THE ANGUS ENERGY REPORT

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Opening Calls:
Crude ------- .25 higher
Products ------ Heat-75 higher; Gasoline 50 lower
Natural Gas --- .125 lower

	HEATING OIL (JAN)	GASOLINE-RBOB (JAN)	NATURAL GAS (JAN)	CRUDE OIL (FEB)
HIGH	1.7400	1.7300	7.174	64.00
LOW	1.7015	1.6545	6.905	62.28
SETTLE	**1.7187**	**1.7106**	**7.083**	**63.46**
CHANGE	*-.0020*	*+.0357*	*+.008*	*+.67*
14 DAY RSI	43	61	33	53
5 DAY MA	1.7459	1.6763	7.359	63.17
9 DAY MA	1.7458	1.6461	7.432	62.96
14 DAY MA	1.7722	1.6533	7.669	63.41

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
12/13/06	1.6833	12/13/06	1.7320	12/13/06	1.9570
12/14/06	1.7283	12/14/06	1.7765	12/14/06	1.9851
12/15/06	1.7317	12/15/06	1.7817	12/15/06	1.9862
12/18/06	1.6607	12/18/06	1.7207	12/18/06	1.9402
12/19/06	1.6512	12/19/06	1.7187	12/19/06	1.9602

-D.O.E. stats…. **Crude oil stocks** fell 6.323 mmbls. **Distillate stocks** rose 1.21 mmbls. **Gasoline stocks** rose 1.06 mmbls. **Operating capacity** rose 1.6% to 90.7%. The immediate reaction was a brief rally, but prices have moved back towards unchanged on the day, as the products numbers were not as most had expected. Distillated were estimated to show a small draw, so the build (although the A.P.I. numbers, in contrast, showed a draw in distillates of 1.42 mmbls. and in gasoline of .30 mmbls.) is tempering attempts to take prices much higher. After the very volatile week, traders are assessing the numbers, and figuring out what to make of them (and all of the other "news" out there).

-The big news this past week was the much-expected announcement by OPEC that they would be cutting production by 500,000 bpd. starting February 1st. There are many ways – fearful, realistic, skeptical, etc. – to look at the announcement by the cartel, but mostly, it seems, that the announced cuts are a way of pandering to several audiences. There are those within the group who have become total hawks and want to "protect" the $60.00/bbl. level, while others realize that with the cheating going on, an announced cut of 500,000 bpd. likely won't change all that much. It is interesting to note that the "cuts" aren't slated to go into effect for another 6 weeks, effectively making the announced cuts at a time that most of the winter will have already passed by. The 2nd quarter of the year – as distillated demand wanes, and gasoline demand will not yet be in full swing – is historically a low-demand time of the year, so the logic of a February cut might not be as "piggish" as some might think. Then, again, having some of the world's biggest despots in a position to get AT LEAST $60 per barrel for each one that they sell is quite discomforting.

-On the week, we saw a big rally going into the OPEC announcement, just to be followed by a "buy the rumor, sell the fact" sell-off on Monday. Crude oil prices are maintaining much of their recent gains, but distillates continue to trade closer to their recent lows. As a point of reference, the December crude oil futures contract expired (in November) with a price of $55.81 per barrel. The January futures contract expired yesterday at a price of $63.15 per barrel. Prices this morning for February (now the "spot" futures contract) have headed up towards $64.00 per barrel.

-In contrast to the support that crude oil seems to be having, we continue to suffer with extremely warm temperatures – with forecasts not looking any better. The lack of heating demand had taken the "technicals" of heating oil and natural gas into negative - approaching "oversold" – territory. The good news is that the cost of oil has not rallied with the price of crude oil, and that spot costs are still nicely discounted to the futures markets – this gives a big benefit to those gallons that are being bought on a spot/rack basis – that are hedged with "call options" as part of a comprehensive hedging strategy.

-At the moment, the "cheap" heating oil prices are not nearly enough to offset the damage of the very warm temperatures that we have been experiencing this winter. December is tracking about 20% warmer in most places, with no cold snaps anticipated in the foreseeable future. January HDD futures are off by about 5% as compared to the 1-year averages. Hopefully when the cold snaps do come (they will!!), there will be more than enough oil around, so that prices do not spike in tandem with the weather turning colder.

-Reality check. Remember all the surpluses of oil that have been incessantly discussed over the past year? With the spring-like temperatures and the supposed slowing of the economy, it would make sense that those year-to-year surpluses should still be around, right? Well (and partly due to the "catch up" after last years' very active hurricane season), as of last week's report, heating oil stocks are now 3.72% LOWER than year-ago levels. Gasoline stocks are 2.96% lower. Crude stocks are still higher – by almost 4%. Where would those inventories be if the weather were cold? What will happen when the weather turns cold?

-Although it does seem early, the first sets of "Best Buy" hedges for next winter ('07-'08) are being placed to be purchased – ratably, of course – during the month of January. For those who just cannot possibly focus on next winter – when it seems that this past summer has not yet ended – I can certainly understand the sentiment. However, it is never too early to start a planning process – regardless of when you actually start your hedging. Quite unfortunately things "at work" are slower than any of us would like, but you can/should use some of this time to get together with your Angus rep to assess where things are for this year, and what modifications and plans should be scheduled for this coming year. We continue to see a market with a tremendous amount of "carry" in it. This "carry" projects crude oil prices to be almost $70.00/bbl. and heating oil prices to be almost $2.00/gallon next winter. This past summer, prices moved well above both of those levels, before retreating to the current status that is well below those levels. This directional and price uncertainty is not going away – especially given the current "cast of characters" who seem to be controlling much of the world's oil production, and (more importantly, perhaps) the waterways that a good portion of the world's oil flows through.

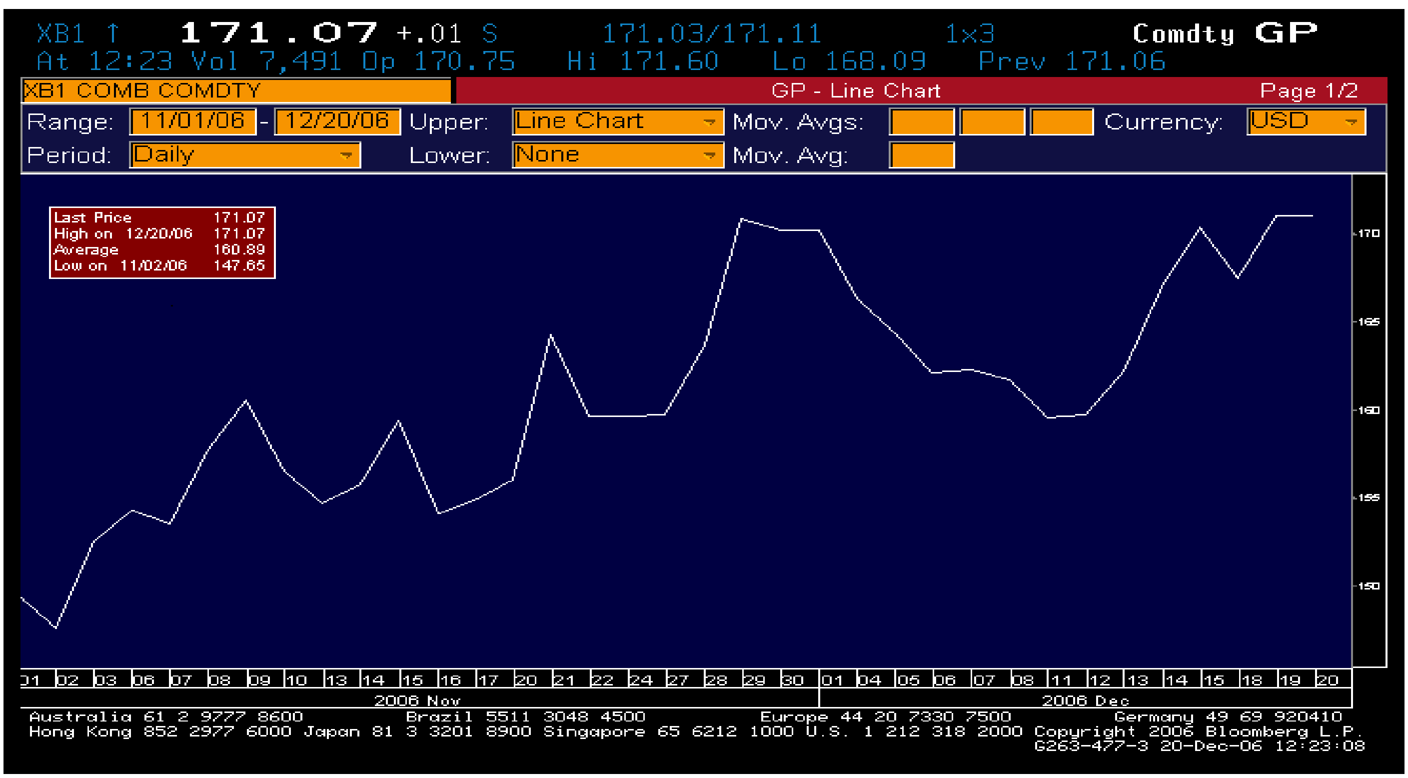
-"Segue Alert..."... The United Arab Emirates (UAE) has announced plans to build a new pipeline to transport more than one million barrels of oil per day, with the goal being that the pipeline will bypass the Persian Gulf's Iranian-dominated Straits of Hormuz. The plan to circumvent the waterway seems to many to be a clear indication by the UAE that trusting the Iranians to NOT close the strait might not be a very wise business decision. The proposed pipeline may be able to handle almost 40% of the daily exports from the UAE.

-Angola is set to become the first new member of OPEC in 31 years. Likely this will not have any real impact on pricing or supply, but it is interesting to see that the high oil prices have given some new credibility to the cartel and to membership in the organization.

-Although demand for distillate products is well lower in response to the mild weather, the demand for gasoline is quite robust. As we near what is expected to be record-setting holiday season driving, gasoline prices – we are now focused on the RBOB futures contract, as effective 1/1/07 that will be THE gasoline contract traded on the Merc – have, slowly, steadily, and quietly moved from a low on October 31^{st} of $1.44/gallon to yesterday's closing price of over $1.71/gallon – a 27-cent per gallon increase.

-Will there be enough basketballs in Denver?

The chart below is the RBOB "front month" gasoline futures contract on the NYMEX



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