stated inventory levels, and a rally later in the session might not come as a complete surprise.

**Is \$60.00/bbl. significant?** Quick answer: probably not. But, who can really understand the trader's psychology? Yesterday's expiration of the October futures contract for crude oil, saw the contract "go off the board" at \$60.46/bbl. After trading up to almost \$62.00/bbl. this morning, the spot (Nov) futures contract has moved lower to test the \$60/bbl. support, which has been holding up fairly well – thus far. Analysts who have been making bearish predictions for a while, are finally in the limelight – just as the bullish prognosticators were for the past 2 years – and have the full attention of those who think that yesterday's "guess" will lead to tomorrow's reality. In any event, the projections run the gamut from calling for lows in the mid-50's, to the low-50's, to some calls for crude oil to move down into the mid-40's over the next few months. Make no mistake that there are still those who state that the highs are not even in place, and that we will still see \$80/bbl. crude oil THIS winter. It

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '07 futures
09/20/06	1.5878	09/20/06	1.6478	09/20/06	1.7976
09/21/06	1.6238	09/21/06	1.6788	09/21/06	1.8193
09/22/06	1.5822	09/22/06	1.6472	09/22/06	1.7939
09/25/06	1.6014	09/25/06	1.6564	09/25/06	1.8068
09/26/06	1.5978	09/26/06	1.6578	09/26/06	1.7963

is fairly easy to write off those market bulls as simple "crackpots", but keep in mind that those calling for the most recent \$17.00/bbl. drop were referred to by the same terminology just 2 short months ago.

**OPEC not clearly showing their hands.** The current feeling is that OPEC, which has been quietly murmuring about a possible meeting to address dropping oil prices, is hoping that the rumors will be enough to stave off any further declines. The OPEC president went as far as saying that oil prices are now "very low", and expressed concern over the normal 2<sup>nd</sup> quarter production glut. The Saudis, on the other hand, seem to be comfortable with prices around \$60/bbl., and since they certainly are the "puppeteer" with regards to OPEC, it might take a further drop before OPEC puts any action behind the "we may need to cut production" rhetoric.

**Nat gas: Is there a floor?** Although it is being reported – unofficially – that the Amaranth Advisors hedge fund debacle that reportedly cost investors upwards of \$7 Billion, and wreaked havoc in the natural gas pits, has completed the liquidation of it's positions. While we are in no position to assess whether that is true, we can see that some of the intraday volatility has left the market, BUT also see that spot natural gas futures are poised to settle (October contract is expiring) at 4-year lows. The spreads to the winter are still astounding, but with storage levels at full capacity, there is nowhere to put this "cheap gas". Those with the "slice of

the system” utility storage capabilities are in an enviable position relative to “market buyers”.

**European Demand.** As a tell-tale sign that prices have really (at least for now) peaked, there is talk of at least ten Cargoes of product leaving our waters, and heading for Europe. Germany is said to be leading the demand for the products. No early word on a large disparity between weather forecasts for the two sides of the Atlantic, but without a doubt, oil supplies will chase the money. That last sentence is also the basis to counter the “if we just stopped buying Arab oil, we would crush them” argument. If we don’t buy their oil (and we don’t really get that much of it here), we will just have to pay someone else for the oil that is missing, and “their oil” will go somewhere else.

**Bottoming?** I don’t want to be accused to be someone that thinks that he has a crystal ball with regards to energy prices – I don’t. However, sometimes you CAN see trends in the market on a technical basis, and lacking any major changes in either news or fundamentals (and we DO have a lot of both in our markets), sometimes the technicals can “speak to you”. In the last report, we spoke of the possibility of a slowing decline in prices. The aforementioned potential decline was/is due to a combination of “the bearish news” being factored into the market (Iran’s U.N. negotiations, cooling tensions in the Mid-east, bulging inventories, etc.), and the “technically oversold” positions in the market. Since last week’s reports, we have actually seen the first sizable “upticks” in the Relative Strength Indexes (RSI’s) in some time. Prices are still a lot closer to oversold than to “neutral”, and (for reasons mentioned above) still quite subject to weakening, but may be at or close to a near-term bottom.

**Time for a reality check.** Just like most oil companies hear a majority of their noise from a very small percentage of their customers (and then wonder if there are other customers with similar gripes – there are, but probably not too many), we are in the same boat. Most clients who have offered AND HEDGED their price caps for this coming winter are very, very happy. After all, prices are well below the caps to the companies, and as a consequence, the

The chart below shows the drop in price of the October Natural Gas futures contract on the NYMEX since the early August peak.



companies are in a position to lower prices to customers AND to increase per gallon margins on the current deliveries. However, and addressing the small percentage – and those who might fall into that small percentage - we have come up with an interesting observation in comparing this year to the past few. Let’s start with a very basic primer on price offerings. Sales can be made to customers as variable (“rack-plus”), fixed (set in stone, regardless of price direction), or capped (variable, with the added ability to not exceed a certain level – but with a cost, a premium, attached to the offering). For the past few years, the “complaint” by a few has been that, to paraphrase, “since prices have just been so high, the cap that we are offering is higher (thanks to the option premium to offer a cap) than my competitors who are offering a fixed price, and” – here’s my favorite part – “*ALL of my competitors are cheaper than me because they are offering a fixed price*”. Okay, I have said to myself, the logic of the cap/ceiling still makes the most sense to me, but I do understand where the frustration might be coming from. Fast-forward to this September. Now the calls, yes, from the same few companies (who, thankfully have stuck with the cap-offering, instead of switching to a fixed-offering) are chiming in: “since prices have just fallen so much, the delivered price on the cap that we are offering is higher (thanks to the option premium to offer a cap) than my competitors who are offering a variable price, and” – here’s my favorite part – “*ALL of my competitors are cheaper than me because they are offering a variable price*”. Talk about a crystal ball!! All of the competitors knew exactly which year to switch from offering fixed prices to offering variable prices. Yes, I am dripping with sarcasm, but sometimes we all need to step back, and realize that the cap will ALWAYS have a group (variable or fixed) that looks better when the prices make an extreme move. But, it will also ALWAYS have a group (variable or fixed) that looks worse. The goal is to “always be in the game”, and to never lose customers because you are so far away from ANY competitors.

**Can I crow now about the Jets?** Might not have too many chances as the season progresses.

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