



Angus Energy (Special) Report

May 25th, 2010

Crazy volatility, unpredictable markets....the silver lining for oil dealers.

First, put aside delayed abilities to plan on (ever considering) retiring, thanks to the recent plunge in stock prices. Next, ignore the fact that, one by one, some European countries are starting to look like overly leveraged homes before and during the U.S. housing market collapse. Finally, pay no attention to the notion that “the greenback” (the U.S. Dollar) has gotten so strong that many feel a recovery in the U.S. economy may start to lead the world out of the current economic doldrums.

Instead, let’s just focus on what has been going on over the past few weeks with oil prices – all without ANY major shifts in supply/demand economics, without any “weather issues”, and without any production moves by OPEC. The entirety of the price drop (now as much as 50 cents per gallon since peaking at the beginning of May) is being pegged to the (irrational, according to some) tremendous flight to quality as the European debt markets are being avoided like the plague, and in the same vein of risk aversion, commodities have quickly lost favor in the minds of speculators – including oil prices. Interestingly, the only “kind of” fundamental oil issue, of late, has been the BP “spill” in the Gulf. Conventional wisdom has it that this will put a major crimp in plans for expanding drilling. Although it is not clear as to whether that will be the case, an argument can certainly be made that BP’s problems should be supportive for prices (nothing to do with current supply/demand, but as an indicator for future drilling).

Although we are seeing some stirring up of political tensions with North Korea, in addition to the status quo of tensions with Iran, the focus is on driving many prices down, and oil has no choice, but to follow suit. If you think back two short years ago, when heating oil prices were heading up to well above \$4.00 per gallon, a lot of the “blame” (actually, the parts of the blame that were NOT blamed on speculators manipulating the markets) was on the ever-weakening U.S. Dollar. The logic, at that time, was that since oil was bought and sold, worldwide, in U.S. Dollars, that the weaker that the dollar got, the more dollars would have to be received by producers to get the same “value”. Conversely, as we now see the dollar rapidly gaining in strength – gaining almost 20% in value since late ’09 – the delayed drop in energy prices seems to have some logic to it. If producers are getting paid in “more valuable dollars”, they don’t need as many dollars to get the same “value”.

As much as it would have been nice to see these falling prices DURING the heating season, when the opportunity could have been had to widen out the retail margins, it is definitely welcome to see the (relative) weakness in prices, at any time. For those who are in the midst of buying for their pricing programs for next winter, this should allow for a lower offer than would have been available at the end of April.

For those who have been ratably buying, this will help to lower the hedging averages.

As for those who are ratably buying wetbarrels as part of their hedge program (with puts to protect against a decline in prices once the winter hits), the purchase from your supplier of fixed-price wetbarrels (or the purchase of swaps) should be at a lower price than the monthly average – so, as opposed to owning expensive wetbarrels, and getting a settlement check to “bring your average down”, you will end up owning inexpensive wetbarrels, and having to write out a check to “bring your average up”. In either case, the net result is that you end up owning wetbarrels (combination of fixed price and swap settlement) that is at the level that was originally desired (the monthly average).

Although it is hard to deny that a certain percentage of customers have become (and in some cases, “trained to become”) shoppers, and that the percentage is higher than it has been in the past, history has clearly indicated that “the shopping” is far less frequent when prices are NOT rising. Hopefully, we can focus attention on retaining customers on existing programs, protecting the customers from paying too much, and protecting oil dealers’ profits by allowing for retail margins that are sufficient to not only cover expenses, but allow for reasonable margins for the owners.