

# THE ANGUS ENERGY REPORT

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Opening Calls:		HEATING OIL (JAN)	GASOLINE-RBOB (JAN)	NATURAL GAS (JAN)	CRUDE OIL (JAN)
Crude -----	HIGH	1.8180	1.6471	7.850	63.01
.35 lower	LOW	1.7736	1.6150	7.500	61.84
Products -----	SETTLE	1.7940	1.6213	7.727	62.19
Heat-100 lower	CHANGE	-.0043	-.0226	+.042	-.24
Gasoline 75 lower					
Natural Gas ---	14 DAY RSI	52	50	40	54
.025 lower	5 DAY MA	1.8198	1.6662	8.097	62.72
	9 DAY MA	1.7989	1.6517	8.263	61.85
	14 DAY MA	1.7735	1.6288	8.306	60.88

**-D.O.E. stats....** Crude oil stocks fell 1.05 mmbbls. Distillate stocks fell .46 mmbbls. Gasoline stocks fell 1.04 mmbbls.

**Operating capacity** rose 2.4% to 90.5%. Interesting, although uneventful, numbers. The initial reaction to the report was a brief rally, as analysts had predicted a small build in crude stocks. After failing to sustain the rally, prices moved lower – just to rally again later in the day, taking crude oil just north of \$63.00/bbl. again. Then, without follow-through buying in either crude oil or products, prices just withered, and ended the day (with the exception of gasoline) nearly unchanged. As a reference to the impact of the weekly inventory reports, it is worth noting that in the prior 7 weeks’ worth of reporting, the price of heating oil managed an *average* post-inventory settlement change of 5 cents per gallon.

**-Next on the agenda....** Now that the weekly inventory reports have come and gone, without impacting prices, traders will turn their full attention to next week’s OPEC gathering. There are many issues at hand. Some consider merely greed – as in the OPEC producers who just want prices to be higher. Others, in particular the Saudis, feel the need to reduce production as a means to bring down global inventories of crude oil by 100 million barrels – note that it is fairly rare for the Saudis to be as “verbal” as they have been leading up to this meeting. Their normal

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
11/30/06	1.8083	11/30/06	1.8133	11/30/06	2.0105
12/01/06	1.7977	12/01/06	1.8477	12/01/06	2.0209
12/04/06	1.7564	12/04/06	1.8089	12/04/06	1.9949
12/05/06	1.7458	12/05/06	1.7983	12/05/06	1.9928
12/06/06	1.7415	12/06/06	1.7940	12/06/06	1.9899

*modus operandi* has been to be quiet and contemplative UNTIL a decision needs to be made. All are expecting a production cut to be announced next week – even though the recent strength in the market might indicate otherwise (see: Saudi reasoning). The questions that remain will be (a) the amount of the announced cut, (b) the belief in how much of that cut will actually be implemented, and then (c) the actual implementation itself. Interestingly (and perhaps unfortunately), the last of these three factors is the only one that will have a real impact on the supply/demand balance. However, as history has taught us, by the time those numbers are clear (or “OPEC-clear”, which is a dark shade of “very murky”), the market will most certainly be focusing its attention on other matters.

**-What about the last cut?** The “rumors” about the last OPEC cut indicated that the cartel only cut about half of their announced November production cuts. There was a report out yesterday saying that Reuter’s calculations of OPEC supply showed levels slightly under 27 mbd., representing

only about 50% compliance with the cuts. However, PIRA Energy's estimates are showing that supply from OPEC fell a full 1.5 mbd from the October levels, which would indicate full compliance. As always, hard to tell, but (also, as always), we are already on to the next thing – the December 14<sup>th</sup> OPEC gathering.

**-“We won't be fooled again”**, was the implication from OPEC president, Edmund Daukoru (of Nigeria), as he explained that the recent rally in oil prices were related, more than anything, to the weak U.S. Dollar. The U.S. Dollar Index is at it's lowest level since March 2005, and has fallen sharply since mid-October.

**-Weather... or not.** Combating at least in the short-run, the calls for higher energy prices has been the extremely slow start to the heating season in the Northeast U.S. As compared to the most-recent 10-year averages for November, HDD's were off in Albany by 22%, Boston by 19%, Binghamton by 23%, and NY-LGA by 29%, ..... December has started as “normal”, but the forward weather markets seem to be – yet again – forecasting warmer than normal (HDD's off by at least 10%. There is certainly plenty of winter ahead of us, but it's not a lot of fun hoping for cold weather just to end up with a “normal” winter. Biggest hurt is being felt by those who own and offered fixed-price oil (who are unhedged) and those who do not have HDD (warm-weather) protection.

**-There have been some recent reports** that may prove to be quite troublesome in the long-run. It seems that the greatest risk to market stability is centered right in downtown Tehran, Iran. While the Venezuelan election debacle, the Nigerian “kidnapping-a-week”, the “ILL” leader in North Korea, etc., are all of some concern, the 800-lb. gorilla is still the nuclear-happy Iranians. Now it seems that there is a movement to somehow have the Iranians HELP US (!?) extricate ourselves from the quagmire known as Iraq. Not to be too paranoid, but IF we somehow (overtly or covertly) get some “help” from the Iranians, how can we possibly believe that we (the “global we”) will be able to exert any pressure over them, as they continue in their nuclear enrichment plans, and

their threats towards Israel and other non-radical nations in the region?

**-Doesn't the 70-cent drop mean anything?**

Conspiracy theorists continue to point their fingers at “everything” when trying to figure out who “controls” oil prices. Without going into the simple details that for every “long” there is a “short”, it should be noted that it seems that some of those who “control” prices, seem to have missed the memo pointing out that prices were due to make a 180-degree turnaround during the summer. Hedge funds are reported to have dropped well over \$10 Billion on the drop in energy prices – well more than the profits that they “controlled” on the way up. Are prices predictable? Absolutely not. Do they follow what we might consider to be logical patterns and supply/demand “equilibrium pricing”? Again, the answer would be no. The real concern that I have is that way too much time is being spent looking for a smoking gun – as if there are 3 guys sitting in a locked room mandating how \$5 Billion+ ***PER DAY*** worth of oil is to be priced. There is a tremendous amount of uncertainty in the markets, and until there is political and economic stability in the world, some level of uncertainty will remain. For most of us, we try to provide a good (or excellent) product or service, and to try to make a reasonable profit in doing so. Price volatility (illogical as it may seem – and actually may be) is part of the game. We can ignore it and hope it will go away. We can point our fingers at why it might be happening. Or, we can (albeit begrudgingly) accept that it is part of our reality, and deal with it (yes, by appropriately hedging).

**-“Where are you going?”** This refrain, I am VERY happy to report, is becoming more common as (some) customers decide that the grass is greener elsewhere. Contracted customers who just want to buy their oil elsewhere, are starting to find that those little “cancellation fees” can be quite expensive – and are very well justified. After all, if prices were a dollar per gallon higher than they are today, would it be okay for you to NOT deliver to your customers, and to sell that oil more profitably to your customers' neighbors?

**-I didn't realize how much “buzz”** the comment that some are starting to hedge for next winter

would have generated. To be clear, we (always) advocate a hedging plan to be set up before any hedging trades are executed. Planning and executing – as many are seeing this season – eliminates most potential surprises. Buying now, and figuring out “why” later on, generally doesn’t work. If you would like to discuss getting your plan set up, feel free to contact your Angus rep.

**-Nat gas bucked its recent trend yesterday,** and ended up slightly higher on the day. After trading

up to over \$9/dkt. in trading on November 30<sup>th</sup>, the January futures contract had fallen all the way to \$7.50/dkt. on the warm weather forecasts, before moving a little higher yesterday. Today’s inventory report will start to push nat gas in its next direction.

**- Bosox loading up,** Yankees “quiet” can only mean that they are planning, and the Mets “big trade” was to move Bannister?!?

The chart below shows the “futures” prices for November HDD’s in Boston from October through the end of November.



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