

THE ANGUS ENERGY REPORT

http://www.angusenergy.com
e-mail pbaratz@angusenergy.com

April 18, 2007
Written by Philip J. Baratz, C.T.A.

Post-report Calls:		HEATING OIL (MAY)	GASOLINE-RBOB (MAY)	NATURAL GAS (MAY)	CRUDE OIL (MAY)
Crude -----	HIGH	1.8771	2.1467	7.587	64.64
	LOW	1.7950	2.0500	7.400	63.05
Products -----	SETTLE	1.7976	2.0558	7.418	63.10
	CHANGE	-.0615	-.0599	-.112	-.51
Natural Gas ---					
	14 DAY RSI	49	53	46	52
	5 DAY MA	1.8677	2.1403	7.706	63.24
	9 DAY MA	1.8595	2.1282	7.674	63.14
	14 DAY MA	1.8585	2.0969	7.655	63.92

-D.O.E. stats.... Crude oil stocks fell .99 mmbbls. Distillate stocks fell .80 mmbbls. Gasoline stocks fell 2.72 mmbbls. Operating capacity rose 2.0% to 90.4%. The main focus appears to be on the gasoline market, and its continued inability to build inventories ahead of the driving season. Steady demand seems to be the driving (pardon the pun) force behind this inability. On the heels of the inventory data, prices moved a little lower, but have gone back towards “unchanged” on the day, as traders await further information to direct prices.

- Still bailing? This past weekend’s storms, of historical magnitude, may end up impacting some of the reported inventories (as adjustments). The drying out period has barely started – especially in some parts of New Jersey – but the impact of the damage caused by this “once in a hundred years” storm may not be seen for a while. Early estimates exceed \$100 million in damage.

- Weakness, Sell-off? On the one hand, prices have fallen about 10 cents per gallon in the past week. That is definitely good news, and quite welcome. On the other hand, “profit-taking” after a rally of 40 cents per gallon, might just be a matter of traders “loading up” to continue the buying spree. At this time of the year, the prices moves are not as consequential in the short-run – forecasts are for temperatures in the mid-70’s by early next week in New York City – but, as the oil complex trends higher, with the lack of any REAL

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
04/11/07	1.8757	04/11/07	1.8747	04/11/07	2.0547
04/12/07	1.9094	04/12/07	1.9061	04/12/07	2.0738
04/13/07	1.9047	04/13/07	1.9001	04/13/07	2.0617
04/16/07	1.8643	04/16/07	1.8593	04/16/07	2.0233
04/17/07	1.8018	04/17/07	1.7978	04/17/07	1.9851

solutions in the problem areas of the world (Iran, Iraq, Nigerian, Venezuela, North Korea, etc.), the calls for \$4.00/gallon gasoline (we are above \$3.00 in a number of places, already), may well be followed by calls for \$4.00/gallon heating oil.

- Are rallies done – or just waiting for sell-off to create a buying opportunity? There is no real answer to this question. Despite all of the talk about tensions, supply and price disparities on the two sides of the Atlantic Ocean, economic slowdowns and pickups, we still have not been faced with any real supply tightness in quite some time. Even with the cold second half of the winter – leading to a normal to slightly-warmer-than-normal heating season – we don’t really have any supply “issues”. That is the good news. The bad news continues to be that we are – and have been for several years – in a market that has a very clear disconnect between actual short-term supply/demand issues, and short-term price movements. So long as there are knee-jerk reactions to the news reports du jour, prices will continue to swing with this disconnect. Some say that abandoning pricing programs will alleviate

some of the tension of being an oil dealer. While it is hard to refute that logic, the question that begs is whether you will still be an oil dealer after abandoning your programs!! Short of all oil companies deciding NOT to give their customers a pricing choice (I believe the word for that would be collusion), customers do want protection and some sort predictability as to what it will cost them to keep their houses warm. THE question is how do you satisfy that need and, more importantly (or more selfishly), satisfy your own profit needs.

- Sticking to the plan... whether you believe that prices are going to slide back towards the lows, or that they will use the slight correction as nothing more than a launch pad to move to even newer highs, the “purpose” of a ratable buying plan, such as the Angus Best Buy Program, is to avoid unnecessary, and most often incorrect, guessing. Although simple logic says that, for example, if you are announcing your price cap on July 1st, you should have your hedges in place by June 30th, some will “plan” to cover by June 30th, and then end up needing to play catch up, as the coverage wasn’t completely done. On the other hand – even if you think that prices will rally this summer – covering 100% of your hedges in April (as an example) for a pricing program that gets sent out to clients in September (5 months later!!), MIGHT BE speculatively profitable, is just that – speculation. The connection between the timing

of the hedge purchases and the program offerings are key. Once the hedge is in place, and the program offered and signed up for, the rest SHOULD work itself out – provided that what you bought matches up to what your customers understand the program to be.

- For those who are “Best Buying”, the May pricing will be available early next week. After the very sharp run up in prices (both futures and options premiums), it seems that the premiums have slowed their ascent (without much help from the futures markets). The lower “Implied Volatility” – at least at present – should allow for some more “reasonable” pricing.

- As usual... we will be at the Atlantic Regional Energy Expo (AREE) next week in Atlantic City. Please stop by our booth (#501) to say hi, play a game, or to set up a private meeting to review your hedging. This offer is extended whether you just want to review last year's results, talk about what your competition is doing differently this year, to see how the hedging for next winter is going, or to set up a plan for the future. We have set up a series of meetings starting on Tuesday afternoon, and continuing through Thursday at around noon. A number of the time slots are taken, and the rest will be on a first-come, first-served basis. Contact your Angus representative.

- Just imagine, with the Yankees hitting, if they had any pitchers that you had actually heard of!!

