

THE ANGUS ENERGY REPORT

http://www.angusenergy.com
e-mail pbaratz@angusenergy.com

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Written by Philip J. Baratz, C.T.A.

Opening Calls: Crude ----- .50 higher Products ----- Heat-100 higher Gasoline 50 higher Natural Gas --- .20 higher		HEATING OIL (NOV)	GASOLINE (NOV)	NATURAL GAS (NOV)	CRUDE OIL (NOV)
	HIGH	1.7680	1.5050	6.948	59.50
LOW	1.6877	1.4525	6.230	57.35	
SETTLE	1.6959	1.4703	6.807	57.65	
CHANGE	-.0379	+.0070	+.365	-1.28	
14 DAY RSI	41	38	56	34	
5 DAY MA	1.7183	1.4689	6.227	58.59	
9 DAY MA	1.7076	1.4734	6.290	58.75	
14 DAY MA	1.7033	1.4853	6.137	59.35	

-D.O.E. stats... Crude oil stocks rose 5.02 mmbbls. Distillate stocks fell 4.55 mmbbls. Gasoline stocks fell 5.22 mmbbls. Operating capacity fell 2.97% to 86.3%. In the reports, the build in crude, while the size of which came as a surprise, was somewhat expected, as refinery activity continues to fall with the drop in crack-spread (refining margins) and maintenance "turnarounds". However the large drops in product inventories did catch traders by surprise, and led to a quick rally in prices in the immediate aftermath of the reports. Heating oil futures moved .0350/gallon higher, and gasoline rose by more than .0400/gallon....

-Tale of 2 stories... Although the inventory report indicated that supply is seemingly under pressure with the drop in prices, part of the recent strength (maybe too strong a word, so let's say "support") in the market has been from the "impending" cuts by OPEC. As the day wore on, however, traders sensed increasing skepticism about the willingness, and more importantly, the ability, of OPEC to make any meaningful changes to the supply-demand balance, and the sell-off began. Crude oil fell almost \$2.00/bbl. from the post-report highs, and heating oil fell a full 8 cents/gallon, before settling 7 cents/gallon off of the highs.

-Catch the latest sound bite.... the trading action overnight, and into this morning has been dominated by different oil ministers trying to explain HOW the proposed "cuts" will take place. All agree that cuts will be in effect on November 1st, but from what levels? Some are talking versus actual production (well above, as always, quotas), while others (seemingly less realistic members) refer to quotes in relation to stated quotas. The 800 pound gorilla, Saudi Arabia, is out this morning, with some interesting comments. It's oil minister, Al-Naimi, said that a) the Saudis support a production cut, b) that the cut will "absolutely" be 1 million bpd., c) that the cuts will be from actual production (who knows how that relates to quotas, but might not be relevant), d) will begin on November 1st, and (perhaps most

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '07 futures
10/12/06	1.6452	10/12/06	1.6877	10/12/06	1.7788
10/13/06	1.6778	10/13/06	1.7178	10/13/06	1.8046
10/16/06	1.7203	10/16/06	1.7565	10/16/06	1.8406
10/17/06	1.7038	10/17/06	1.7338	10/17/06	1.8141
10/18/06	1.6659	10/18/06	1.6959	10/18/06	1.7768

importantly to those looking to drive prices lower – this might make them think twice) lastly, that OPEC will consider further production cuts at their next scheduled meeting in December in Abuja (located in the scenic, yet not so safe, country of Nigeria).

-What will make them happy?... Two questions scream out regarding the proposed production cuts by OPEC. The first is that assuming they can actually agree and implement the cuts, and assuming (not sure about this one) that the cuts will, indeed, support prices, at what level will they return the "withheld" barrels from the markets? Are they after supporting \$55/bbl., or after driving prices back to \$65/bbl. or higher? The second question is whether these totally transparent market-manipulating moves will work for them. After all, if the world is aware that at certain price levels, the spigots will be turned back on, will the market ever be able to provide for a supply-side-only price rally. If memory serves, these moves by OPEC have not, historically, had their desired effect. At times production cuts have been seen through very easily, as reactions to lowering demand, and production increases have been in response to increasing demand. While both SEEM to address the issue of balancing supply and demand, it SEEMS to me that the demand side (both actual demand and anticipated demand) has more power that changes in "supposed" production levels. The supply-side issue that really consumes traders and suppliers is the FEAR of disruptions outside of planned

quotas. That, is the demand-side fear, not the lip-service that OPEC gives to “price stability”.

-Price support.... Over the past week, after posting one-year lows, crude oil managed to rally to \$60.54/bbl. – up more than \$3.00/bbl. from last week’s lows - before moving lower into yesterday’s close. This morning’s strength, on the sound bites out of OPEC’s ministers, is bringing prices well above \$58.00/bbl, but still much closer to recent lows than to recent highs.

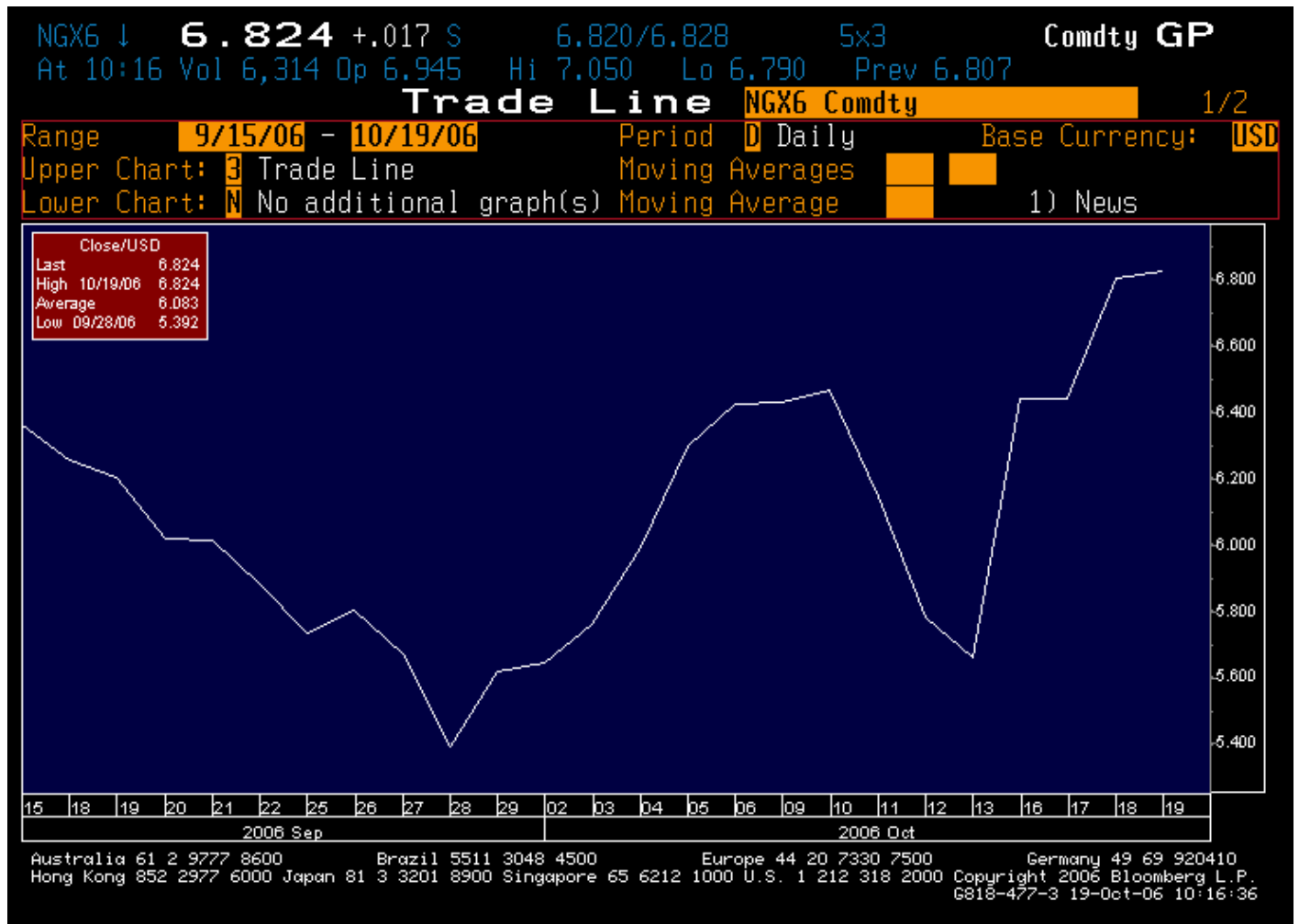
-Fundamentals or technicals.. From a purely technical perspective, the “strength” of the market decline, from August through October, has slowed. As we pointed out a few weeks ago, the RSI (relative strength index) of crude oil, products, and nat gas had all moved into “oversold” territory. As noted above, the RSI’s are all above 30% (nat

gas is above 50%), indicating a more “neutral” position. Since we don’t advocate trading for trading’s sake, take this note as anecdotal information, only.

-Nat gas strength.. As the first whispers of the winter’s cold weather are “in the air”, despite the pristine and warm day in the Northeast yesterday, natural gas has started to show some real strength (as opposed to the oil products). November futures have risen about \$1.40/dkt (one year strip is up about \$.45/dkt) since last week. So far, October is tracking “normal to slightly warmer than normal”, so we will see if the strength that has winter dkts. at over \$8.25/dkt. will stay in place.

-Billy Wagner must be driving up sales of Tums and Pepto Bismol. L.G.M.

The chart below is NYMEX natural gas futures (November) for the past 5 weeks.



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