THE SCHORK REPORT
A VIEW OF THE ENERGY & SHIPPING MARKETS

Wednesday, August 22, 2007
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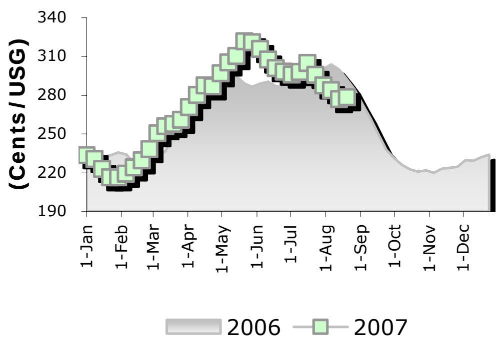
U.S. Regular Gasoline Prices



According to the EIA's weekly update, average gasoline prices rose for the first time in five weeks, up 0.51% as of Monday. Prices at the pump averaged $2.785. As such, last week's increase was only the third uptick since the start of the *driving season* back in May.

However, last week's entire gain accrued in the Midwest. There, a 10.2 cent per gallon surge overshadowed declines in every other market area… including California. Consequently, Chicago surpassed San Francisco as the most expensive city when it comes to gasoline with a weekly average of $3.075 v. $2.964.

National Weather Service 6-10 Day Forecast

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

CRUDE AWAKENINGS

TRADING BIAS

CL: NEUTRAL 😐 a/o Aug 06…S-68.54 R-75.59
NG: NEUTRAL 😐 a/o Jun 20…S-6.214 R-7.556
RB: NEUTRAL 😐 a/o Jun 08…S-189.93 R-216.27
HO: NEUTRAL 😐 a/o Aug 03…S-191.60 R-212.39

Nota Bene: Per MasterCard's Spending Pulse Gasoline Demand Report, U.S. retail demand jumped 5.7% last week. Consumers purchased 10.30 MMbbl/d of gasoline as of last Friday, August 17th. That is up from 9.84 MMbbls for the previous week.

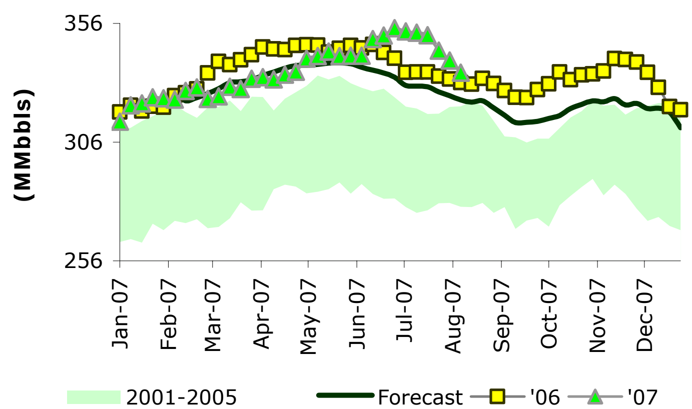
Meanwhile, according to last week's DOE report, apparent gasoline demand averaged 9.572 MMbbl/d. Thus, the MasterCard numbers as of last Friday suggests a significant week-on-week rise in DOE implied demand… stay tuned.

The government estimates demand (products supplied) by the amount of product that "disappears" from refineries, pipelines, bulk terminals… etc. The MasterCard report is based on credit card swipes. Thus, we will continue to look forward to seeing how the MasterCard numbers correlate to the DOEs and whether we can begin viewing the former's gasoline demand report as a leading indicator.

ENERGY PRICES ARE WEAK… as the floor fell out from underneath the oil-and-gas complex, again. As far as today's DOE report is concerned, as always, take the Street's guestimate for it is worth… not much.

Chart of the Day

DOE Weekly Crude Oil Ending Stocks



DOE Preview

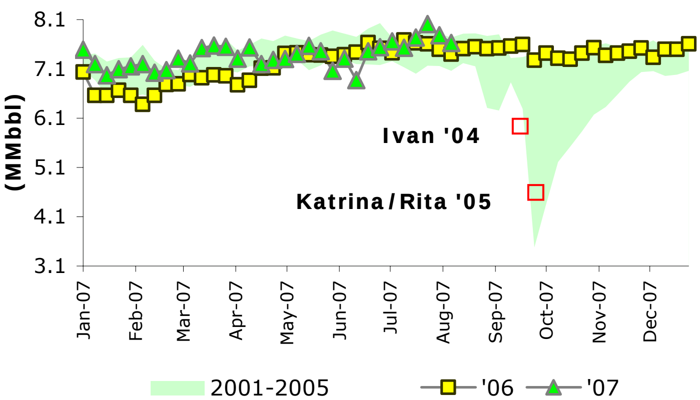
It is expected this morning that the DOE will release data showing typical seasonal movements in the disposition of crude oil and the major transportation fuel stocks. On the input side, the market is looking for a draw in crude oil stocks of between 2.5 and 3.0 MMbbls. If good, this will be a follow up to the three previous "much larger than expected" draws which summed nearly 16.0 MMbbls.

Overall, crude oil stocks have dropped by 3.16 MMbbl/w for a total of 18.81 MMbbls since the start of the quarter. That's about 2½ times above-normal. But understandable given that crude inventories entered July with a 17.26 MMbbl or 5.1%

year-on-year surplus and a massive 47.15 MMbbl or 15.4% overhang to the 2001-2005 timestep.

Normally, refinery demand, vis-à-vis utilization capacity has peaked by now and is trending lower. However, due to a (somewhat) return of crude oil demand following an epidemic of "unscheduled outages", downstream capacity has been trending higher by 28 bps per week over the last month-and-a-half.

DOE Crude Oil Runs PADD III



Crude oil demand in PADD III, home to nearly half of U.S. refining capacity, i.e. 19 out of 41 barrels, has plunged 4.83% since the July 27th peak of 8.01 MMbbl/d. This was likely the residue of maintenance issues at Murphy's 120 Mbbl/d Meraux, LA plant and Total's 232 Mbbl/d Port Arthur, TX facility. Both operations should now (we have been unable to confirm) be back up and running. Thus, we will look to this morning's report for confirmation.

Imports

Over the last two weeks crude oil imports came in below 10.0 MMbbl/d. Per past last week's DOE, crude oil cargoes averaged an 18-week low, 9.87 MMbbl/d. The velocity of third quarter import declines has been accelerating over the previous three weeks. This is not abnormal. Imports typically tail off towards the end of the third quarter.

Furthermore, the current near-term structure of both the Brent and NYMEX markets suggest the rate of imports will fall further. After trading backwardated for the better part of July (8 out of 11 sessions), the front-month Oct/Nov Brent spread has been in contango since. The Oct'07 has averaged a 30 cent premium through the first three weeks of this month. In fact, the Brent market is contangoed out through the end of the year. Meanwhile, the backwardation in the front of the NYMEX Board is tenuous at best. Per Monday's penultimate session, the front-month Sep/Oct positive roll-yield had been slashed in half week-on-week. Furthermore, the front-leg of the Oct/Nov spread found a bid last week on Dean concerns, but the premium has converged since,

The current disposition of the term structure implies, counterintuitively, a lessening concern regarding the future availability of crude through the North Sea maintenance season and the Atlantic Basin hurricane season. **In hindsight, we have apparently assigned too much weight to the shut-in of the Campeche Basin**.

Products Supplies

The market is also expecting a seasonal draw in finished gasoline stocks of between 0.5 and 1.0 MMbbls and a build of between 0.5 and 1.0 MMbbls in aggregate distillate fuels stocks.

As of last Wednesday's gasoline report, stocks fell for a second straight week. Nevertheless, for a second straight week the reported draw was below-normal relative to seasonal parameters. Accordingly, the year-on-year deficit narrowed to 3.45 MMbbls, a 26-week low!

Meanwhile, the disposition of distillate fuel stocks moved along seasonal parameters. That is to say, heating oil stocks climbed 2.4% while diesel stocks maintained a 17.7% year-on-year cushion. On the breakdown, supplies of diesel for the fall harvest and supplies of heating oil for the winter heating season appear in good shape.

Conclusion

With only three reports in the gasoline season remaining, the integrity of U.S. up/downstream capacity remains tight. Extant refinery utilization woes will likely mute crude oil demand as we head into turnarounds. Therefore, without a disruption to the flow of oil, be it hurricane related (Dean notwithstanding) or by other event, the odds the bulls will be able to pull themselves off of the canvas will continue to lengthen.

NATURAL GAS

NAT-GAS U Open 5.890 High 6.040 Low 5.770 Close 5.817

In a follow up to last week's (rare) below-normal EIA report, tomorrow the market is expecting another sub-par injection of ≈30 Bcf. The average injection for this week is 61 Bcf. Thus, tomorrow's report will be one of only a handful this season to come in significantly below normal. Nevertheless, a total of 1.392 Tcf of gas has been injected to date. Therefore, an already comfortable supply situation at the end of the winter has ballooned by 23/25^{ths}. Consequently, underground storage is already occupying 5 out of 6 cubic feet of last season's record ending capacity of 3.458 Tcf.

Nationwide cooling demand during the EIA week was a hot 22% above-normal as gas-fired a/c load surged in the South and out West. However, demand in the heavy population centers in the Great Lakes and Northeast saw temperatures retreat. In fact, overall cooling demand was 8.8% lower week-on-week. Be that as it may, in light of the overall implied demand and the overhang in supply, especially in the GoM, we can certainly expect a below normal injection for tomorrow. But given the date, that is apparently too little, too late for Henry Hub bulls.

In this vein, Henry Hub gas plunged again yesterday, down 2½% on the open. Bulls did succeed in closing the gap at Monday's 6.035 low print, but could not generate any traction above there. As such, the market spent the afternoon yo-yoing inside our 5.852 inflection point and our 5.707 intraday. The market ended up closing below the pivot range from the week ended October 13th, 2006 at 5.838.

As far as today goes, offers through yesterday's 5.770 low print and a long-dated trendline at 5.706 alerts to follow through weakness towards our 5.635 inflection point. We will look for further weakness below here towards our 5.497 intraday. On the other hand, a rebound through yesterday's 5.905 pivot high clears a path towards our 6.004 inflection point and yesterday's 6.040 high print. Above here we will look for strength into Monday's pivot range from 6.108 to 6.243, inclusive of our 6.148 intraday.

NYMEX WTI

WTI V Open 70.70 High 71.15 Low 68.95 Close 69.57

As of last week's DOE report, crude oil inventories fell by a much stronger than expected 1½% or by 5.17 MMbbls. As such, the domestic supply-side disposition of crude oil dipped to a four-month low. More importantly, stocks at the NYMEX delivery hub in Cushing declined for a third straight month, to 18.44 MMbbls, a year-and-a-half low. What's more, given the season, we have to expect further draws through the end of the quarter.

Meanwhile, according to press reports, Petróleos Mexicanos (Pemex) will keep upwards of 2.65 MMbbl/d of crude oil production shut-in through at least Friday is response to Hurricane Dean. Furthermore, in a separate report the company announced that its July output was 1.9% below July 2006. Production averaged 3.17 MMbbl/d last month, down from 3.23 MMbbl/d from a year earlier and 3.21 MMbbl/d from the prior month. At Cantarell, output in July averaged 1.53 MMbbl/d, down 13.1% year-on-year. Through July Cantarell output is down 16.0% year-on-year. What's more, given the current closure, August output at Cantarell will undoubtedly fall again on both a monthly and yearly basis.

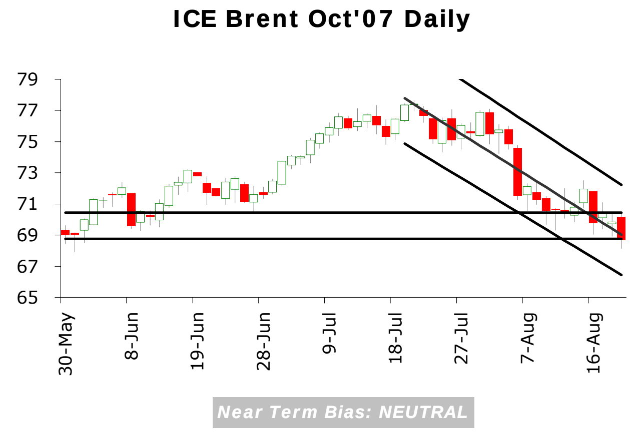
Down on the NYMEX yesterday Oct'07 WTI opened on a bid. As such, bulls succeeded in closing the gap in between Monday's 71.15 high print and Friday's 71.40 low print. However, momentum stalled shortly thereafter. The contract then proceeded to collapse, down more than 3½% at one point. When it was all said-and-done, near-term WTI closed below the 70.00 critical point of reference for the first time in two months.

As far as today goes, post DOE bids below yesterday's 68.95 low print alerts to follow through weakness towards our 68.16 inflection point. Failure then to hold the year-to-date 62% retracement, 67.70, then cautions to weakness towards support in between a near-term mean reversion expected value, 67.48 and the bottom of the bearish trend, 67.02, inclusive of our 67.22 intraday. **A close below 69.30 will push our bias to bearish.** On the other hand, a rebound through yesterday's 70.23 pivot high cautions to further corrective trade towards our 71.01 inflection point. We will look for further strength below here towards our 71.82 intraday.

ICE BRENT

BRENT V Open 70.17 High 70.50 Low 68.14 Close 68.69

U.K. Brent opened on the bid in London trading, but momentum stalled just a nickel above the 50% retracement, 70.45. From there the market collapsed back through the 38% retracement, 68.75 and our 68.51 inflection point.

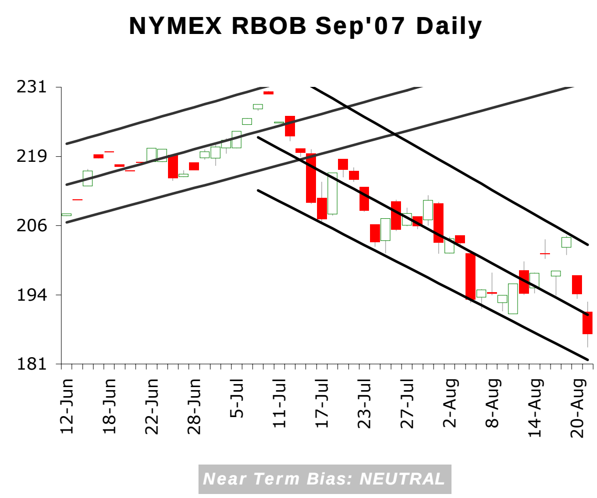


As far as today goes, post DOE offers through yesterday's 68.14 low print alerts to follow through weakness to our 67.38 inflection point. Below here we will look for weakness to our 66.60 intraday and the bottom of the trend at 66.44. On the other hand, a rebound through yesterday's 69.32 pivot high cautions to further corrective trade towards our 70.03 inflection point and the 50% retracement. Above here we will look for strength to our 70.91 intraday.

LIGHT ENDS

RBOB U Open 190.40 High 192.25 Low 184.00 Close 186.37

Spot NYMEX RBOB gapped lower yesterday, again. Aside from a brief attempt to close the gap at Monday's 192.75 low print, the contract traded at the offer on Tuesday. The Sep'07 plunged more than 4.0% before support was found just below a near-term mean reversion expected value at 184.17.

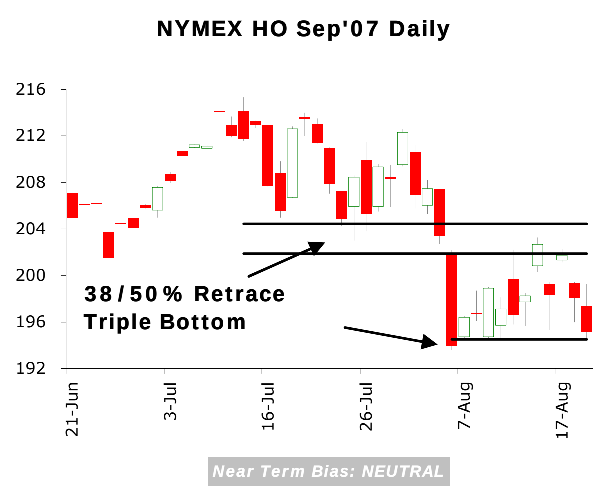


Regarding today, post DOE offers through the bottom of the weekly trend, 184.49, cautions to further weakness towards the near-term mean reversion – marked today at 183.44 – and our 183.43 inflection point. Below here we will look for weakness towards our 181.22 intraday and the bottom of the daily trend at 180.75. On the other hand, bids through yesterday's 188.13 pivot high cautions to corrective trade towards the 188.85 daily trend midpoint and our 189.35 inflection. Above here we will look for strength towards our 190.74 intraday and a run at Monday's 192.75 low print.

MIDDLE DISTILLATES

HEATING OIL U Open 197.40 High 199.25 Low 194.60 Close 195.20

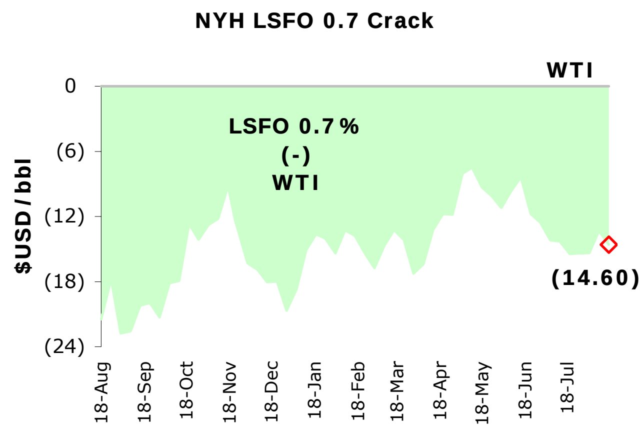
Spot NYMEX heating oil opened on the bid yesterday, but thrust stalled shy of Monday's 199.40 high print. From there the market collapsed through the August 06th pivot range from 197.88 to 195.25. However, for whatever odd reason, the bears could not take out the 194.50 *triple bottom*.



As far as today goes, post DOE offers through 194.50 alerts to follow through weakness towards a long-dated mean reversion expected value, 192.33, and our 190.80 inflection point. Below here we will look for weakness into the weekly pivot range from September 08, 2006 in between 190.20 and 186.28, inclusive of our 188.16 intraday. On the other hand, a rebound through the Aug 06th pivot high, 197.88 clears a path to our 199.70 inflection point. Above here we will look for an attempt to close the gap at Friday's 201.15 low print and a push to our 202.39 intraday.

RESIDUAL FUEL OIL

Monday, August 20, 2007 - Spot crude oil found support, again, in front of the 70.00 critical point of reference and then found a bid towards the end of last week on uncertainly surrounding Dean's path. As such, the contract opened and closed last week inside the prior week's pivot range from 71.76 to 72.35. Thus, WTI, and by extension resid remain at a crossroads. Pent up demand for crude oil is predicated on gasoline production. For the remaining season, through mid September, refiners will need to maximize gasoline, minimize resid. Thus, the table is set for further draws in fuel oil.



BIOFUELS

Monday, August 20, 2007 - Prompt ethanol lost steam once again last week amid extant concerns regarding surplus distillation capacity and waning summer demand. As far as this week is concerned, ethanol bulls will try to feed off of the potential energy generated by Dean… assuming there is any. Last week spot RBOB on the NYMEX ended the week on the bid with the contract closing higher for the first time since the 04th of July holiday.

As far as the week goes for spot gasoline, bids through the top of a near term bearish trend at 208.27 alert to carry over momentum towards our 216.27 weekly inflection point. We will look for further strength above here towards our 218.59 intraweek and the top of a longer dated trendline at 220.34. On the other hand, offers through last week's 198.78 pivot low caution to renewed bearish thrust towards last week's 193.35 low print and our 192.20 weekly inflection. Below here we will look for weakness to our 189.93 intraweek. Meanwhile, the CBOT corn complex closed lower for the first time in a month on bearish concerns regarding a potential record fall corn harvest and the selloff in global equities. As a result, spot corn crashed through the recent bullish trend. Consequently, the Sep'07 CBOT average crunch closed higher for the first time in four weeks, 1.665. Thus, failure for Dean to generate bullish drivers for gasoline, aside from disruption to GoM vessel traffic, combined with an apparent robust corn crop on the horizon, sets the table for further weakness in fuel grade alcohol feedstocks.

WEEKLY OUTLOOK (Aug 20th to 24th)

NAT-GAS… Spot gas for Sep'07 delivery consolidated the prior week's gain as a below-normal EIA report and threats from Erin and Dean helped bulls secure a close above 7.000 for the first time in eight Fridays. As far as this week goes, bids through the top of the bearish trend at 7.229 and then to the pivot low from the week ended June 22nd at 7.243 alert to follow through strength towards our 7.556 weekly inflection point. A close here then sets the table for a run at a mean reversion expected value at 7.705 and then to our 7.976 intraweek. On the other hand, offers through the August 10th pivot high at 6.705 clear a path to our 6.503 weekly inflection point. We will look for further weakness below here towards our 6.214 intraweek and the 6.141 trend midpoint.

WTI… Spot crude oil found support, again, just north of the 70 critical point of reference. As such, the contract opened and closed last week inside the prior week's pivot range from 71.76 to 72.35. As far as this week goes for the Oct'07, bids through last week's 73.99 high print clear a path into the pivot range from the week ended August 11th, 2006 in between 74.77 and 75.60, inclusive of 75.18 trend midpoint and our 75.59 weekly inflection point. Above here we will look for strength to our 77.18 intraweek. Otherwise, failure to hold a long-dated trendline at 70.92 alerts to another test of the 70.00 critical point of reference and a run towards the 69.30 trend bottom. We will look for further weakness below here towards our 68.54 weekly inflection point and the 66.46 intraweek.

SCORECARD

BUY NATURAL GAS
- Shut-in production,
- Dean,
- Expected active hurricane season,
- Coal transport issues,
- Waning supply elasticity and
- Growing demand inelasticity.

BUY OIL
- Draws in Cushing,
- Utilization trending higher,
- 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 Q2/3 production,
- Questionable economy,
- Gas-weighted industrial demand destruction,
- Fading hurricane season?
- 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	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	**8**	**3**	**6**		**3**	**7**	**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.