

# THE ANGUS ENERGY REPORT

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Post-report Calls: Crude ----- .75 lower Products ----- Heat-200 lower Gasoline-300 lower Natural Gas --- .15 lower		HEATING OIL (FEB)	GASOLINE-RBOB (FEB)	NATURAL GAS (FEB)	CRUDE OIL (MAR)
	HIGH	1.5830	1.4500	7.657	55.15
LOW	1.5025	1.3755	7.310	52.41	
SETTLE	1.5763	1.4473	7.597	55.64	
CHANGE	+.0679	+.0719	+.278	+2.46	
14 DAY RSI	46	44	62	42	
5 DAY MA	1.5137	1.3909	6.872	53.19	
9 DAY MA	1.5065	1.3973	6.738	53.29	
14 DAY MA	1.5264	1.4316	6.583	54.80	

**-D.O.E. stats.... Crude oil stocks** rose .79 mmbbls. **Distillate stocks** rose .75 mmbbls. **Gasoline stocks** rose 4.01 mmbbls. **Operating capacity** fell 0.5% to 87.4%. Interestingly, the A.P.I. is reporting **draws** in crude oil and in the products. Thus far, the D.O.E. numbers are winning the day. Distillates were expected to show a draw, but the small decline (just after the numbers were released, heating oil fell by 2 cents) in prices shouldn't be all that surprising after the strength of the late-day (SPR-induced) rally yesterday. The size of the build in gasoline was a little surprising, as some were predicting that the mild late-December and early-January weather would have led to more driving (and gasoline consumption).

**-\$50 crude oil lives to fight another day.** The drop from the highs of \$77/bbl. continued last week, with every bears' target being the "major support" (really just in theory, but as we all know "perception is reality...") level of \$50 per barrel. After setting new closing lows at \$50.48 per barrel on Thursday, prices moved down to \$50.12 per barrel in early trading on Friday, before reversing direction, and rallying about \$1.50 per barrel. The rally on Friday afternoon gave "some legs" to those with long positions, and prices gapped higher at the opening on Monday, just to run into resistance, and to close lower on the day, after seeing intra-day prices about \$1.50 per barrel higher. The interesting thing about Monday was that it was the expiration day of the February crude oil futures contract on the NYMEX, and several pointed to the late sell-off (Monday) as long-term "longs" finally getting out of their February futures. Given that assumption, it was not surprising to see the market show the ability to rally yesterday – though the size

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
01/17/07	1.4748	01/17/07	1.4998	01/17/07	1.7238
01/18/07	1.4407	01/18/07	1.4707	01/18/07	1.7047
01/19/07	1.4885	01/19/07	1.5135	01/19/07	1.7420
01/22/07	1.4825	01/22/07	1.5084	01/22/07	1.7275
01/23/07	1.5488	01/23/07	1.5763	01/23/07	1.7825

and strength of the rally was more than many had called for.

**-The weather is finally helpful.** After an absolutely dreadful November, December and early January, cold weather is hitting the Northeast, and according to most forecasters it will be with us for a while. The end of January through the 1<sup>st</sup> half of February is set to be well colder than normal. After "trading" as low as 20% "warmer than normal" (normal being defined as the 10-year average), it appears as if January may end up "only" 10% warmer. The current weather markets are predicting February HDD's at 10-12% colder than normal – although that might be optimistic, and the combined Feb-Mar time period is "trading" colder than normal, as well. The recent turn in the forecast has helped buoy prices, of late, but before we get too excited about cold weather, let's remember that it is the heart of the winter, and in the winter it is SUPPOSED TO be cold. Hopefully, we see more cold than warm for the next 6 weeks – at least.

**-Heating oil prices have been helped** by the new weather forecasts, but are still only about a dime off of their lows for the year – and far away from the highs (last weeks' lows in February heating oil were 83 cents per gallon – yes, 83 cents – lower than the highs in the February heating oil contract, seen in August. That is

why options premiums – high as they may seem – are well warranted).

**-On the other hand**, while heating oil has moved up about 4% from last week's lows, natural gas (February) futures have taken the new weather forecasts quite seriously. From the lows of this past Thursday, up through yesterday's close, nat gas prices increased by 23% (\$1.40 per dekatherm).

**-Also noteworthy** is that the United States announced plans to increase the oft-discussed Strategic Petroleum Reserve (SPR) starting this spring, with the goal being a doubling of the current levels. The plan is to purchase about 100,000 barrels per day, and to allow the purchase to be effectuated by the oil companies via a "royalty in kind" program wherein which the companies will deliver oil into the SPR, instead of paying royalty dollars to the government. No clear explanation was given as to the desire to eventually have about 1.5 billion barrels of oil in the SPR. Can the Iranians be on the government's mind? The announcement was also pointed to as a reason for part of the strength in yesterday's oil markets.

**-One more thing from the government...** in last night's State of the Union address, President Bush proposed that by 2017 we should be using about 35 billion gallons of "renewable and alternative fuels", a

five-fold increase from the current 2012 plan. This plan will likely be met with support from both sides of the aisle, and Republicans and Democrats alike (at least publicly) support alleviating some of America's dependence on foreign oil. Actually, this might be the ONLY thing that both sides of the aisle agree upon – but the poli-sci course doesn't have any openings at the moment.

**-“Those who don't learn from their mistakes are destined to repeat them”...** that phrase seems to be ringing true with many heating oil dealers, as they start to scale into their '07-'08 hedges. We are seeing companies who offered both fixed and capped programs making a special effort to promote the caps, and even more so, seeing companies who have ONLY offered fixed prices start to set up price-cap programs for this coming season. In addition, many companies who delayed the beginning of their "scaling-in" to March (and some till April), are starting with some small volumes in February. If you don't have your plan either in place, or in "discussion mode", you should think about getting that matter addressed – before you get too busy with the cold weather that's coming!!

**-Peyton vs. Rex.** It almost doesn't seem fair.

*The chart below shows the trading of February heating oil (NYMEX) futures from August through today.*



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