

# 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.

	HEATING OIL (DEC)	GASOLINE-RBOB (DEC)	NATURAL GAS (DEC)	CRUDE OIL (DEC)
<b>Post inventory report trading:</b>				
<b>Crude -----</b>				
<b>.25 higher</b>				
<b>Products -----</b>				
<b>75 higher (heat)</b>				
<b>50 higher (gasoline)</b>				
<b>Natural Gas ---</b>				
<b>.150 lower</b>				
<b>HIGH</b>	2.6198	2.4535	8.140	97.10
<b>LOW</b>	2.5531	2.3940	7.765	94.41
<b>SETTLE</b>	<b>2.6078</b>	<b>2.4350</b>	<b>7.863</b>	<b>96.70</b>
<b>CHANGE</b>	<b>+.0639</b>	<b>+.0539</b>	<b>-.136</b>	<b>+2.72</b>
<b>14 DAY RSI</b>	73	70	48	69
<b>5 DAY MA</b>	2.5534	2.3872	8.249	94.93
<b>9 DAY MA</b>	2.5078	2.3370	8.096	93.43
<b>14 DAY MA</b>	2.4498	2.2717	7.952	91.02

**-D.O.E. stats...** Crude oil stocks fell .82 mmbbls. Distillate stocks rose .10 mmbbls. Gasoline stocks fell .82 mmbbls. Operating capacity rose 1.0% to 86.2%. Interesting reporting. About 15 seconds before the D.O.E. numbers hit the screens, the A.P.I. data was viewed by traders. The A.P.I.'s showed a 2.3 mmbbls. BUILD, and prices (for those 15 seconds) went from up 75 cents/barrel, to down 60 cents/barrel. As soon as the D.O.E.'s were released, crude turned around and moved up a dollar from yesterday's close. It looks like traders are giving way too much credit to the weekly inventory numbers, but there really isn't anything else that is new this morning.

**-Not that explanations help, but...** as crude oil rushes up toward new record highs on a daily basis, the notion of the "world economy" does come into play. After prices rallied to record levels yesterday on North Sea storm-related shut-ins, crude oil traded as high as \$98.62/bbl. overnight, ebbing even closer to that \$100/bbl. level. Crude oil is up over 60% this year, in U.S. dollars, but up "only" 44% in terms of the Euro-\$. Anticipated growing Chinese demand, and the vast amounts of cash "sitting on the sidelines" and waiting to be invested are also being pointed to as factors leading to the "inevitability" of \$100/bbl. crude. In addition to the continued weakness of the U.S. Dollar (good for borrowers, real bad for importers...), which has now seen a 10% decline in value over the past 10 weeks versus the Euro, China has announced that it will be diversifying its \$1.43 Trillion in foreign exchange reserves (away from U.S. Dollar-domination).

**-Oh, really?** The U.S. Energy Information Administration has just come to the realization that it looks like crude oil prices will be higher in 2008. The government raised its forecasted '08 prices from \$73.50 per barrel to (a nice round...) \$79.92 per barrel. Hopefully they know something that we don't, because the futures markets (as indexed by the NYMEX WTI futures contract) are calling for a 12-month average price in '08 of \$91.85 per barrel. OPEC's latest announced production cuts (supposedly) went into effect this

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '08 futures
10/31/07	2.5066	10/31/07	2.5078	10/31/07	2.5433
11/01/07	2.4986	11/01/07	2.5123	11/01/07	2.5273
11/02/07	2.5637	11/02/07	2.5737	11/02/07	2.5871
11/05/07	2.5314	11/05/07	2.5439	11/05/07	2.5579
11/06/07	2.5958	11/06/07	2.6078	11/06/07	2.6208

past Thursday (November 1<sup>st</sup>), without any fanfare. Maybe there will be a surprise announcement of further cuts – although it is hard to blame the high prices on the lack of supply...

**-Gotta love contrarians...** Although a few months ago, the list of those who were scoffing at the mere mention that crude oil might trade up to (and over) \$100/bbl, was quite extensive (especially when noting that Crude oil was as low as \$50/bbl. in January, and under \$70/bbl. in August), I find great appreciation in those who would make the statement now. Well, this past Friday (yes, 3 trading sessions ago), Gennady Shmal of the Russian union of oil and gas industrialists made that exact prognostication. Speaking with journalists, Shmal said that prices would likely exceed \$90/bbl. only slightly, but that it isn't likely that it will exceed \$100/bbl. by years' end. So, between Shmal and the EIA, maybe the tops are really right ahead of us, and we can count on prices starting a precipitous drop in the near future – frankly, it is as logical as anything else that has been going on. One, perhaps odd, thought is that if (when?) \$100/bbl. is achieved, it might cause enough panic to spook the financial markets into the belief that runaway inflation is more likely than a recession. If that were the case, we might see declining equity prices, a strengthening dollar, lower capital spending... and, oh yeah, lower oil prices. Is that the scenario that we really want?

**-Crank up the heat?** After a miserably warm October (for oil dealers – but very welcome for end-users who are having trouble affording their oil), November has started to show us

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some decent HDD numbers (it was even in the mid-60's here, in South Florida, this morning). Temps have been slightly below normal for about a week, and are expected to stay that way for a few more days, before a bit of warm weather takes temps to above-normal in about 5 days' time. For the month (November), forecasts are such that we are expecting to make up about half of October's lost HDD's.

**-The real competition.** For the past few years, the greatest competition for heating oil dealers had been from a small group of utterly irrational competing dealers who either decided that making a profit was of little significance, or who decided that their crystal ball (indicating that prices were poised to fall) was going to be accurate. Both approaches towards poaching customers from other dealers seem to be blowing up in their faces, as opposed to those who stuck to their guns, and offered realistic pricing programs, and are now delivering oil for well below the "market" price – and achieving full profit margins (thanks to planned and executed hedging strategies). However, of greater concern, at the moment, is that natural gas prices have not been following the rest of the energy complex. After peaking last Thursday to the same levels that we had seen in August, prices have fallen about \$.80/dkt. over the past 3 days, leaving a gaping spread between nat gas and heating oil prices. Fortunately, converting to natural gas is not the simplest (or cheapest) thing to do, but homeowners paying \$3.20, \$3.30, or \$3.40 (or more) per gallon are more likely to do so, than (capped) customers who are still paying under \$3.00/gallon.

**-Stop me if you've heard this one....** Although that is the opening line of many a Borscht Belt comedian, what we are getting asked is not a joke. The single most popular

question, of late has been "Who are they trying to scam? Why are the oil companies telling us that their profits were WAY down this past quarter?". The second most popular question is "Why is heating oil so expensive, if I'm paying the same price to fill up my car as I was paying earlier in the summer?". The answer to both questions is the same, and it bears understanding by heating oil dealers. A good chunk of oil profits from major oil companies comes from their refining processes. The refining margins, or "cracks", represent the difference between the "input" (crude oil) and the "output" (the refined products, such as gasoline, heating oil, diesel fuel, jet fuel, etc.). As the cracks widen, the companies get to charge more for their refined products, and the products – relative to the crude – cost more (note that crack spreads can widen in a weak-price environment, in the event that crude oil prices are falling faster than those of the refined products). A look at the current gasoline "crack" shows us that the spread is roughly \$5/bbl., or about 12 cents per gallon. A look at the historical chart (see below) shows us that the same gasoline crack spread was as high as almost \$38/bbl. in mid-May (yes, that IS about a 90 cent per gallon refining margin). So, while crude oil prices have, indeed, shot up, along with those of heating oil, the very dramatic narrowing of the gasoline crack spread has resulted in a) shrinking refining margins for oil companies/refiners, and b) a "relative" drop in the value of gasoline versus heating oil. Note that using the same two reference points, "heat cracks" are down about \$3/bbl – 7 cents per gallon – over that time period.

- If the scoring system gave credit for half-time scores, the Jets would be sitting pretty. Yes, grasping at straws....

### NYMEX front month Gasoline Crack Spread (in \$/BBL.)



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