SPECIAL ANGUS ENERGY REPORT

http://www.angusenergy.com **August 17, 2007**
e-mail pbaratz@angusenergy.com **Written by Philip J. Baratz, C.T.A.**

On Wednesday, heating oil prices rose about 7 cents per gallon, before settling up by about 4 cents. Yesterday, prices fell by over 7 cents, before settling around 4 cents lower. Today prices have opened about 3 cents higher.

There was a storm in the Gulf of Mexico, that was poised to possibly take a shot at some of the oil producing platforms. Fortunately, the direction shifted, and the closed platforms have reopened. In addition, Hurricane Dean, the first Atlantic hurricane of the 2007 season, is churning its way towards the Caribbean, and may move into the Gulf of Mexico, and threatened some production platforms – but it's too early to tell.

In a "normal world" (that term is getting harder and harder to define); the two paragraphs above would be inexorably related to one another. However, the meltdown during this month in the debt and equity markets has been making the correlation between petroleum market fundamentals and the movement in energy prices almost negligible.

Globally speaking, a slowdown in the economy – domestically, worldwide, or both – would definitely cause a slowdown in the increasing appetite for oil, and SHOULD lower the cost – with the lower demand. On the other hand, increasing tensions in the world's hotspots (Iraq, Iran, Nigeria, Venezuela, the Tropics, etc.) SHOULD continue to put a floor under the markets, as traders would refuse to allow prices to fall too much, out of fear of a sudden interruption in supply leading to a spike in prices.

All of that SHOULD be what we are looking at, as we try to (fruitless at it may appear, at times) analyze the oil markets. However, for the past few weeks, the market has shown how linked it is to just about every other investment/speculative market out there. A liquidity crunch, as we have seen during this month, could not help but trickle down to commodity prices (most recently at their yearly highs), and especially to the "speculative longs" in the energy complex. The same rationale might explain a rally, in the event of further Federal Reserve action, or a sharp liquidity-easing rally in the worlds' stock markets.

The term "meltdown" is being used very freely with regards to the investment community, and the financial woes from those involved, either directly or indirectly, with the sub-prime lending markets. It is still not known how deep the losses are, or will be, and which mutual funds, hedge funds, investment pools, brokerage and mortgage firms, etc. are involved. This will, as is usual, lead to a series of investigations (should you be allowed to buy a house with no money down? Should you be allowed to borrow 120% of appraised value? Should you be allowed to make interest-only payments, etc.), that will ultimately become nothing more than yesterday's news, as "the markets" will have moved beyond this debacle – hopefully.

For now, the uncertainty has reached a point that almost cannot be measured. Those who are the most at risk are your customers, as they might be paying significantly lower prices this winter (if all hedging is in place properly, everyone wins), or significantly higher prices (if all proper hedging is in place, at least the pain is under control). "Market-timing", never anything close to a perfect science with regards to oil prices, is pretty much out the window. There are still those who are saying, "last August and September prices fell, so this August and September they will do the same". While they definitely MIGHT, the reasoning this year is very different from what we saw last year.

Be smart. Be protected.

Have a good weekend.