THE ANGUS ENERGY REPORT

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Crude -------
1.50 lower
Products ------
600 lower - heat
700 lower - gasoline
Natural Gas ---
.05 lower

	HEATING OIL (JUL)	GASOLINE-RBOB (JUL)	NATURAL GAS (JUL)	CRUDE OIL (JUL)
HIGH	3.7640	3.4075	12.376	127.98
LOW	3.6280	3.3393	12.026	123.87
SETTLE	**3.6396**	**3.3525**	**12.221**	**124.31**
CHANGE	*-.0824*	*-.0382*	*+.252*	*-3.45*
14 DAY RSI	53	72	64	51
5 DAY MA	3.7163	3.3326	11.872	127.41
9 DAY MA	3.7994	3.2703	11.875	129.12
14 DAY MA	3.7595	3.2257	11.718	127.99

NYH Barge (est.)		NYMEX #2 Oil		NYMEX #2 Oil	Jan '09 futures
05/28/08	3.8268	05/28/08	3.8243	05/28/08	3.9495
05/29/08	3.6885	05/29/08	3.6885	05/29/08	3.8265
05/30/08	3.6608	05/30/08	3.6598	05/30/08	3.7947
06/02/08	3.7070	06/02/08	3.7220	06/02/08	3.8420
06/03/08	3.6246	06/03/08	3.6396	06/03/08	3.7676

-D.O.E. stats…. Crude oil stocks fell 4.80 mmbls. Distillate stocks rose 2.27 mmbls. Gasoline stocks rose 2.94 mmbls. Operating capacity rose 1.82% to 89.7%. As soon as the data came out, crude and products briefly rallied, but then sold off nicely. The report didn't have anything significant enough to change the most recent trend lower. Prices, as noted below, are in no way cheap, but certainly welcome given where they were 2 short weeks ago.

- INCREDIBLY, prices that settled yesterday under $3.65 per gallon ($3.77 for January futures) sound cheap. I guess there is a blessing to have a short memory. For perspective, however, we should recognize where prices are currently as compared with the past few months. Using the January '09 futures contract as the reference point for next winter, since the beginning of the year (the starting point for many "ratable" hedgers), the monthly averages for that contract have been: January – 2.5372, February – 2.6417, March – 2.9194, April – 3.1985 & May – 3.7074. So, even with the nice sell-off that we have seen in the past 10 days, heating oil prices are still higher than the highest (year-to-date) monthly average, and about 75 cents higher than the y-t-d average. If there is good news in this, it is that if you believe – as do many – that the rally was not based upon true supply/demand fundamentals, then there should be a lot of room for prices to fall. The flip side, of course is that this "price correction" might just be another in the long-running series of buying opportunities, as prices move towards the latest "targets" of $150 per barrel and $4.50 per gallon. Hopefully not, but calling the top in oil prices has been a very, very expensive proposition fop quite some time.

- Conflicting reports? In the never ending effort to place blame on someone (or many "someones"), there has been a good deal of time and effort – some well spent, some not – in looking into the meteoric rise in oil prices. Has is simply been supply not keeping pace with growing demand in China and India? Has it been that the U.S. dollar has plummeted as the Federal Reserve has lowered interest rates in a losing battle to stave off recession? Has it been that mega-funds have been buying up futures contracts, and the markets' lacking of transparency caught everyone off guard? Is there bonafide market manipulation? All good questions and all worthy of consideration. Unfortunately, regardless of the reason – whether ultimately discovered and agreed upon, or not – we are still faced with serious problems with high pricing, and its impact, and finding out WHY they are high, while perhaps useful in the future, will not cause a quick fix to lower prices and fix the current situation. Although conservation, alternative fuels, and stopping to fill the Strategic Petroleum Reserve often draw nothing more that a yawn, finger pointing and statements of opinion disguised as statements of fact, are not really all that helpful.

- Over the past few days, we have seen growing governmental scrutiny (including that of the CFTC) of oil companies and trading. The question about whether speculation CAUSED prices to jump higher, or if the jumping prices CAUSED speculators to jump into the markets can and will continue to be debated. There are some reports showing that speculation has increased as prices moved higher. Is there a cause and effect, or two random items? According to government data, "***Hedge-fund managers and speculators REDUCED bets on higher oil prices....since July...(as) regulators started investigating trading***". So, if speculative interest FELL, and prices almost doubled, can you make the argument that we need MORE speculators?!? Obviously that would be a pointless argument to make, but the flip-side – that speculation caused higher prices – is still the flavor of the month. In truth, the reason for the significantly higher prices is most likely a combination of all of the things that we have been mentioning – perhaps including some speculative influence. So, why the rambling? A few thoughts: 1- There is a big difference between speculation and manipulation. Too many out there want us to forget that difference. No one seemed to mind when speculative "shorts" helped bring oil prices down to 30 cents per gallon in 1999. 2- Price transparency will help people understand where the volumes and positions are, but don't seem to be set up to LIMIT, just to report. 3- For every buyer, there is a seller. For every contract that has been bought, in anticipation of prices going up, there is an exact opposite opinion (the seller of that contract) that things that prices will fall. 4- Customers need to understand that while you are attempting to help the industry and the public understand what is going on with prices, the current reality is that heating oil costs dealers almost $4.00 per gallon, and that the customers need to pay that price – the same way that they have to pay when they fill up their cars with gasoline.

- The extremely "overbought" conditions that have been with us for quite some time, that may have given "technical analysts" and traders a certain bias towards the markets, have returned to "neutral" territory. The market seems to be taking a breather, awaiting the next directional indicator.

- Although prices have certainly eased for crude oil and heating oil, gasoline futures are not enjoying the same price relief. July gasoline futures (spot futures contract) on the NYMEX closed yesterday at just 3 cents below its all-time settlement high, and in early trading today, reached to within a penny of that level. It seems that the "leadership" in the energy-products complex may be shifting from distillates to gasoline. Locally, it is increasingly harder to find any gas station with prices below $4.00/gallon.

-Asian inflation? India, Malaysia and Indonesia are amongst countries poised for increases in inflation, and perhaps some social unrest, as their governments are increasing the costs of fuels – in particular gasoline – by lowering some of the long-standing subsidies. Governmental price setting has caused much financial hardship to the country's refiners, and brought losses to governmental coffers. Many say that the increases are insufficient, given the skyrocketing costs of oil, but will cause some consumer outrage nonetheless.

- In addition to seeing gasoline perhaps starting to take a leadership role in the products markets, the first tropical activity and sustained hot weather of the season, has led to new highs in natural gas futures. Winter natural gas is now trading above $13.00/dkt., not far from the peak pricing of the winter of '05-'06. Small silver lining in the grey cloud, but, utilities will have a harder time with conversions given the recent spiking nat gas prices.

- Summer-time...for those who have just come out with, or are about to come out with their capped prices for the next year, a note of something to consider... If your offer is for the full year, your hedges should be, as well. We have noticed over the past few years that more and more oil companies are hedging the price-risk on their summer gallons, but there is still a decent portion who hedge only the winter, while offering the cap for the whole 12-month period. Yes, the volumes are low, but if you are making deliveries anyway – why risk the market going a dollar against you?

-Pedro's back. Will it help?

The chart below is the January NYMEX) natural gas futures contract since the beginning of 2008.