

THE ANGUS ENERGY REPORT

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Post-report Calls: Crude ----- 10 higher Products ----- 75 lower		HEATING OIL (AUG)	GASOLINE-RBOB (AUG)	NATURAL GAS (AUG)	CRUDE OIL (SEP)
		HIGH	2.0590	2.1060	6.043
	LOW	2.0181	2.0310	5.801	72.91
	SETTLE	2.0309	2.0477	5.863	73.56
	CHANGE	-.0252	-.0564	-.176	-1.33
Natural Gas --- .025 higher	14 DAY RSI	47	35	30	57
	5 DAY MA	2.0797	2.1406	6.316	75.12
	9 DAY MA	2.0771	2.1579	6.380	74.55
	14 DAY MA	2.0852	2.2168	6.443	73.93

-D.O.E. stats.... Crude oil stocks fell 1.10 mmbbls. Distillate stocks rose 1.43 mmbbls. Gasoline stocks rose .79 mmbbls. Operating capacity rose 0.6% to 91.7%. Distillates and gasoline were both expected to show draws. Both markets were up before the reports, and have gone to about unchanged. Crude oil stocks falling was not expected, but increased refinery activity may have something to do with it. So far, report is a non-event (thankfully no big rally), but the day is young!!

- Hoping for a better Wednesday... As of the settlement yesterday, we are just about exactly (price-wise) back to where we were a week ago, before the last set of inventory numbers were released. As you might recall, we made mention of the fact that while many were waiting for a LARGE price drop – that hadn't happened since January – we were in the midst of one of several smaller price drops (>.0500/gallon). In the aftermath of the “supportive” inventory numbers, energy prices ran – bringing crude oil up to almost one-year highs, and taking heating oil prices up by over 7 cents/gallon on the day. Since then, prices have given back almost all of that one-day gain, and we are back at the “we just dropped a nickel” point. Where we go from here is a question that cannot be answered – although (and surprisingly) there are still many who feel that they can guess, and unfortunately several who feel compelled to “tell people” where prices are going....

- Good response. After our mentioning of the logic (?) by those who have seen prices jump by about 50-cents, while waiting for the market to drop by 10-cents (“we’ll buy then...”), a number of dealers finally realized that (a) the logic just doesn't make any sense, and (b) they weren't in it alone. Several dealers put on at least some of the hedges that they had been procrastinating over, but some that we spoke with – while saying that they “agree 100%” – are still “going to watch the markets for a little bit”. Not meaning to be overly facetious, I do wonder what “sign” the markets will give them that “now is the time”. It would REALLY help us (and our clients) out if we could figure out that

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
07/18/07	2.0940	07/18/07	2.1050	07/18/07	2.1961
07/19/07	2.1023	07/19/07	2.1143	07/19/07	2.2000
07/20/07	2.0827	07/20/07	2.0922	07/20/07	2.1872
07/23/07	2.0491	07/23/07	2.0561	07/23/07	2.1589
07/24/07	2.0249	07/24/07	2.0309	07/24/07	2.1275

secret!! Lacking that insight, we prefer to ratably scale-in, while keeping away from any guessing. Indeed, we will buy some at the highs, but we will also buy some at the lows. Without the emotional baggage of guessing, you end up with market-average costing. Seems to work for most, unless you have the talent to regularly outguess the markets.

- Beating a dead horse? As we are in the midst of the summer, we are finding that there are 2 main groupings of heating oil dealers. The first group is taking advantage of the weather, and the slowdown of deliveries and service calls. That dealer is pretty much fully hedged, and is enjoying time out of the office – often way out of the office, on vacation. The other group, which has been shrinking in size, continues to have little to keep him (or her) busy with the actual day-to-day management of the business (it IS the summer, and things ARE slow), but shows up at work each day to speak to brokers, consultants or analysts, and to stare at a NYMEX screen, waiting for “the sign” that NOW is the right time. Forgive us for being skeptical, but in a “zero sum game” (i.e. for each dollar made, there is a dollar lost), how much better than a 50% chance of guessing right do you think you have? Now, consider the sophisticated, deep-pocketed trading professionals out there, who are also trying to “guess” what prices will do. So then, what are the odds that you will successfully guess when to buy (or not to buy)? One more thing.... assuming that you do have a great deal of success in shaving a penny, or two, or three cents off of your purchases (I am not saying that you do, but let's give it the benefit of the doubt...)... how much of your time and effort

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are you committing to trying to accomplish this savings? Is there something for your business that you can/should be doing that would, in the long run, be more profitable? Or, is there something that you should be doing for yourself (or your family), i.e. some time off, that would be a better use of your time? Just some things to think about.

- Who's on first?... On Monday, oil prices started to fall – the fall continued through yesterday – on word that OPEC's chief researcher made a statement that a “fair price” for oil – for both producers and consumers – would be in the \$60-\$65/bbl. area. Considering that the OPEC basket is well above that area, prices came down on the “news”. However, and this is a big difference, the comment was NOT made by an OPEC minister or official. OPEC's president, on the same day, said that while there is concern that high oil prices may have negative effects on global economies, any additional supplies of oil would just go into inventories, and are not needed to keep a supply/demand balance. In other words, don't blame OPEC for the high prices – there's plenty of oil around.....

- Thanks to gasoline... prices of distillate products were not able to continue their ascent to even higher levels. Since peaking on July 10th, spot gasoline futures (through yesterday's close) had fallen over 32 cents/gallon, on sufficient supply (and no tropical disturbances). That weak opinion of gasoline values has certainly helped keep distillate prices in line.

- Crude oil? “Not so much”. Even though the product prices have fallen, Crude oil is only a little over \$2.00/bbl. off of its most recent (almost one-year) highs. We know we're in trouble, when we can look at \$74.00/bbl. crude oil, and feel that it's cheap!! Market opinions of strength and weakness are now being measured in terms of hours and days, instead of weeks and months. This micro-managing is

making the ability to be emotionally unattached to the hedge process that much more difficult (despite the importance).

- Good news or bad news? Natural gas prices have continued their descent to their lowest of the year ('07). The possible benefit of this may be that increased demand for (interruptible) natural gas may increase stocks of distillates, and lower the costs of heating oil. On the other hand, and as it applies to residential accounts, several utilities are very aggressively campaigning for conversions from heating oil to natural gas, and (in addition to their usual rhetoric) using the price disparity as a reason to make the switch?

- Protection against another warm winter. If there is any silver lining in the hedging of oil profitability, it is that the cost to protect against the negative impact of warm weather hasn't really changed in the past 5 years. The major impacts on heating oil (and all energy) options have been increases in “flat-price” (the actual cost of the commodity), and increases in volatility (the size of the short-term and long-term price swings). With regards to the weather, we have a good deal of volatility, year to year, with seasonal swings in HDD's of between 10% and 15% seemingly the norm. However, that volatility has been in place for some time, and the cost to hedge against the damage that warm weather can cause pales in comparison to the costs to hedge the simple price of oil. All this is true despite the fact that one can argue that when it comes to a company's bottom line, delivered volumes may impact profitability nearly as much as the actual cost of the oil. Warm-weather protection costs are fairly stable, but may start to move as we get further into the summer, as the longer-term (winter) forecasting starts to seep into market sentiment.

- Bombers only scored in single figures last night. I hope their bats appreciated the rest!!

Recent price decline of NYMEX gasoline



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