

# THE ANGUS ENERGY REPORT

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Post-report Calls: Crude ----- <b>2.00 lower</b> Products ----- Heat-300 lower Gasoline-500 lower Natural Gas --- .05 higher		HEATING OIL (FEB)	GASOLINE-RBOB (FEB)	NATURAL GAS (FEB)	CRUDE OIL (FEB)
	<b>HIGH</b>	1.6460	1.6165	6.398	60.97
<b>LOW</b>	1.5738	1.5402	6.140	57.72	
<b>SETTLE</b>	<b>1.5881</b>	<b>1.5489</b>	<b>6.163</b>	<b>58.32</b>	
<b>CHANGE</b>	<b>-.0601</b>	<b>-.0674</b>	<b>-.136</b>	<b>-2.73</b>	
<b>14 DAY RSI</b>	25	35	25	32	
<b>5 DAY MA</b>	1.6387	1.5948	6.230	60.26	
<b>9 DAY MA</b>	1.6766	1.6185	6.469	61.24	
<b>14 DAY MA</b>	1.7145	1.6431	6.823	61.93	

**-D.O.E. stats...** Crude oil stocks fell 1.299 mmbbls. Distillate stocks rose 1.971 mmbbls. Gasoline stocks rose 5.679 mmbbls. Operating capacity rose 0.1% to 91.0%. At this point, the inventory reports have taken a back seat to the thermometer and to the forecasted temperatures. Builds in distillates at the end of December shouldn't happen, but some of it might be attributable to an end of the year inventory "shell" game. Prices are lower after the release of the numbers, but it is really hard to say with confidence that the inventories are the cause.

**- Good riddance to 2006.** That has been heard on the lips of many heating oil dealers, natural gas and propane suppliers, outerwear/apparel retailers, etc. Unfortunately, what we all disliked about November and December has followed us into January. Temperatures are set to surpass 60-degrees this weekend in a number of Northeast locations, and with 80% of the U.S. demand for heating oil centered in the Northeast, there doesn't seem to be anywhere for prices to go but down. Crude oil futures are finishing their largest 2-day drop in over 2 years. While we might be able to look for a bounce in prices, the simple fundamentals to support a demand-based rally just aren't there right now. Hopefully, the early forecasts calling for a cooler-than-normal 2<sup>nd</sup> half of January will be accurate. We all seem to be enjoying the dropping prices, and the increased per unit margins – BUT the number of units is so far off of where we all need them to be that the margin help is not enough to offset the lost volumes.

**- Tug-of-war.** The OPEC ministers must be shocked to be learning that their supply-side calculation to bring higher prices is being blown away by Mother Nature's plan to have two consecutive months with HDD's off by greater than 25% (in many locations). Just as the rallies of the past few years had moved some customers (and some companies) from variable or capped offers to fixed offers, we are seeing – like never before – those who marketed fixed-price programs seeking a way to cap their customers for the '07-

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
12/27/06	1.5913	12/27/06	1.6088	12/27/06	1.9118
12/28/06	1.6081	12/28/06	1.5979	12/28/06	1.9171
12/29/06	1.5829	12/29/06	1.6482	12/29/06	1.9217
01/03/06	1.5306	01/03/06	1.5881	01/03/06	1.8731

'08 heating season. I guess that an 80-cent per gallon drop in the price of (as an example) the February heating oil futures contracts has a way of making a 13-, 15-, or 17-cent premium for an option seem not so prohibitive. For those who still offer the fixed-price as a pricing program, there is a hedge to protect against exactly what is going on right now. That type of protection costs well under a dime.

**- Camera phones are everywhere.** I just didn't need to see the hanging of Saddam Hussein – although it is somewhat satisfying to see some justice in the world. The much-anticipated spike in sectarian violence has not really been seen. With the Democrats in charge of both houses of Congress, it will be interesting to see how the flow of troop movements goes over the next year.

**- All quiet on the Iranian front.** With the more than ample oil reserves, it is not surprising to see that the Iranian saber-rattling has been muted over the past 2 weeks. My fear (and not mine alone) is that when there is some supply tightness – and there will be in the future, at some point – the Iranians will use that as an opportunity to make threats regarding the Straits of Hormuz. There is just too much control over the flow of a large percentage of the world's oil to be left in the hands of an irrational madman.

**- We are in the midst** of putting together a "Hedging Personality Test". The purpose of the test – still about a week away – is to try to figure out how to best approach your program offerings. We will delve into your thinking about the importance of timing of offerings (does it matter what your competition does), the balance of higher

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premiums with lower “deductibles”, the value of being able to lower the price versus the importance of starting with a low cap (or fixed) level, etc. If you have some interest in this, please contact your Angus rep.

- **For those who started their Best Buy buying** for winter '07-'08, we will be accounting for the trade date of January 2<sup>nd</sup> in the price setting calculations. The formula will follow, but will likely account for the day of observation for President Ford as a date with prices set from either the trading day before of the trading day after.

- **As most clients do not start the “ratable buying”** before February, do not be concerned if you haven't seen the '07-'08 proposals yet. They are being prepared, and will be sent out within the next 2 weeks.

- **With some predicting that the current El Nino** will be causing '07 to be the warmest year on record, you have to wonder – on the pricing side of things – if we are nearing a long-term bottom in prices. In other words, “if all the bad news (about demand) is out”, what will drive prices even lower? If you look into the future, traders are clearly predicting an increase (of about 30 cents) between now and next winter. All of that is without anything going on in the Middle East. Stay tuned.

- **Jets-Pats, Giants-Eagles.** Exciting day on Sunday. Potentially to be followed by a depressing day on Monday.

- **Again, Happy New Year to one and all.**

The chart below is the February (now the spot) heating oil futures contract.



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