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.

Post-report Calls:
Crude -------
.10 higher
Products ------
Heat-50 higher
Gasoline-25 higher
Natural Gas ---
.15 higher

	HEATING OIL (MAR)	GASOLINE-RBOB (MAR)	NATURAL GAS (MAR)	CRUDE OIL (MAR)
HIGH	1.7145	1.5890	7.860	59.99
LOW	1.6760	1.5596	7.459	58.50
SETTLE	**1.6909**	**1.5725**	**7.616**	**58.88**
CHANGE	*+.0153*	*+.0126*	*+.018*	*+.14*
14 DAY RSI	57	55	57	55
5 DAY MA	1.6786	1.5566	7.585	58.42
9 DAY MA	1.6397	1.5330	7.408	56.97
14 DAY MA	1.6069	1.5011	7.300	55.78

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
01/31/07	1.6546	01/31/07	1.6546	01/31/07	1.8448
02/01/07	1.6564	02/01/07	1.6589	02/01/07	1.8310
02/02/07	1.6815	02/02/07	1.6840	02/02/07	1.8725
02/05/07	1.6756	02/05/07	1.6756	02/05/07	1.8591
02/06/07	1.6884	02/06/07	1.6909	02/06/07	1.8654

-D.O.E. stats…. **Crude oil stocks** fell .45 mmbls. **Distillate stocks** fell 3.63 mmbls. **Gasoline stocks** rose 2.60 mmbls. **Operating capacity** rose 0.3% to 87.3%. A.P.I. numbers were less supportive for crude, but showed losses in gasoline (3.1 mmbls.) and a much larger draw in distillates (6.9 mmbls.). After starting the trading session higher, the inventory reports brought even more buying in, until crude oil traders were unable to sustain a serious challenge to the $60.00/bbl. level. From there, prices moved lower, and have remained within a short distance of "unchanged" on the day. Heating oil futures had moved up to over $1.72/gallon (March), but has since traded between unchanged and a penny higher. It's a long trading day, but something else (news, weather, etc.) will have to come out to move prices strongly in either direction.

-The sustained cold weather over the past three weeks, with a forecast of at least one more week of "colder than normal" temperatures have lifted the spirits of many heating oil dealers. Although January was quite warm, the late-month cold snap kept it from being even worse than the awful month of December. As of this morning, those who forecast and trade weather futures are predicting that February will be about 20% colder than normal, the 4th consecutive month where "normal" and "reality" have nothing to do with one another. Early calls for the month of March – which will get a lot more focus in about 2 weeks – are for "normal" to "slightly warmer than normal" temperatures.

- Bottoms in place? As we (and the rest of the world) have been wondering whether (or when) the $50.00/bbl. support level would be penetrated, it seems that the question is now whether (or when) prices will break above $60.00/bbl. Since the lows of mid-January, prices have jumped by almost $10.00/bbl. on fundamentals that have not really changed that much. Yes, it has been cold (that is SUPPOSED to happen during the winter), but not so cold as to warrant such an increase – without other factors. What are those factors? That is the big question right now, as without the "other factors", traders might have a hard time sustaining the recent strength. Prices (March NYMEX crude oil futures) have traded above $59.80 per barrel each of the last 3 days, but have not been able to break above $60.00/bbl. – yet. Winter (next) trading is approaching the mid-60's. Does all of this sound familiar from last winter? Like our favorite Hall of Fame catcher likes to say, "it's like deja vu all over again".

- With the recent rally in all energy products (heating oil is up almost 27 cents per gallon in the last 3 weeks), the markets' "technicals" have increased, as well. As noted above, the RSI's (relative strength index) are all above 50%, and approaching 60%. What is interesting is that despite the recent strength, it has been a steady increase, without real spikes. Accordingly, the increases in the RSI do not, at present, put us at or near "overbought" territory.

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- Reading the news stories over the past two weeks has been the purest in studies in contrast. Each time that prices show a rally (especially in heating oil), the reports point to "strong demand and possible supply tightness". Each time that prices either fail in a rally attempt, or just sell off, the reports point to "despite the cold weather, ample supply exists". Once again, the "news" seems to be set to respond to the markets, instead of the other way around. Stepping back, you really need to wonder about supply costs. If supply WERE getting tight, wouldn't the spot markets move to a premium to the futures markets? We have had a move in that direction, but when prompt and futures prices are the same, it doesn't scream "shortage!!". Even though we have had several of the coldest days in the last few years, the only ones who were suffering from "supply tightness" were those who felt inclined to whittle their own inventories down to bare minimums in fear that this year's winter would never arise. Now that is has, some of those same dealers are said to be scrambling around for supply...

- In a related story, several clients have been asking us about the logic of buying out of their fixed-price supply contracts that they bought to either supply fixed-price sales, or for capped-price sales that were "backed up" by the purchase of put options. The purported logic was to just "cut the losses", as many of these wetbarrel contracts were fixed at prices well above current (or, at least, mid-January) levels. There isn't enough room in a weekly newsletter to go into all of the reasons that this idea makes me hot under the collar, but here are a couple.... 1- If you SOLD fixed, and no longer own and fixed, what will you do if prices increase (as they have sharply since a few clients were offered the "cutting the losses" suggestion)? 2- Since when did speculation enter the decision making process with regards to hedging? 3- What "losses"? Isn't there an offsetting customer sale against the fixed-price purchase?? The notion – that I have heard from some – is that you can try to "make up" some of the losses by increasing margin on variable sales. While you can do that, and I strongly suggest making "extra" margin in a weak market environment, why would you need to "make up" losses? If your customers are fixed, and you are fixed, where are the losses? If you are allowing customers to walk away from their contracts, either you shouldn't – or you shouldn't offer a fixed price at all!! If your "losses" are due to the weather, and lost sales volumes, then you need either a simple weather hedge or a fixed-price hedge that factors in the weather. Both are available, and you should see whether they are appropriate for your circumstance. But (to be redundant), to simply liquidate a position that was purchased as a hedge (especially when the position is doing its job!!) is nothing more than speculation – make no mistake about it.

- I'm not quite sure who does the MVP voting, but the better team certainly won on Sunday.

The chart below is the LGA-NY futures trading for HDD's (Feb '07)......

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