

THE ANGUS ENERGY REPORT

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Post-report Calls:		HEATING OIL (NOV)	GASOLINE (NOV)	NATURAL GAS (NOV)	CRUDE OIL (NOV)
	Crude ----- .40 higher	HIGH	1.7050	1.4925	6.605
Products ----- Heat-200 higher Gasoline 150 higher	LOW	1.6666	1.4461	6.100	57.37
Natural Gas --- .20 lower	SETTLE	1.6720	1.4503	6.150	57.59
	CHANGE	-.0089	-.0155	-.316	-.93
	14 DAY RSI	34	31	41	27
	5 DAY MA	1.6937	1.4865	6.354	59.17
	9 DAY MA	1.6950	1.4944	6.087	59.77
	14 DAY MA	1.7050	1.5075	5.948	60.47

-D.O.E. stats.... Crude oil stocks rose 2.41 mmbbls. Distillate stocks fell 1.52 mmbbls. Gasoline stocks rose .35 mmbbls. Operating capacity fell .7% to 89.7%. There didn't seem to be any major surprises in this week's reporting, and oil prices continue to drift, mostly aimlessly, balancing the strong down-trend against the notion that prices are due for a bounce. A year ago refinery activity was way off thanks to the spate of hurricanes that hit the Gulf of Mexico. This year, the refiners are pausing for maintenance as their profit margins from refining have fallen sharply – although no one should be crying for oil producers or refiners this year. Much the same can be said for many wholesalers, as the “diff-game” seems to be working out quite well for them.

Lots of news, not lots of movement....

- Who's at the wheel? As each day passes, the giant oil cartel, OPEC, seems to be losing some credibility. First two of their members, Venezuela and Nigeria, made pre-emptive production cuts, with the full expectation that the balance of the group would follow suit. After myriad of contradictory quotes, the Saudis still seem to be hesitant to make “official” the oft-spoken of million barrel per day production cuts. Claims are being made that the million barrel cut IS in place, but there seems to be some very big credibility concerns. Either way, spot (NYMEX) crude oil futures have fallen \$20/bbl. since reaching their highs in mid-July. Isn't it absolutely amazing that \$59.00/bbl. of crude oil sounds cheap!?

- One of the “analysts” were pointing out that some of the most recent demand figures for this coming winter would end up INCREASING heating oil prices by 30 or 40 cents per gallon. I guess that no one on the NYMEX read that report.

- Just so we will know.. that big building on the East Side of Manhattan that houses all of those international diplomats, but barely has a bark, let alone a bite.... well, the 5 permanent members of the U.N. Security Council have

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '07 futures
10/05/06	1.6320	10/05/06	1.6920	10/05/06	1.7991
10/06/06	1.6440	10/06/06	1.6940	10/06/06	1.8039
10/09/06	1.6747	10/09/06	1.7297	10/09/06	1.8270
10/10/06	1.6234	10/10/06	1.6809	10/10/06	1.7838
10/11/06	1.6270	10/11/06	1.6720	10/11/06	1.7693

agreed to BEGIN speaking about sanctions against Iran for their utter disregard for international demands relative to their uranium enrichment programs. Haven't “Diplomat School” teachers ever assigned “*The Boy Who Cried Wolf*”, as mandatory reading? You have to really wonder how egregious an act must be before the “world community” is willing to do something about it.

Speaking of egregious acts, Monday morning greeted us with news that the North Koreans – *is it possible that Kim Jong Il and Hugo Chavez were both oxygen-deprived at birth?* – had detonated an underground nuclear explosion. Energy traders, responded with a quick and sharp rally (heating oil traded more than 7 cents higher than Friday's close, by mid-day on Monday), before realizing that the likelihood of any REAL action against the North Koreans – without hours, and days, and weeks, and months of talks – were as likely as Shaquille O'Neill becoming a 95% free-throw shooter. By the end of the session, prices were about 3 cents higher, and by the close Wednesday, had fallen those 3 cents, and another 2 cents, for good measure.

-Glass 85% full or 15% empty? From the discussion that we have been having with many dealers, it seems that EVERYONE wants a better price (although, when pushed, “everyone” is not really everyone.... Fixed-price customers want the oil companies to just swallow the losses, and lower their prices. Capped-price customers want oil companies to swallow the options premiums, and lower their prices. Variable-priced customers (remember the ones who called

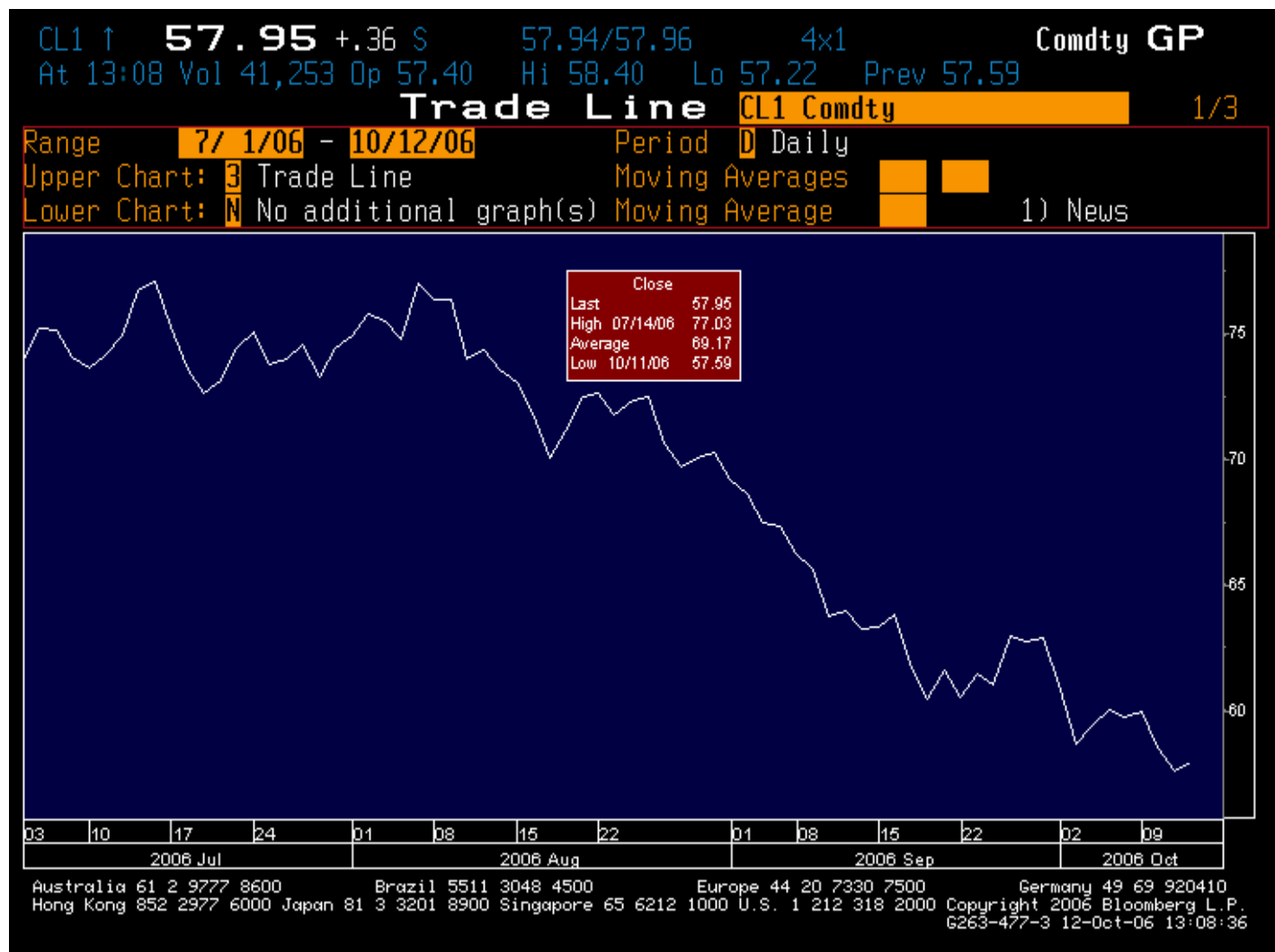
each year for the past 4 years to complain about the fact that they had no fixed or capped prices?), well, no one is hearing from them. Here are two rules of thumb: 1- You CANNOT offer a fixed-price that becomes a variable price, just because a customer whines. 2- You CANNOT ignore the costs that you have incurred (or are incurring) to offer a cap, and just turn around and sell oil as if you were a rack buyer. However, you can turn that “cannot” into a “can”, as long as you are willing to lose money, and to lose credibility with your customers and your staff. I do know that I am preaching to the choir on this, but bear in mind that every time “XYZ just took an account from me at a price of ‘x’”, that same company “XYZ”, just lost their fixed or capped account to someone else. There is a lot of talk about the customers being “different” than they have been in the past. I don’t know that to be true or not true, but I keep hearing it. I do, however, wonder if it is not the oil dealers who are different, and who are causing all of this shopping. Sure, everyone wants new accounts, but if the residual effect of getting a few new accounts means shrinking margins on the

balance of the business, perhaps this “marketing approach” needs to be revisited.

- **Natural gas futures** have taken their first break since the month started. After closing higher for 8 consecutive sessions, prices have fallen about 70 cents/dekatherm in the past 2 days. The weather forecasters are having a hard time making predictions past the next few days. We are having small pockets of cold Canadian air, followed by warming trends, followed by more cold air. The spot markets for natural gas and power, keep gyrating as we wait for some better understanding of the anticipated demand-side of the equation. *Weather-contingent (both against the adverse effects of cold weather and those of warm weather) has remained in strong demand.*

- **Putting things in perspective.** As I was brooding over the weather forecast that eventually cancelled last night’s NLCS game that I was to attend, news came out about the plane crash involving Corey Lidle and his instructor. Suddenly the rainout didn’t seem like such a big deal.

Front-month NYMEX crude oil futures – July-present.



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