

THE ANGUS ENERGY REPORT

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		HEATING OIL (JUN)	GASOLINE-RBOB (JUN)	NATURAL GAS (JUN)	CRUDE OIL (JUN)
Crude ----- 1.00 lower	HIGH	3.7146	2.9733	11.649	126.98
	LOW	3.5425	2.8984	11.215	123.10
Products ----- 300 lower (heat) 50 lower (gasoline)	SETTLE	3.6989	3.200	11.422	125.80
	CHANGE	+.1391	+.0358	+.121	+1.57
Natural Gas --- .25 higher	14 DAY RSI	74	704	63	70
	5 DAY MA	3.5704	3.1643	11.370	124.64
	9 DAY MA	3.4276	3.0916	11.168	121.54
	14 DAY MA	3.3619	3.0529	11.112	119.73

-D.O.E. stats.... Crude oil stocks rose .18 mmbbls. Distillate stocks rose 1.34 mmbbls. Gasoline stocks fell 1.72 mmbbls. Operating capacity rose 1.6% to 86.6%. The market's early reaction to the numbers is some moderate weakness – more in heating oil than in crude or gasoline, but that market has been the strongest, and has the most to “give back”.

-What can you say? At this point, everyone is out of words to describe the runaway insanity that is OUR industry. OPEC crude oil production has actually been decreasing (why slow down the printing press? Maybe they are running out of places to park their money?), and distillate stocks have fallen as distillate refiners continue to struggle with the strong competition for diesel fuel, and the EPA lower-sulfur mandates. You have to wonder how long it will be until Democrats and Liberals (maybe even Al Gore) start serious talk about the importance of finding more domestic production – even by more drilling off the Coast and in Alaska.

-What can we point to now? In late April, as the U.S. Dollar plummeted to yet another new low against the Eurodollar, heating oil prices hit fresh highs. “Obviously” the reason was the weak dollar, and – as logic had it – as the dollar gained its footing, oil prices would come down. Jumping ahead three weeks, the dollar has strengthened by almost 6 cents per Euro (now at a little over \$1.54/Euro-), but in that same time period heating oil prices have managed to rally another 40 cents per gallon. Correlations are great when they work, but when they don't, we need to look for other reasons.

-Crude oil production has not kept pace with demand? While it is arguable as to the actual “real” production numbers, the consensus has been that with global economies slowing, we would see a glut of oil in the 2nd quarter of the year. The market certainly has an odd way of reacting to this supposed “glut”. \$126/bbl. (hit this morning) versus heating oil prices of >\$3.70/gallon leave refiners with a crack-spread (refining margin) of over 70 cents/gallon (as compared with less than 25 cents/gallon for the past 5 years).

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '09 futures
05/07/08	3.4423	05/07/08	3.4473	05/07/08	3.5240
05/08/08	3.5036	05/08/08	3.5098	05/08/08	3.5813
05/09/08	3.6417	05/09/08	3.6360	05/09/08	3.7035
05/12/08	3.5538	05/12/08	3.5598	05/12/08	3.6363
05/13/08	3.6927	05/13/08	3.6989	05/13/08	3.7689

A logical person might ask why – with the great refining margins – they don't just refine more distillates... Oh, yeah, we haven't built a new refinery in the U.S. in decades.

-No longer searching for silver linings. All clouds seem to be dark, but it is less painful for those who are un-hedged or under-hedged that the most recent rally (we have risen almost 60 cents/gallon since the 1st of the month (less than two weeks ago) is happening during May, and not in the middle of the heating season. There seems to be little that can shock us at this point with regards to the daily swings and record-prices.

-Can Bush pull a rabbit out of his hat? It is truly hard to find any consistent and real correlation between supply, demand and pricing, but for the sake of discussion, let's assume that there is. Premised upon that belief, President Bush's meetings in Saudi Arabia are meant to try to impose some pressure on the Kingdom to call for increased production – hopefully to take pressure off of prices. At this point it is a very tall task, as very few believe that there is a **serious** supply/demand imbalance. The combination of the weak dollar, growing global demand, meager refining resources, speculative pressures, and uncertainty over how weak the U.S. economy really is has led us to price levels that we had never thought possible.

Consumers are bearing the brunt of the high costs, although many dealers still use the word “can't” – as in “in can't come out with a price cap above 'x'. My customers will never pay it”. The 2 questions that you need to ask are, 1- if everyone (each oil dealer) is paying the same price for

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supply, where are those customers going to go instead? If there is another dealer that is willing to work on a smaller margin, that is not a new phenomenon. However, lowering your cap to compete with “the other guy”, while saving a few of your customers who MIGHT leave, will leave you in a position of lower profits on all remaining customers. Question-2: when you came out with your cap last year, lower that you would like to have set it out, but with the same mentality of “can’t”, looking back on it now, how much business would you have lost, and how much more would you have profited had you set the cap a dime higher? For a long time breaking \$2.00/gallon was unthinkable. Last year it might have been \$3.00/gallon. Now with racks approaching \$4.00/gallon, what number is truly too high? Important note to Angus clients who are getting ready to set their caps: before you finalize the number that you will be setting (and/or conveying to your customers), please be in touch with your Angus rep. We want to be sure to step you through the process for properly setting the price, and to look at any alternatives that might be available to enhance your planned margins, while still remaining competitive in your particular marketplace.

Amazing... Fewer people are looking askance at Goldman Sachs’ prediction of \$200/bbl. for crude oil than were outraged at their \$105/bbl. “super-spike” prediction a few years ago.

-The increased traction on the “Close the Enron Loophole” doesn’t seem to have had any negative impact on oil prices. Although more disclosure of positions might be nice, the clear connection between transparency and price direction is still very cloudy. ICE (Intercontinental Exchange), perhaps in a CYA move, issued a statement that more reporting would not impact prices in the long or short-run. Even if new regulations do lead to a drop in volume and “open interest”, there will still be plenty of opportunity for speculators to play in the energy field. Perhaps some more focus should be on alternative fuels, new refineries, additional drilling, incentives for better gas mileage, etc...

- I can’t say that I am a big Barry Bonds fan, but I have to believe that the time, effort and money that was poured into his multi-count indictment over whether or not he was honest about his personal use of steroids just might have been better spent on something else – The economy, the war, homelessness, health care... Little things like that might have been a better place to spend the money.



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