THE SCHORK REPORT
A VIEW OF THE ENERGY & SHIPPING MARKETS

Wednesday, January 17, 2007
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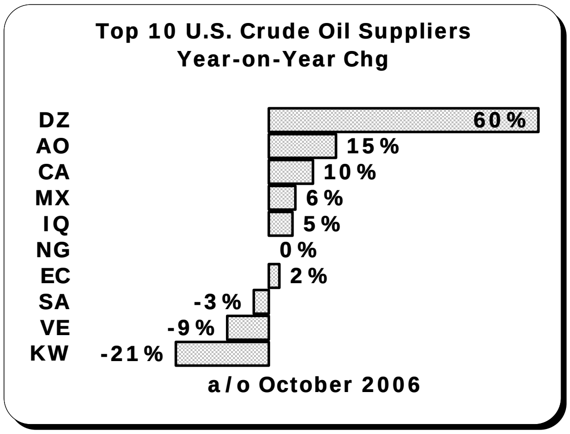


Baker Hughes Rig Counts

	12-Jan	Weekly Chg	Yearly Chg
US	**1,717**	22	250
GoM	81	(1)	7
Canada	586	169	(88)
NAM	**2,303**	191	162
Oil	**269**	(10)	28
Gas	**1,444**	33	220
Misc	4	(1)	2

(boldface denotes weekly 5yr high)

National Weather Service 6-10 Day Forecast

New England	**Below Normal**
Middle Atlantic	**Below Normal**
South Atlantic	**Below Normal**
E.N. Central	**Below Normal**
W.N. Central	**Normal**
E.S. Central	**Below Normal**
W.S. Central	**Below Normal**
Mountain	**Below Normal**
Pacific	**Below Normal**

CRUDE AWAKENINGS

TRADING BIAS

CL: NEUTRAL ☺ a/o Dec 01…S-50.03 R-55.56
NG: BEARISH ☹ a/o Dec 19…S-5.835 R-7.133
RB: NEUTRAL ☺ a/o Dec 22…S-135.81 R-152.65
HO: NEUTRAL ☺ a/o Nov 29…S-149.09 R-164.44

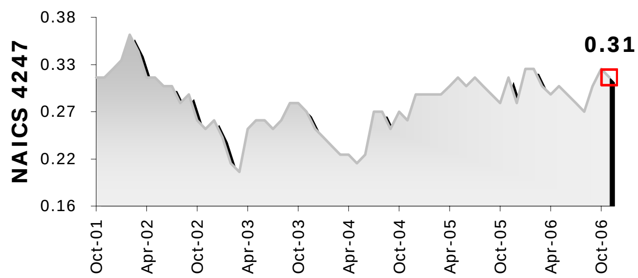
Nota Bene: According to the Federal Reserve Bank of New York's Empire State Manufacturing Survey, respondents indicate that conditions for New York manufacturers improved, albeit at a **decelerated** pace in January. The general business conditions index fell for a second straight month to its lowest level since the 2005 summer, 9.13. The state's manufacturers expect conditions over the next six months to expand, although the outlook has turned less favorable with future indexes falling month-on-month.

ENERGY PRICES ARE MIXED… as natty once again found support above *the box*, while the bears cleared the path for a push below $50 in the WTI pit.

Yesterday in crude oil the market found support at this week's 50.54 inflection and then settled near our 51.19 intraday. However, the bears did succeed in closing the market inside what we deem as the next ratchet of support, i.e. the May 27th, 2005 weekly pivot range between 51.24 and 50.03… rumors of the Iranians downing a U.S. spy drone notwithstanding.

Chart of the Day

Wholesale Petroleum Inventories/Sales



Source: U.S. Census Bureau

Wholesale Trade: Sales and Inventories

Last week the Commerce Department announced that total inventories at U.S. wholesalers rose 1.3% in November, while sales increased by only 1.0%. Consequently, wholesaler's inventory-to-sales ratio decreased to 1.17 months. End-of-month inventories of nondurable goods surged 2.8% thanks in part to a 3.1% increase in the value of petroleum stocks. In November petroleum sales jumped 5.7% as gasoline sales averaged a very summeresque 9.26 MMbbl/d while distillate and LPGs averaged winteresque demand of 4.34 MMbbl/d and 3.86 MMbbl/d respectively. As such, wholesale petroleum inventories increased 3.1% on this strong demand to $10.70 billion. Consequently, the supply on hand at the nation's petroleum bulk stations, terminals and merchant wholesalers inched lower to 0.31 weeks.

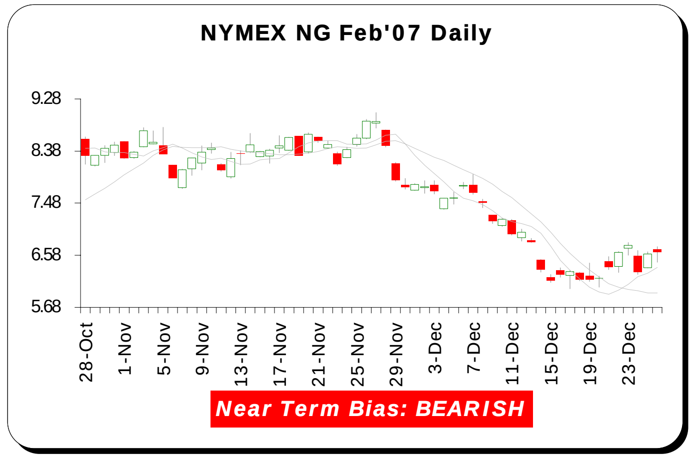
NATURAL GAS

NAT-GAS G Open 6.685 High 6.730 Low 6.460 Close 6.638

Winter has finally arrived… just in time for Groundhog Day. We fail to see how this is bullish, regardless of whether Punxsutawney Phil sees his shadow or not. Perhaps we will see as much as 90 Bcf of gas pulled out of the ground for last week, which is still a meager amount no matter how you slice-or-dice it.

Now we appreciate this winter's weather to date, or rather lack there of is old news, and the market is now focused on the cold air that has enveloped all key market areas. Fair enough, but we are in what is historically the coldest part of the winter. In other words, it is supposed to be cold right now. At this point we simply do not care what the weather geeks are saying. Tomorrow's EIA report marks the halfway point of the season. Regardless of the current weather patterns, the market is hard pressed NOT to end this season with at least 1.5 Tcf of gas still stuffed into the ground. That's not bullish.

Given WTI's descent, natty no longer looks undervalued in comparison. For instance, based on last night's mark, 1 barrel of WTI could purchase 7.71 decatherms of gas. That is spot-on with the historical relationship.

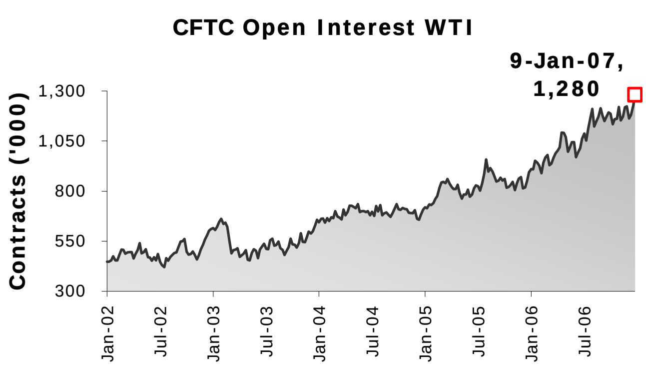


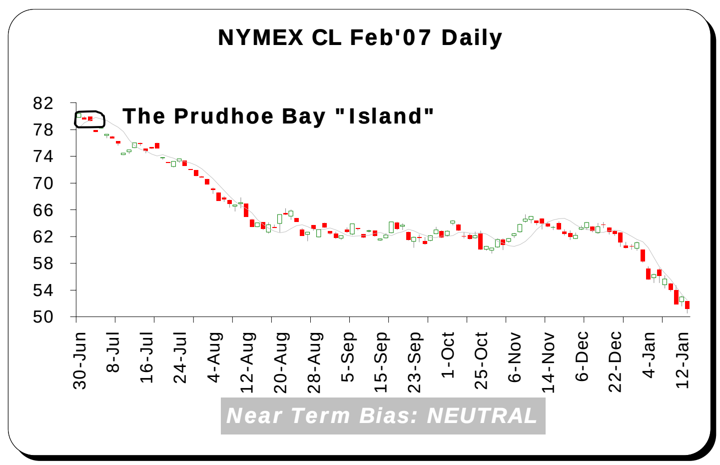
Nevertheless, yesterday the bulls succeeded in closing this market above *the box*, i.e. the 50% retracement at 6.560. Bids today above an intermediate trendline at 6.739 caution to a retest of the Dec 22nd 6.810 gap. Buyers here can then target this session's 7.023 intraday and this week's 7.133 inflection. On the other hand, failure to hold yesterday's 6.460 low cautions to a run against the 6.269 intraday and a retest of the Jan 05th gap at 6.220.

OIL

WTI G Open 52.35 High 52.35 Low 50.55 Close 51.21

As of a week ago yesterday open interest in the WTI pit surged to an all-time peak of 1,280 thousand contracts. Recall, open interest is the total number of contacts yet to be offset of delivered. Open interest increases (as is the current case in WTI) when a *new* long buys from a *new* short. An increase in open interest means that money is flowing into the market and in most cases validates the present trend. **There has been a lot of speculation that the *funds* are exiting this market. Be that as it may, someone is pouring cash into the NYMEX WTI pit… and that someone is not bullish**.



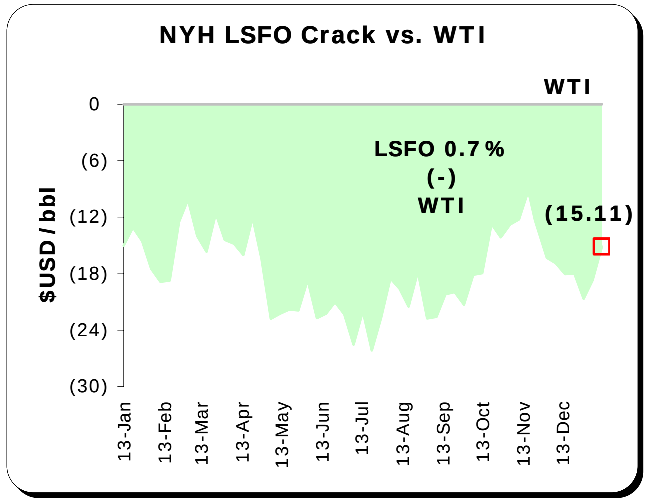


As far as today goes, offers below this week's 50.54 inflection point clear a path to the 50.00 critical point of reference. Recall, NYMEX WTI has not traded below $50 in more than a year-and-a-half. Sellers here can then attack the 49.77 intraday and then the 48.88 intraweek. On the other hand, a rebound above yesterday's 51.45 pivot high alerts to further corrective trade towards yesterday's 52.35 high and today's 52.57 inflection. Buyers here can then take aim at the 53.19 intraday.

A note about the Ibis: The Ibis folklore has it that other birds look to the Ibis for leadership. The Ibis uses its instinct to detect danger. It is the last sign of wildlife to take shelter before a hurricane hits, giving warning that danger is imminent. As the storm passes the Ibis is the first to reappear, a sign the clear skies are approaching.

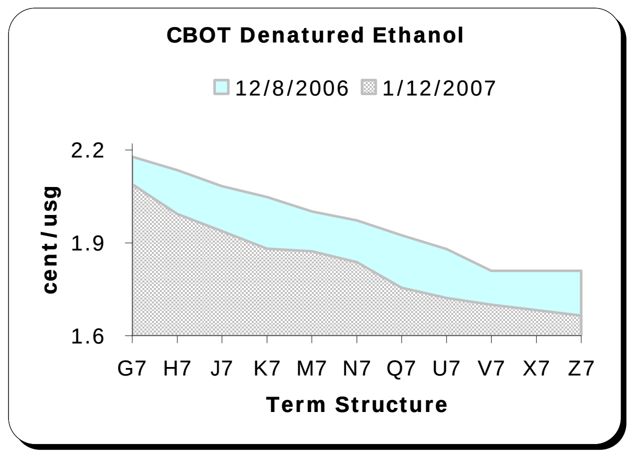
RESIDUAL FUEL OIL

For a second straight week WTI traded bearishly relative to six-oil. Consequently, the discount to crude traded near minus $15 a barrel last week, its closest margin in over a month. According to estimates on Bloomberg, 0.7% in New York harbor was quoted between $37.25 and $39.25 last week, down $1.75 from the week before. Meanwhile, average WTI values retreated by a greater amount. Nevertheless, technical support in crude oil has given way, which should in turn add pressure to fuel oil levels. Furthermore, next day gas was weak, but it did find some support ahead of the long weekend. As such, basis markets in New York converged against the screen. As a result, gas in the Harbor traded at a premium to fuel oil (0.7%) for the first time in five weeks.



BIOFUELS

Spot ethanol traded bearishly through the second week of 2007 as the selloff in mogas is now spilling over. For instance, values on both coasts dipped below 250.00 for the first time in four weeks with values in Los Angeles and New York approaching 240.00. As a result, New York Harbor ethanol traded nearly $1 above the front-month NYMEX RBOB (federal blending credit inclusive). This in turn is skewing blending economics and reducing demand. As can be seen on the thinly traded CBOT contract, waning demand is manifest in the notional structure of the market. Two weeks ago the 1st/2nd month backwardation was trading over 0.15. Last week the backwardation came in at just over a nickel. Meanwhile the back of the *board* has continued to flatten from a month ago.



OUTLOOK (January 16th to 19th)

NAT-GAS… Last week the bulls succeeded in pushing this market north of the box, i.e. the 50% retracement at 6.560. Failure to penetrate this level cautions to further bullish trade towards the Dec 22nd gap at 6.810 and then the 7.000 critical point of reference. Buyers above this week's 7.133 inflection can then gun for Dec 15th/22nd weekly gap (continuous) from 7.180 to 7.220. Closure of this gap then sets the table for a run at the 7.530 intraweek. On the other hand, failure to defend 6.560 cautions to further weakness towards last week's 6.250 low print and this week's 6.109 inflection. Of course, sellers below here will be doing so with the intent of taking at the 6.000 critical point of reference. Recall, for all intents and purposes, Feb'07 has never "traded" below this level. Thus, penetration of this level this week cautions to a new wave of bearish momentum towards this market's long-period mean at 5.936 and this week's 5.835 intraday. A close early in the week will allow bears to push towards the 52-week trendline at 5.755.

WTI… Last week support gave way as the bears succeeded in breaking support in between this market's long-period mean at 55.32 and the low from November 17th, 2006, 55.08. As far as this week is concerned, failure to hold last week's 51.60 low print cautions to follow through weakness towards the next ratchet of support, an area we define as the weekly pivot range from May 27th, 2005 in between 51.24 and 50.03. Penetration of the psychologically critical 50.00 level sets the table for a flush towards the 48.88 intraweek and then the 50% retracement from whence this rally began in November 2001, 47.33. On the other hand, a rebound above a long-term trendline at 53.77 and last week's 54.43 pivot-area high cautions to further corrective trade towards this week's 55.56 inflection point. Buyers here can then target the 56.76 intraweek and then last week's 57.25 high print.

SCORECARD

BUY NATURAL GAS

- Shut-in production,
- Coal transport issues,
- Waning supply elasticity and
- Growing demand inelasticity.

BUY OIL

- Tight global spare capacity,
- Strong global economic growth,
- **Geo-political risks,**
- Extant damage from Katrina/Rita,
- Strong Q4 gasoline demand and
- 2006 downstream capacity expect to grow half as fast as demand.

SELL NATURAL GAS

- Brisk Baker Hughes rig counts,
- Softening economy,
- Gas-weighted industrial demand destruction,
- Increased hydro capacity out West,
- Increased substitution,
- Increased LNG imports and
- Decreased NGL extraction.

SELL OIL

- Ample supplies,
- Lengthening contango and
- Softening U.S. economy.

CRUDE OIL	BULL	BEAR	NA	NAT-GAS	BULL	BEAR	NA
API			☒	EIA		☒	
DOE			☒	Conuming East		☒	
PAD 1 & 2			☒	Weather		☒	
Imports			☒	Fuel Switching	☒		
Production	☒			Rig Count		☒	
NYMEX Cracks	☒			Imports - Canada		☒	
OPEC	☒			Exports - Mexico			☒
ARB into USAC	☒			Nuclear Capacity		☒	
ARB into USGC	☒			Hydro Capacity		☒	
Transportation		☒		Transportation			☒
Momentum			☒	Momentum		☒	
Economy			☒	Economy			☒
Interest Rates			☒	Interest Rates			☒
Outages			☒	Outages			☒
Season		☒		Season		☒	
Market Sentiment			☒	Market Sentiment		☒	
COT			☒	COT			☒
Total	**5**	**2**	**10**		**1**	**10**	**6**

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