

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-report pricing		HEATING OIL (OCT)	GASOLINE-RBOB (OCT)	NATURAL GAS (OCT)	CRUDE OIL (OCT)
Crude – .25 higher Products – Heat- 50 higher Gasoline – 300 higher Natural Gas - .05 higher	HIGH	1.8481	1.8559	3.017	71.37
	LOW	1.7576	1.7800	2.810	68.00
	SETTLE	1.7589	1.7822	2.821	68.05
	CHANGE	-.0496	-.0277	-.156	-1.91
	14 DAY RSI	38	43	23	42
	5 DAY MA	1.8428	1.8454	3.067	70.93
	9 DAY MA	1.8755	1.8660	3.167	71.99
	14 DAY MA	1.8836	1.8655	3.307	71.69

D.O.E. stats.... Crude oil stocks fell .37 mmbbls. Distillate stocks rose 1.18 mmbbls. Gasoline stocks fell 2.97 mmbbls. Refinery runs were 87.2% of capacity, up 3.06%. Prices fell about 2 cents per gallon as soon as the report was released, but have since recovered, and have been trading in a range of about a penny lower to a penny higher on the day. No real change in supply fundamentals, and no hurricane-related closures yet this season, but something to keep an eye on.

-After the extreme weakness on Monday, prices recovered more than half of the losses by early trading yesterday, only to falter as follow-through buying never materialized in light of the sell-off in stocks. The “magic number” for support – according to those who believe in “magic numbers” – seems to be right around \$66/bbl., for the November crude oil contract. As long as that level holds support, there is some belief that we will again retest the recent highs in the \$75-\$76/bbl. range.

-What is more surprising – the statement by Iran that they are now open for negotiations regarding their nuclear programs, or that anyone actually believes that they have honest intentions? At this point, it’s astounding that the “country who cried wolf” actually has any credibility. Next thing you know, North Korea will ask for talks about shutting down their nuclear program (oh, how I resisted making a comment about the Mets chances of making the playoffs!).

-On the radar of all oil traders is the activity in the equity markets. After seeing the Dow Jones Industrial Average reach up to a closing high for the year of 9,580 last Thursday, the index has fallen almost 300

NYH Barge (est.)	NYMEX #2 Oil	NYMEX #2 Oil	Jan '10 futures		
08/26/09	1.8395	08/26/09	1.8520	08/26/09	1.9591
08/27/09	1.8442	08/27/09	1.8592	08/27/09	1.9736
08/28/09	1.8458	08/28/09	1.8603	08/28/09	1.9772
08/31/09	1.7742	08/31/09	1.7792	08/31/09	1.9035
09/01/09	1.7277	09/01/09	1.7589	09/01/09	1.8547

points, and some of the enthusiasm over the continued economic recovery has started to cool. The fall in stocks is being partly blamed on a large drop in Chinese equity prices, and the accompanying decline in anticipated Chinese demand growth. Should stocks continue to fall, it can be expected that oil traders will have a hard time rationalizing that energy demand is poised for a big increase. On the other hand, if we are just seeing stock traders taking a China-induced breather in a market that is moving up for a run at the 10,000 level, those recent highs in energy prices might just be the tip of the iceberg in a rally that takes us into the winter season.

- The activity in the weather markets continues to (pardon the pun) heat up. Dismissing the long-range forecasters, both bullish and bearish, it seems that the “certainty” of sales volumes is pushing some of the smaller – and most of the larger - oil distributors to consider HDD protection. As an added benefit to those who are looking at the weather markets, we are seeing prices that are lower for the hedges than in previous years. The simple premise is that if you anticipate that demand for a typical homeowner will be “x”, say 1,000 gallons, and HDD’s are off (using the most recent 10-year average) by 15%, those +/-150 gallons will not be

needed, and the gross margins will not appear on your balance sheet, with barely any drop in operating expenses to offset the lower income. The weather “puts” will pay you back a certain amount per “gallon not sold” due to warmer than normal weather, in essence assuring the sale of the budgeted volumes. This warrants a deeper discussion, so if you have not had one, perhaps it is time.

-On the “technical” side of things, prices are oversold, and – backing up the theory of a potential rally – without some continued fundamental reason to keep pressure on prices, a quick pop would not be that surprising. Yet, these are the energy markets, so NOTHING would really be surprising.

- Keeping pressure on oil (and power and coal, and...) prices has been the continued insistence of natural gas prices to remain in the \$3.00/dkt. level, despite forward prices – as close as 90-days out – that are about 75-80% higher. Lacking the storage tanks that many heating oil dealers and end-users have, there is not much that can be done about the cash-to-futures spread, other than wait to see whether the cash markets will rise sharply over the next few months, or if the futures prices will fall dramatically.

- Micromanaging hedging. Although no one knows where the actual legislation will end up, the simple

notion of taking real bonafide hedging positions (versus storage, fixed or capped programs) that are not perfect cookie cutter (i.e. standard NYMEX contracts) and throwing them in with the reporting requirements that many seek from large speculators, seems to be a big mistake. While, perhaps, well intentioned, each new layer of requirement will add (perhaps prohibitive) costs to programs that are meant solely to provide for the most stable pricing for consumers. Imagine banking requirements for working capital lines, if heating oil companies couldn’t possibly put together a reasonably predictable budget for working capital needs. Pricing programs, despite their imperfections – MOSTLY caused by a few, somewhat irresponsible “low-ballers” - provide needed stability to both consumers who desire them, and the retailers who provide them. Without the ability to properly manage (hedge) the offerings, programs would cease to exist – leaving consumers vulnerable to even more potential spikes in prices, or – worse – leave dealers in the position of still making offers, and not being able to protect themselves (and we all know what can happen to companies who offer programs, but choose not to protect themselves).

- Time to turn the page. New month, new sport, and the Jets are looking good (and, so far, undefeated!).

Chart of Crude oil futures (white line – right scale) & Dow Jones Industrial Average (orange line – left scale). Which is leading the other??



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