

THE ANGUS ENERGY REPORT

http://www.angusenergy.com
e-mail pbaratz@angusenergy.com

January 14, 2009
Written by Philip J. Baratz, C.T.A.

Today's pricing		HEATING OIL (FEB)	GASOLINE-RBOB (FEB)	NATURAL GAS (FEB)	CRUDE OIL (FEB)
Crude - 1.25 lower	HIGH	1.5520	1.1764	5.567	39.50
	LOW	1.4534	1.0691	5.158	36.10
Products - .0600 lower	SETTLE	1.5141	1.1489	5.184	37.78
	CHANGE	+.0417	+.0648	-.358	+.19
Natural Gas - .1000 lower	14 DAY RSI	50	54	36	38
	5 DAY MA	1.5074	1.1018	5.539	40.11
	9 DAY MA	1.5180	1.1170	5.710	43.21
	14 DAY MA	1.4365	1.0372	5.772	41.43

D.O.E. stats... Crude oil stocks rose 1.14 mmbbls. Distillate stocks rose 6.34 mmbbls. Gasoline stocks rose 2.07 mmbbls. Refinery runs were 85.2% of capacity, up 0.66%. You wouldn't think that we would see such a large build in distillate inventories in the middle of the winter, but end-of-year (and beginning of year reporting) is often suspect. It usually straightens itself out, but that fact, along with a very weak economy makes every number believable.

-Coldest day of the year = drop in heating oil prices?

Makes perfect sense, doesn't it? In the good old days, before electronic trading controlled the volume, traders would feel the chill in their bones and react (probably incorrectly) by buying up heating oil futures contracts. Now that most trading is done from climate-controlled offices, that phenomenon rarely happens (even if cold weather should drive demand higher).

-Swings not going away. Since Christmas week, we have seen prices fall below \$1.20 per gallon, just to rally to almost \$1.70 per gallon. Then, as there was actually a mini-panic amongst some who were "sure" the bottoms were in place, prices have managed to drop about 25 cents per gallon after the 50 cent rally. The simple fact (although NOTHING is simple) is that hedged positions (fixed or capped) should not be impacted by the recent swings – for customers who are under programs for THIS winter. There is, of course, daily management of the HDD swings and changes in delivery patterns, but there should not be any significant changes in margins based upon the recent moves.

-However.... as we look out to next winter, even for those who have forgotten that prices can both rise and fall by \$2.00 per gallon in short order, looking at the spreads shows that next winter was (last week) over \$1.85 per gallon, and that prompt oil is now in the \$1.40's (and was about \$1.20). Sure, options remain with very high premiums caused by high "Implied Volatilities", but is spending 30 cents on

NYH Barge (est.)	NYMEX #2 Oil	NYMEX #2 Oil	Jan '10 futures
01/07/09	1.5371	01/07/09	1.7621
01/08/09	1.5171	01/08/09	1.7546
01/09/09	1.4890	01/09/09	1.7282
01/12/09	1.4762	01/12/09	1.6919
01/13/09	1.5176	01/13/09	1.7306

something that seems to move by that amount almost every week a bad business move?

-Now that we are really into the heart of the heating season, we are all hearing the stories of those who are having a hard time with some of their customers, and (worse) some that are being forced to sell their companies. In almost every case, there is a component of speculating on the price of oil (consciously or not) that has had a hand in the current situation. In addition, especially for those with fixed-price customers (but the same is certainly true, to a lesser extent, with capped customers), there is still the annoying group of companies offering low-ball prices to attract customers away, in an effort to fool themselves into believing that a discount payer will suddenly become a full-price payer. The latter – the customers lost to discounters – is an unfortunate part of our industry (aptly called "the ugly underbelly" by one of our clients). There is not much you can do with someone whose business plan will eventually fail, but whose actions hurt you, as well. It is a free country – even for those who don't play by the rules, or who aren't the swiftest business men and women. On the side of things for those who suffered because of speculation (a/k/a not hedging), think about where you might be, had you backed up all of your risks, and planned properly. Most will make it through this heating season – thanks in part to the collapsing oil prices (and, oddly enough, thanks to the weak economy). The unfortunate part is that while many oil companies are having record profits (per gallon, most certainly), there are still too many who can't wait for this season to be over. We

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wish them the best, and wish that for next season, they look to PLAN and to HEDGE, not to continue to speculate.

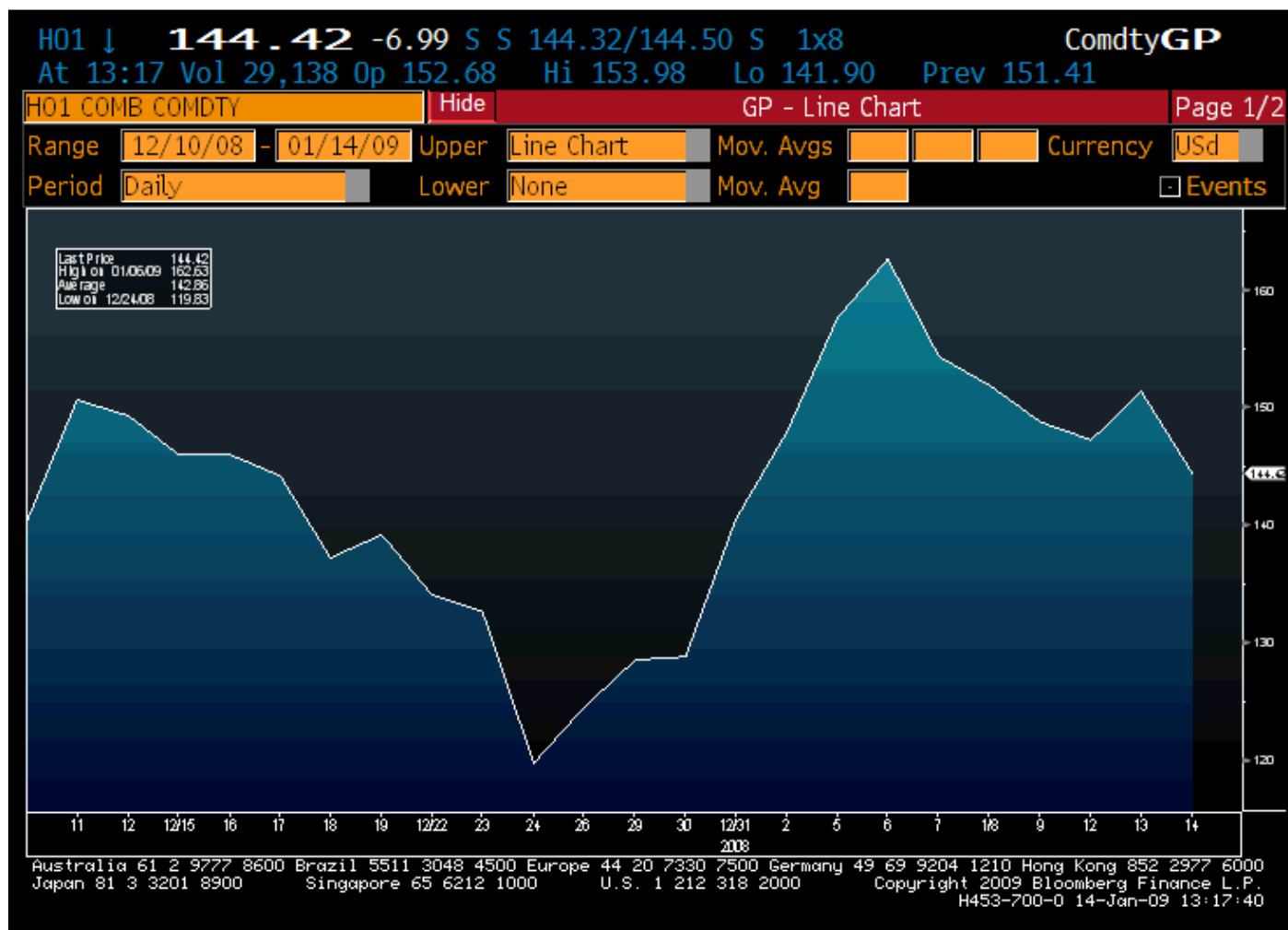
-For those who have been looking out of their offices at their storage tanks, and wondering if something should be done with them, please understand that "storage is an asset". There are times – and we are in one right now – that the cost of carrying oil in a storage tank is lower than the increased (spread) cost of heating oil in the future. There are a number of reasons for this – and it is not coincidental that investors are looking around for large vessels to store crude oil on. Spot crude oil can be bought for under \$40/bbl. and then sold within the next year for almost \$60/bbl. Spreads in heating oil are not that wide, but certainly bear the investigation as to whether there is a way for you to benefit

by lowering your cost of supply for next winter. If you have any questions, call.

-Saudis lowering production below quotas. That was yesterday's supportive news, but today's inventory reports have turned the market in the opposite direction. Too many forget that the demand side of the equation is as (I believe that it is MORE) important as the supply side. Until there is some traction of an improving economic picture, oil prices will have a hard time sustaining a rally. However, once that word comes – next month, in 3 months, in 12 months, whenever, we may well be back off to the races.

-No NY or New England teams left in the playoffs.... At least Spring Training is only about a month away....

Spot heating oil futures – past month.



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