

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.

Post inventory report trading: Crude ----- 3.50 higher Products ----- 1000 higher (heat) 350 higher (gasoline) Natural Gas --- .10 higher		HEATING OIL (APR)	GASOLINE-RBOB (APR)	NATURAL GAS (APR)	CRUDE OIL (MAY)
	HIGH	2.9835	2.6973	9.486	101.86
LOW	2.8594	2.6150	9.278	99.13	
SETTLE	2.9248	2.6802	9.419	101.22	
CHANGE	-.0383	+.0390	+.090	+.36	
14 DAY RSI	53	54	53	49	
5 DAY MA	3.0039	2.6494	9.250	102.99	
9 DAY MA	3.0426	2.6391	9.500	105.07	
14 DAY MA	3.0155	2.6559	9.624	105.18	

-D.O.E. stats.... Crude oil stocks rose .09 mmbbls. Distillate stocks fell 2.14 mmbbls. Gasoline stocks fell 3.29 mmbbls. Operating capacity fell 1.68% to 82.2%. As pointed out over the past few weeks, if the inability for refiners to make money by refining their product will lead to lower "utilization" numbers, it will be hard to build product supplies. That seems to be what happened this week, but you would have expected a bigger build in Crude oil. When THAT didn't happen, we were – once again – off to the races.

- Do you hear the theme music to "Jaws" in the background?... Just when you started to think that it was safe to start to think that the worst was over (reasons: strengthening dollar, 4 days in a row of lower oil prices, support for the U.S. equities markets, etc.), today shows up to remind us that ever since John Williams (interesting piece of trivia) composed the theme to Jaws, we always need to be aware that something dangerous and unlikely might be right around the corner. After prices had weakened through mid-day trading yesterday, investors started to sell the dollar, and – magically – all commodity prices started heading through the roof, once again. Coupled with the "supportive" inventory reports, and we find ourselves with heating oil prices that are currently 17 cents per gallon higher than yesterdays lows, and with volatility (for those buying options to hedge future pricing programs) at recent-record highs. If there's any silver lining, it is that we have not broken into new record high territory in either crude oil or in heating oil. Not much of a silver lining, but this price move took a lot of people (especially those who had been saying, "see, the bulls are done. We're not going higher", by surprise.

-Side note is that the recent volatility seems to be very linked to movements in the U.S. dollar, much more so that by influxes or outflows of cash by hedge funds attempting to manipulate oil prices. The Federal Reserve is running out of bullets in its attempt to stave off a recession (which, according to many, we have already entered). At some

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '09 futures
03/19/08	3.0705	03/19/08	3.0167	03/19/08	2.9365
03/20/08	3.0660	03/20/08	2.9772	03/20/08	2.9079
03/24/08	3.0606	03/24/08	2.9631	03/24/08	2.8731
03/25/08	3.0411	03/25/08	2.9248	03/25/08	2.8706

point, the lowering of interest rates will be a practical impossibility, and the dollar will have to strengthen (short of a widespread global recession). For now, the dollar is dominating oil prices, and the investment money is following. Not investment money moving prices by itself. The bigger picture on the direction of the dollar, U.S. equities, and (by default) energy prices, still seems to be focused around the sub-prime debt, and related credit issues and tightness. Even with the equity markets stabilizing in the shadow of the most recent bad news (Bear Stearns and CIT); there still seem to be no definitive numbers out there as to the size of the problem. Until we get a better handle on that – if ever – the market seems content to lean on the "sell the dollar, buy commodities" approach. Sad, but true.

- Score one for the bad guys. Hugo Chavez, almost out of hope as his popularity in Venezuela continued to dwindle, scored a big one this past week, as he had a court in Great Britain overturn a recent ruling that froze \$12 Billion of Venezuelan assets in a lawsuit filed by Exxon Mobil. The leader/dictator used the announcement as an opportunity to rally his "fans" against U.S. "Imperialism".

- Although a story about a 500 gallon spill in Des Moines is likely enough to spark a rally in heating oil (yes, I am kidding – kind of), the recent fighting in Iraq between al-Sadr's loyalists and Iraqi government forces, shouldn't really be supporting for oil prices – even though much of the fighting is centered in Basra, which is an important oil producing sector of Iraq.

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-Not that it needs to be said, but... The recent move to swings in heating oil that seem to be exceeding 10 cents per gallon – DAILY – are having an impact of the cost of options to hedge oil price swings (whether up or down). In 8 of the last 10 trading sessions, heating oil has moved more than a dime (the other 2 days had moves of “only” 6 cents and 9 cents!). Option sellers have started to realize that almost no matter how much the premium that they collect for the selling of an option, the likelihood of losing money on that sale is ever-increasing (good news for the owners of those options – if you define good news as options “going in the money”), but it is making the cost of this protection quite expensive. More needed than ever, but very expensive. We have seen prices move (low to high) over \$1.65 since the beginning of 2007. Using that as a barometer (is that a fair barometer? Who knows?), who would be shocked to see NYMEX prices well above \$4.00 next winter, or (this one is MUCH better), back below \$2.00? That is the reason that options premiums which were in the 20 cent per gallon range have quickly moved up towards the 30 cent per gallon range. That is what happens when prices more than double in a little over a year, with 80 cents of that move happening in only 5 weeks!

- Not that it was a sign to rely upon, but during the “sell off” over the last week and a half, while heating oil futures fell about 22 cents from their March 14th highs, the price of “spot” (we are using Bloomberg’s New York Harbor Index as a reference – very close to the Platt’s NY Harbor Barge posting) fell by only 17 cents from that days’ high, leaving us with a premium of spot-to-futures of almost 12 cents per

gallon. While this is NOT the basis blowout that people are fearful of, it does add a premium to the cost of rack gallons, and bite into margins for those who sold caps and fixed priced oil. The good news is that between October and March, the spot-to-futures spread was actually negative, giving a small advantage to those who supplied those customers. Net for the season, even with the widening, the average spread for the heating season is right about ZERO.

-Update. Recently, we looked at the spread between heating oil and gasoline futures, and all we could do was scratch our heads at the premium that heating oil had over gasoline – especially as we leave the heating season, and enter the “driving season”. It seems that we were not the only ones looking at this spread, and there are those who are still expecting the May heat-to-gasoline spread to move to a premium for gasoline. As we speak that spread is still sitting with a 20+ cent/gallon premium to heating oil. The front month futures spread peaked on March 17th when heating oil settled at a record high for this contract, at .5642/gallon over the price of gasoline. It did narrow substantially – to .2446/gallon yesterday – but is still out of whack...

-Don’t forget to look us up at this year’s Atlantic Region Energy Expo in Atlantic City next month. Although we can’t predict where prices will be when the AREE arrives (no one can!!), we would be more than happy to meet with you individually to review your existing hedging plans, or discuss how to put a plan in place.

-With the Red Sox loss today in Japan, the Yankees magic number has fallen to 161 to tie for first place!!

This chart is the spread between NYMEX heating oil and “spot” New York Harbor heating oil. Notice the deep discount for the past few days, and the small premium for the first 5 months of the heating season.

