

THE ANGUS ENERGY REPORT

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Post-report Calls: Crude ----- 40 lower Products ----- 50 lower -heat 150 higher -gasoline		HEATING OIL (SEP)	GASOLINE-RBOB (SEP)	NATURAL GAS (SEP)	CRUDE OIL (OCT)
		HIGH	2.0010	1.9374	6.040
	LOW	1.9398	1.8400	5.752	68.90
	SETTLE	1.9520	1.8637	5.817	69.57
	CHANGE	-.0289	-.0728	-.223	-1.39
	14 DAY RSI	41	35	36	38
Natural Gas --- .125 lower	5 DAY MA	1.9920	1.9652	6.521	71.29
	9 DAY MA	1.9855	1.9585	6.638	71.38
	14 DAY MA	1.9892	1.9642	6.469	72.19

-D.O.E. stats.... Crude oil stocks fell 4.14 mmbbls. Distillate stocks rose .97 mmbbls. Gasoline stocks fell 1.72 mmbbls. Operating capacity fell 2.4% to 91.3%.

- It took a while (actually just about the whole month of August), but oil prices SEEM to have disengaged themselves somewhat from the wild gyrations (mostly downward) of the equity and debt markets. After moving lockstep with those global markets through the middle of last week on the credit and cash crunches, both domestically and internationally, traders were able to latch onto something "real", as they tracked Hurricane Dean's Cat-5 winds, as it moved westward into the weekend. On Monday, after it became clear that most of the oil and gas platforms in the Gulf of Mexico were out of harm's way, prices sold off sharply, before (yet another) late short-covering helped prices off the floor.

- Be thankful. Although the storm did not make landfall in the U.S. or cause any serious disruptions to the energy production, Category 5 winds slammed into the Yucatan Peninsula, causing terrible damage, and loss of life. We (in the U.S., and more specific to our office, in Florida) are lucky that (a) the storm kept its westerly track, and (b) that the sell-off in prices was greater than the rally leading up to the weekend. However, as the hurricane season finally seems to be heating up, let's not ignore that had the storm moved north-west, instead of just west, we might very easily be looking at record-high energy prices, and long-term supply disruptions. We dodged a bullet on this one – and, very happily, have lower energy prices at the moment, BUT the hurricane season still has a ways to go.

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
08/15/07	2.0144	08/15/07	2.0269	08/15/07	2.0909
08/16/07	1.9654	08/16/07	1.9829	08/16/07	2.0454
08/17/07	1.9998	08/17/07	2.0173	08/17/07	2.0770
08/20/07	1.9672	08/20/07	1.9809	08/20/07	2.0509
08/21/07	1.9333	08/21/07	1.9520	08/21/07	2.0200

- In addition to the non-event vis-a-vie Hurricane Dean, the recent global fear/tension/nervousness/panic/etc. has many economists looking at an increasing likelihood of a recession in the coming year. That, more than anything we have seen in the past month or two, might lead to lower prices – provided that nothing on the supply side (hurricanes, Nigeria, Iraq, Iran, Venezuela, terrorism, dollar-weakness, etc.) shows up as a surprise. It's a real catch-22 for those in the oil business to see lower prices (good) caused by the possibility that consumers will have a harder time paying their bills (bad). But is a buoyant economy, with \$4.00/gallon heating oil a better scenario? Lots of opinions on that one.

- Nat gas weakness. In addition to the weakness of oil prices after the weekend (driving spot crude oil below \$70/bbl. on a closing basis for the first time since late June), natural gas prices had their biggest one day drop (\$.97/dkt.) since 2003, on Monday. The volatility in that market makes the swings in heating oil seem tame, but we still have average daily price ranges in heating oil of almost 6 cents per gallon – since August 6th.

- The swings in prices bring to mind a conversation I had with a client yesterday. The client was bemoaning the expensive options premiums (very true), and his attempt to try to "save 2 or 3 cents in costs". Although

it is easy to dismiss “2 or 3 cents” as penny-wise and pound-foolish with regards to hedging, the dollars DO add up, and why not try to keep costs under control? This particular client was so focused on timing the purchase of his options with a change in both price and in volatility, that when he eventually did buy his options (at a lower price than he initially would have paid – and after spending countless hours trying to accomplish this), he came to realize that the options that he bought did not afford the exact same protection – there are MANY types of options protection out there, each balancing cost vs. level of protection. **Spend more, get better protection. Spend less, get worse protection.** Either approach (as long as there is some sort of reasonable protection) is okay, but knowing the different levels of coverage makes for a more informed purchaser. However (as I just digressed), this clients’ issue wasn’t that the protection was worse – or that he didn’t feel good about saving some premium (he did!!). But it was that while saving some money in hard costs of an options’ premium, the strike price (level of protection that he needed) had moved by over a dime!! So, he is almost 3 cents “richer”, but if prices move to the point where his options protection will be needed, we will be a dime

underwater. The math works for some – but not for everyone.

- **The real “victim/beneficiary”** of the economic fears, the non-hurricane damage, and the gyrating markets has been the price of gasoline. Coming into today’s trading session (we are currently a penny higher), gasoline futures (Sept.) had fallen .1750/gallon – SINCE FRIDAY. True that prices were up 6 cents/gallon this past Friday, but that is a very big drop, and should hopefully be the final indication that seasonal peaks in retail gasoline prices are in place.

- **Even with the move in Crude oil** to 2-month lows, heating oil prices – perhaps with the heating season approaching – are showing that they don’t seem to want to sell-off as much. Are the lows in place, or close? Good questions, but there certainly seems to be some support in the distillates. As a reference, the NYMEX heat-crack spreads (the difference, per gallon, between the spot heating oil futures contract and the crude oil futures contract) – the “refining profits” – have moved from .2235/gallon on August 6th to .3186/gallon today. Refiners can only make an extra 9 cents if the belief was that, on a relative basis, heating oil is stronger than crude oil.

- **A-Rod** can’t carry the Yanks if their starting pitching can’t get 5 or 6 good innings in..... Or, maybe he can...

The chart below is of the NYMEX September Natural Gas Futures contract.



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