THE SCHORK REPORT

A VIEW OF THE ENERGY & SHIPPING MARKETS

Wednesday, July 25, 2007

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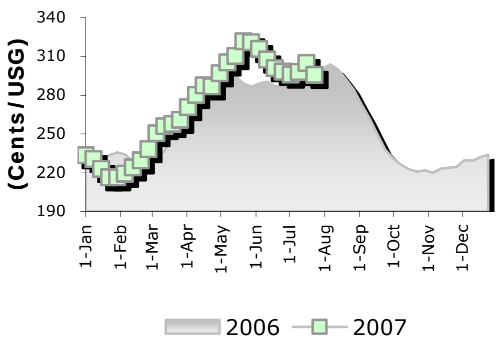
U.S. Regular Gasoline Prices



According to the EIA's weekly update, average gasoline prices decreased 3.0% to $2.958. As such, prices at the pump dipped back below the $3.00 threshold. Prices in Chicago, which spiked 7½% the week before, dropped 3.7% last week after products shipments on the Explorer pipe into the Midwest resumed.

Whither $4 gasoline? Despite all of the clucking from the Chicken Little's back in the spring, retail gasoline has dropped in 7 of the first 9 week's of the summer driving season. As such, gasoline is cheaper today than at this point last summer… and that is inclusive of a 10.9 MMbbl or 5.1% year-on-year deficit in finished gasoline supplies!

National Weather Service 6-10 Day Forecast

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

CRUDE AWAKENINGS

TRADING BIAS

CL: BULLISH ☺ a/o Jul 18…S-69.72 R-81.03

NG: NEUTRAL 😐 a/o Jun 20…S-5.714 R-7.336

RB: NEUTRAL 😐 a/o Jun 08…S-201.65 R-232.08

HO: BULLISH ☺ a/o Jun 04…S-191.29 R-226.38

Nota Bene: United Airlines (UAL) reported a post 9/11 record profit in the second quarter of $274 million on net income on $5.2 billion in quarterly operating revenue. Of note in the reported financial statement, United recorded a net gain of $17 million on hedge contracts in the second quarter -- a realized gain of $3 million relating to the current quarter and an unrealized gain of $14 million relating to contracts settling in future periods.

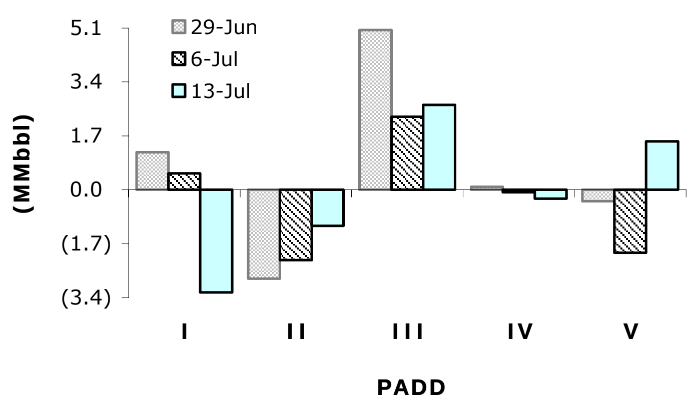
As of July 23, 2007, the company had hedged 27% of forecasted fuel consumption for the third quarter of 2007, predominantly through heating oil three-way collars with upside protection on a weighted average basis beginning from $1.96 per gallon and capped at $2.14 per gallon. Payment obligations on a weighted average basis begin if heating oil drops below $1.84 per gallon.

The company expects mainline jet fuel price per gallon, including the impact of hedges, to average $2.30 per gallon in the third quarter of 2007 and, based on the forward curve for fuel, $2.42 in the fourth quarter of 2007.

ENERGY PRICES ARE WEAK… as Btu bulls still can not pull themselves off the canvas. Meanwhile, as far as this morning's DOE report goes, as always, take the Street's guestimate for what it is worth… not much.

Chart of the Day

U.S. Weekly CL DOE Stock Chg



DOE Preview

It is expected this morning that the DOE will release data showing a seasonal draw in crude oil inventories sandwiched in between a below-normal draw in gasoline and a below-normal build in distillate fuels. On the input side, the market is looking for a ≈1.5 MMbbl draw in crude oil, a threefold increase from the prior week's draw. A crude oil draw of this magnitude is certainly not abnormal for this point in the season; as such, the market is expecting stocks to remain above the 350 MMbbl threshold for a fifth straight week.

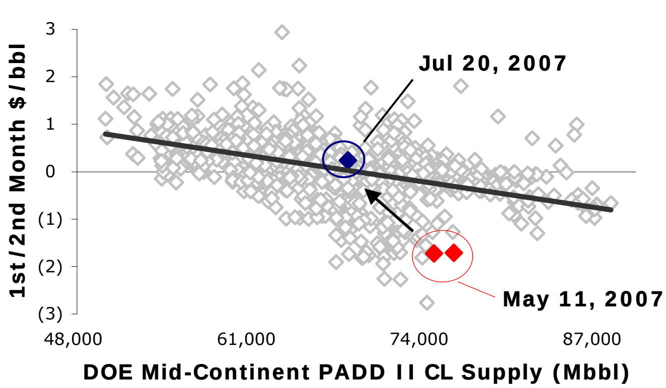
Per last week's crude oil report, the disposition of supplies remains highly fragmented. For instance, thanks to poor refinery demand and strong imports, supplies flooded the GoM market area for a fifth straight week. As of July 13th, PADD III crude stocks stood at 197.99 MMbbls. Consequently, GoM stocks rose to what we believe is an all-time peak for a third straight week.

On the other hand, after two sizeable builds, crude stocks in PADD I collapsed. Stocks plunged 19½% or from a 37-week high as of the week ended July 06th to below the five-year range for the week ended the 13th. Accordingly, that draw coincided with a 3.2% week-on-week jump in PADD I processing rates. As such, east coast throughput rose back above 1.6 Mbbl/d. Consequently, gasoline stocks jumped to a fifteen-week high and moved back into a year-on-year surplus.

Most importantly, crude oil stocks in PADD II, specifically the NYMEX WTI hub in Cushing, OK, continued falling as of the 13th. Overall stocks in the Midwest fell for a fifth straight week, down 1.6% to 68.37 MMbbls, a nineteen-week low. In Cushing, inventories fell for an eighth straight week, down 0.8% to 22.6 MMbbls, an eighteen-week low. What's more, while aggregate crude oil stocks enjoy a comfortable cushion, stocks in Cushing are at a 1.92 MMbbl or 7.8% deficit.

Recall, up until two weeks ago, WTI was contangoed out through December 2008. On Friday the entire Board closed in backwardation. In other words, there is no longer any carry in this market, i.e. there is no longer an economic incentive to store barrels. For instance, at the end of May spot barrels for Sep'07 delivery were trading at more than a $4.00 per barrel discount to Sep'08 (red Sep). As of last night the Sep'07 settled at a $1.47 premium to the Sep'08. That's more than a $5 swing in equity inside two-and-a-half months!

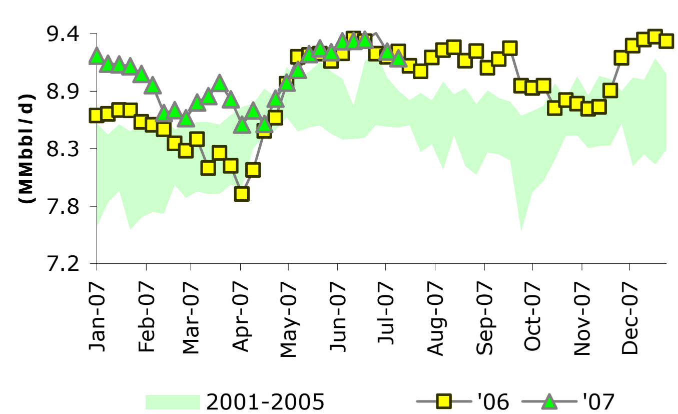
Storage Demand for WTI



Thus, in light of the shift in storage economics we will be interested to see if the eight-week extant drawdown in Cushing continued as of last Friday.

On the output side, we want to see if refinery capacity improved for a fifth straight week. Utilization rates as of last week's report finally topped 91% after a seven-week drought. After cratering back in the middle of June, operable refinery capacity has been growing by 86 bps on average. As of July 13th capacity was 91.04%. It was the highest rate of utilization since the Memorial Day holiday at the end of May. As far as today is concerned, the market is looking for a 60 bps rise in utilization for last week. Should we see it, and we should, then we expect the bulk of the increased slate went towards manufacturing gasoline.

DOE Finished Gasoline Production



After rising to an all-time peak of 9.402 MMbbl/d over the 04th of July holiday, gasoline production has slipped per the last two DOE reports. Historically, gasoline production has already peaked by now. However, given the current deficit in supplies and the economic incentive to crack barrels… at least for the September contracts, we suspect refiners moved once again to maximize gasoline output. In this vein, we will also be interested to see if gasoline production rebounded last week.

NATURAL GAS

NAT-GAS Q Open 5.865 High 5.925 Low 5.830 Close 5.863

In a follow up to last week's "disappointing" EIA report, tomorrow the market is expecting an above-normal injection of ≈69 Bcf. Of the sixteen injections this season, eleven have come in above normal. As such, 1.18 Tcf of gas has been injected. Therefore, an already comfortable supply situation at the start of *refills* has increased by nearly three-fourths.

Nationwide cooling demand during the EIA reference week was about 4% below-normal as gas-fired cooling demand dropped significantly in the Great Lakes and Southwest. Given this drop in implied demand, the table appears set for the twelfth above-normal injection of the season and the thirteenth contraction in the year-on-year deficit. In fact, owing to last season's historic reported delivery for this week, and injection of 65 Bcf or greater will push current supplies into surplus compared with last year.

Meanwhile, in the Henry Hub pit on the NYMEX, gas plunged once again, but we must point out, bulls were able to stem the hemorrhaging in between the October 13th weekly pivot low at 5.838 and the bottom of the bearish trend at 5.807.

We are of the mindset that if the bulls are going to put up a defense, then it is going to be in between last night's settle and a long-dated reversion value at 5.706. Failure to do so we think invites a chance for a potential flush to the next ratchet of support to the September 29th weekly pivot range in between 5.381 and 4.903.

With that in mind, offers today through the bottom of the current bearish trend at 5.736 clear a path to our 5.680 inflection point. We will look for further weakness below here towards our 5.541 intraday. A close below here then sets the table for that flush towards 5.381. On the other hand, the future is now for gas bulls. Closure of yesterday's gap at Monday's 6.010 low print alerts to further corrective trade towards our 6.052 inflection point and the midpoint of the bearish trend at 6.108. We will look for further momentum above here to our 6.197 intraday and then to last week's 6.240 low print.

NYMEX WTI

WTI U Open 74.10 High 74.20 Low 72.95 Close 73.56

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ICE BRENT

BRENT U Open 76.85 High 76.85 Low 74.85 Close 75.08

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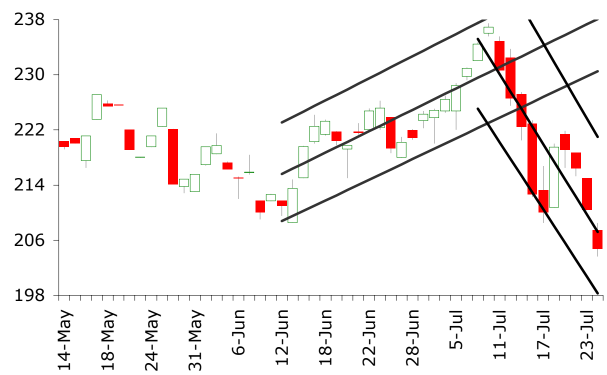
LIGHT ENDS

RBOB Q Open 207.50 High 208.50 Low 203.60 Close 204.77

Per last Wednesday's DOE report, mogas stocks fell (unexpectedly) for the first time in three weeks, down 1.1% to 203.3 MMbbls. As such, the year-on-year deficit ballooned by more than half, to 10.9 MMbbls. Large draws out West (PADD V) and in the Gulf (PADD III) more than offset another nice build in the East (PADD I). As far as this morning is concerned, the cognoscenti are looking for a below-normal draw of ≈250 MMbbls.

As far as today goes, offers through yesterday's 203.60 low print clear a path to our 201.54 inflection and the 200.00 critical point of reference. Below here we will look for weakness to our 199.53 and the bottom of the trend at 195.86. Otherwise, a rebound through yesterday's 206.05 pivot high cautions to further corrective trade to our 208.05 inflection point. Above here we will look for strength to our 209.77 intraday and the gap at Monday's 210.30 low print.

NYMEX RBOB Aug'07 Daily



Near Term Bias: NEUTRAL

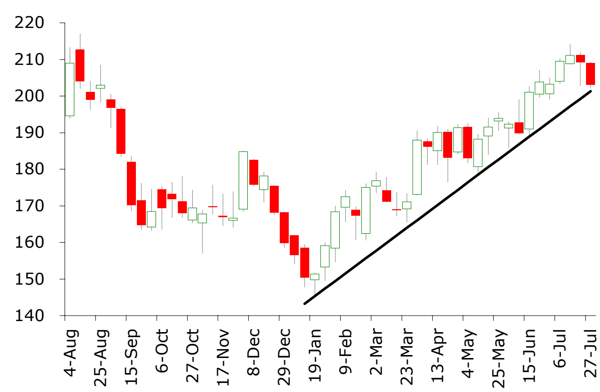
MIDDLE DISTILLATES

HEATING OIL Q Open 205.50 High 205.50 Low 202.20 Close 203.09

Per last week's DOE, overall distillate fuel stocks fell, but increased where it counted most. ULSD (≤15 ppm) rose 0.9% to 67.56 MMbbls. As far as today's report is concerned, the cognoscenti will be looking for a below-normal build of ≈750 MMbbls.

Post DOE offers through the Jun 27th pivot range in between 202.62 and 201.45 clears a path to a weekly trendline at 201.33, towards our 198.51 inflection point. Below here we will look for a flush towards the next ratchet of support inside the Jun 13th pivot range from 196.28 to 194.93, inclusive of our 195.76 intraday. **A close today below 201.33 will push us out of our bullish bias.** On the other hand, a rebound through yesterday's 205.50 high print cautions to further corrective trade towards our 207.38 inflection point. We will look for strength above here to the midpoint of the long-dated trend at 209.51 and then towards our 210.57 intraday.

NYMEX HO Continuous Weekly



LONG Term Bias: BULLISH

RESIDUAL FUEL OIL

Monday, July 23, 2007 - Spot WTI values ended last week above $75. As we pointed out last week… at this point it is hard to argue against a run at the all-time peak for spot barrels, 77.95 and for further momentum towards the $80 critical point of reference.

While the overall crude oil supply is ample, i.e. stocks are at a nine-year high, we have nevertheless been seeing consistent withdrawals at the Exchange's hub in Cushing, OK. On top of that, there is the inversion of the NYMEX WTI and ICE Brent term structures. This in turn suggests stepped-up demand for both mid-continent and GoM streams. As such, crude oil looks stronger than ever.

Be that as it may, this strength has yet to translate into stronger bids for New York Harbor residual fuel oil. According to estimates on Bloomberg, 0.7% in the Harbor was quoted in between 58.50 and 60.25 and averaged 59.33 through the week, up 0.4%. As such, the average differential on the Resid/WTI crack jumped 13.8% to minus $15.61 per barrel.

BIOFUELS

Monday, July 23, 2007 - Prompt ethanol in the East found solid support for a second straight week amid speculation that imports from Brazil, which through the first five months of this year accounted for 4 out of 9 barrels of foreign manufactured product, are about to fall. According to recent reports, the arb for Brazilian product ex Santos into New York Harbor is closed. Thus, poor import economics for landed product in combination with new Brazilian legislation (effective July 01st) upping the ratio of ethanol/gasoline from 23% to 25% has some traders fretting that Brazil's market share will dwindle through the end of the summer *driving season*. As such, the CBOT ethanol complex ended last week on the bid with the spot Aug'07 contract going out over 2.00 for a second straight Friday.

Ethanol also found support despite another technical breakdown in the CBOT corn complex and a general lack of bullish consensus in NYMEX gasoline. With regard to the former, spot corn for Sep'07 delivery gapped lower to open last week and then never looked back. As such, the contract collapsed and finished last week at 318¼, i.e. well below the 327 38% retracement. Consequently, the Sep'07 CBOT average crush ballooned 16.1% to 2.064 on the week. Meanwhile, over in New York RBOB bulls tried to parlay a "bullish" DOE report, but the spot contract finished lower for a second straight week.

As far as this week goes, strong apparent demand for gasoline and further concerns regarding waterborne ethanol will likely trump further technical weakness in corn and lend support for August ethanol deals.

WEEKLY OUTLOOK (Jul 23rd to 27th)

NAT-GAS… As far as this week goes, bids through the daily pivot range from June 28th at 6.805 alerts to further corrective trade to our 6.948 weekly inflection point, towards the top of the recent bearish trend at 7.071. We will look for further strength above here towards the weekly pivot range for the week ended June 22nd from 7.243 to 7.470, inclusive of our 7.336 intraweek. On the other hand, offers through last week's 6.240 low print clear a path into the next ratchet of support, i.e. the pivot range from the week ended October 13th in between 6.195 and 5.838, inclusive of the bottom of the trend at 6.007 and our 5.980 inflection point. Below here we will look for weakness towards our 5.714 intraweek.

WTI… As far as this week goes, bids through 77.95, the all-time peak for spot WTI barrels, alerts to follow through momentum towards our 79.37 weekly inflection point and then to the 80.00 critical point of reference. **While spot barrels printing in the 80s will likely gin up the market from a psychological perspective, keep in mind, the life-of-contract high in the Sep'07 is 80.64. In other words, the last time spot WTI posted an all-time peak, the NYMEX Board was in a deep contango. This time, should we see a new high print the market will be in backwardation. So perhaps, the bull's staying power will be longer this time.** In this vein, above 80.00 we will look for a run at the 80.64 high print and then towards our 81.03 intraweek. On the other hand, offers through last week's 74.75 pivot low cautions to further corrective trade towards the midpoint of the current trend at 72.32 and our 71.96 weekly inflection point. A close below here early in the week then sets the table for another test of the 70.00 critical point of reference, towards our 69.72 intraweek.

SCORECARD

BUY NATURAL GAS

- Shut-in production,
- Expected active hurricane season,
- 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 and
- Strong gasoline demand.

SELL NATURAL GAS

- Brisk Baker Hughes rig counts,
- Strong Q2 production,
- Questionable economy,
- Gas-weighted industrial demand destruction,
- Increased hydro capacity out West,
- Increased substitution,
- Increased LNG imports and
- Decreased NGL extraction.

SELL OIL

- Ample supplies and
- Questionable U.S. economy… especially housing.

CRUDE OIL	BULL	BEAR	NA
API			☒
DOE			☒
PAD 1 & 2			☒
Imports	☒		
Production	☒		
NYMEX Cracks	☒		
OPEC	☒		
ARB into USAC	☒		
ARB into USGC	☒		
Transportation			☒
Momentum	☒		
Economy			☒
Interest Rates			☒
Outages	☒		
Season	☒		
Market Sentiment			☒
COT		☒	
Total	**9**	**1**	**7**

NAT-GAS	BULL	BEAR	NA
EIA		☒	
Conuming East		☒	
Weather		☒	
Fuel Switching			☒
Rig Count		☒	
Imports - Canada		☒	
Exports - Mexico			☒
Nuclear Capacity		☒	
Hydro Capacity	☒		
Transportation			☒
Momentum		☒	
Economy			☒
Interest Rates			☒
Outages			☒
Season		☒	
Market Sentiment			☒
COT	☒		
	2	**8**	**7**

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.