THE SCHORK REPORT

A VIEW OF THE ENERGY & SHIPPING MARKETS

Wednesday, September 19, 2007

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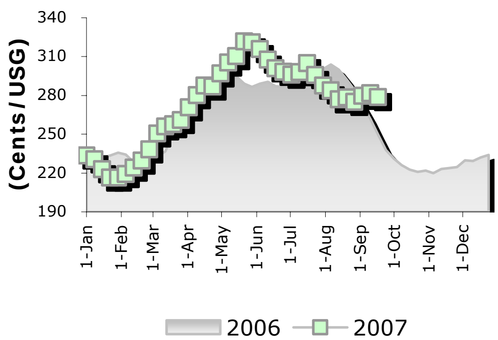
U.S. Regular Gasoline Prices



According to the EIA's weekly update, average gasoline prices fell for the first time in three weeks, down 1.1% as of Monday. Prices at the pump averaged \$2.787, a month-to-date low. Prices rose on the coasts while they fell in the central and GoM market areas. Values in the Midwest saw the largest nominal week-on-week decline with prices falling 12.0 cents to \$2.859 per gallon. In light of extant downstream constraints, we will not see a repeat of last year when retail gas dropped for eleven straight weeks from early August to late October.

National Weather Service 6-10 Day Forecast

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

CRUDE AWAKENINGS

TRADING BIAS

CL: BULLISH ☺ a/o Sep 07…S-75.24 R-83.16
NG: BULLISH ☺ a/o Sep 17…S-5.814 R-6.782
RB: NEUTRAL 😐 a/o Jun 08…S-192.94 R-214.94
HO: NEUTRAL ☺ a/o Sep 07…S-209.59 R-232.56

Nota Bene: Per MasterCard's Spending Pulse Gasoline Demand Report, U.S. retail demand fell 1.1% last week. Consumers purchased 9.54 MMbbl/d of gasoline for the week ended September 14th. That's down from 9.65 MMbbl/d for the previous week. Meanwhile, according to last week's DOE report, apparent gasoline demand averaged 9.39 MMbbl/d or 2.7% below the MasterCard estimate.

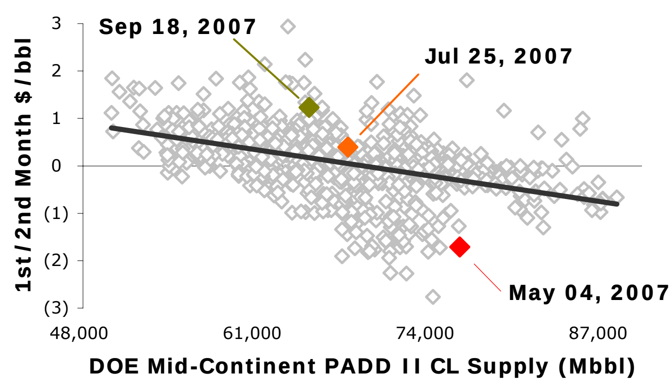
The MasterCard report is compiled and produced by MasterCard Advisors, a division of MasterCard that provide retail data statistical analysis. The report is based on credit card swipes at the pump to gauge

ENERGY PRICES ARE FIRM… as the crude and heating oil pits shot to new all-time highs, again, while the Henry Hub and RBOB pits followed along obediently.

Meanwhile, as far as today's DOE report is concerned, the market is expecting a net decline of around 2.0 MMbbls with a 50 bp drop in refinery utilization. As always, you should take the Street's guestimate for what it is worth… not much.

Chart of the Day

Storage Demand for WTI



DOE Preview

Per this morning's report, the market will be looking for draws in both the crude oil and the transportation fuels complex. On the input side, the market is expecting another sharp decline in crude oil, down between 2.0 and 2.5 MMbbls. As far as the output side is concerned, the consensus is centered on a draw of around 1.0 MMbbls in gasoline and a smallish net build in distillate fuel stocks of between 1.0 and 1.5 MMbbls.

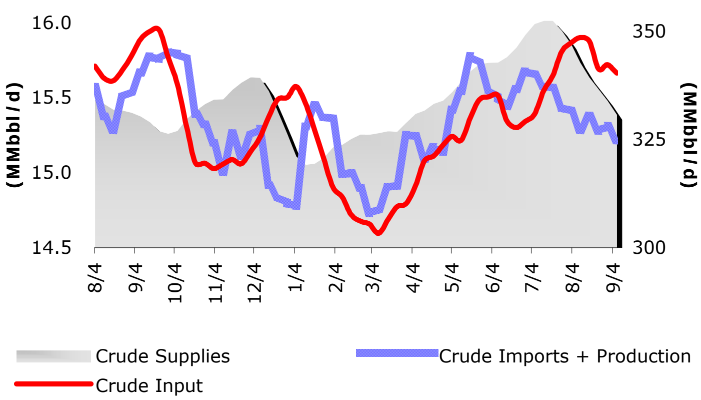
Last week, for the third time in a row, the DOE reported a draw in oil that far exceeded the pre-report consensus. Crude oil supplies plunged 7.01 MMbbls or 2.13% to 322.7 MMbbls, a 33-week low. As a result, an emerging year-on-year deficit ballooned from 968 Mbbls (0.3%) to 5.08 MMbbls (1.6%).

Last week's draw occurred despite a 156 bp true up in refinery utilization rates. As such, refinery utilization retreated to 90.53% of capacity or 416 bps below the five-year average. Accordingly, crude oil demand fell 2.12% to 15.56 MMbbl/d last week. Nevertheless, refinery demand over the last four weeks has averaged nearly spot-on with the five-year norm, 15.67 MMbbl/d.

In today's Chart of the Day, we have plotted the return on holding inventory, as measured by the 1st/2nd month time spread (Y-axis) for the last seventeen years. Demand can be inferred from the trendline running through this scatter plot of the spread and DOE storage in PADD II, inclusive of the NYMEX delivery hub in Cushing, OK (X-axis). When the scatter point lies below the trendline, which was the case back in the spring – and has been the case in 136 of the last 139 weeks, since November 2004 – it is understood that demand for stored crude oil is below normal. In other words, this decreased demand is inferred by the very fact the market is unwilling to pay a premium for spot oil.

Now consider what has happened since the beginning of the spring. After peaking in early May, PADD II stocks have dropped seven out of every nine weeks. Back in our July 26th report we noted the market was "…pricing in a risk premium with regard to the future availability of crude oil vis-à-vis the shift to a positive convenience yield (backwardation) on both the ICE Brent and NYMEX WTI term structures. The shift to backwardation suggests stepped up demand for crude. If correct, then shipments of foreign crude oil will have to be maintained to accommodate increased demand and to compensate for production declines in the United States."

Crude Oil Demand Greater Than Supply
4 wk avg

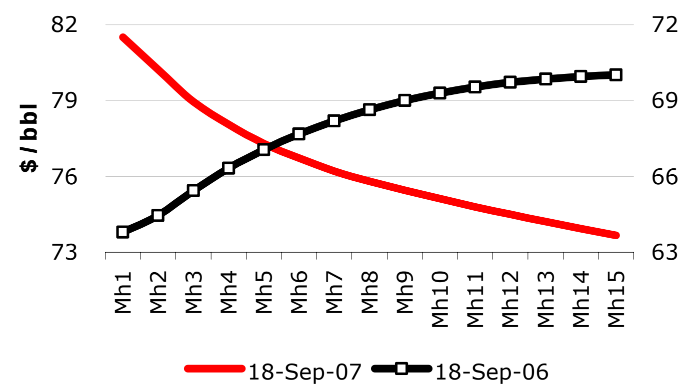


Indeed, shipments of foreign crude failed to keep pace. As we see can see from the above chart, crude oil supplies, represented by imports and domestic production, have been falling since mid-July. On the other hand, refinery demand for crude oil did not peak until mid-August.

Crude oil imports typically tail off towards the end of the third quarter. However, in light of a persistent overhang and a sluggish return in refining capacity, the seasonal decline in crude oil cargoes began ahead of "schedule". Accordingly, total crude oil supplies have dropped in nine of the last ten weeks. Total supplies have dropped by 31.39 MMbbls or 8.9% as a result.

As we set up for the fourth quarter it is clear the market is concerned with the future availability of crude oil. Over the last month the Q4'07 WTI strip has moved from a 67 cent per barrel (1.0%) premium to the Q1'08 strip to a $2.87 per barrel or 3.7% premium. Moreover, the Q4'07 to Cal'08 backwardation has increased from $1.01 per barrel (1½%) to $4.75 per barrel (6.3%).

NYMEX WTI
Term Structure



As we see from this illustration, whereas last year the contango or the premium accorded the deferred contracts in crude oil incentivized storage, this year the backwardation provides no such economic motivation. In other words, there is a growing perception of market tightness as we ramp up for winter demand. The combination of strong fundamental demand and bullish capital from the *Street* certainly sets the table for further upside potential.

NATURAL GAS

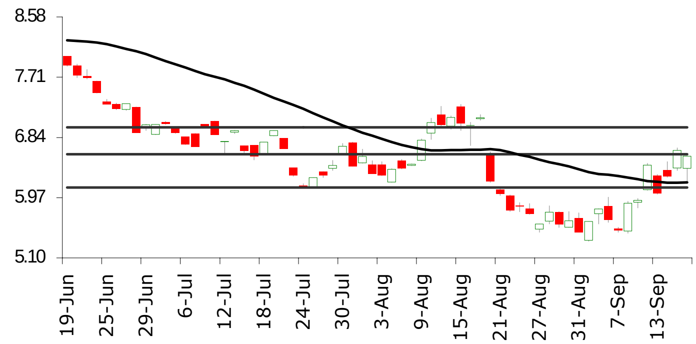
NAT-GAS V Open 6.390 High 6.570 Low 6.195 Close 6.568

In a follow up to the last five below normal injections, the market will be looking for an injection of around 66 Bcf tomorrow. The average injection for this week is 85 Bcf. Nationwide cooling demand during the EIA week was a warm 30% above-normal as gas-fired a/c load in the Northeast surged. What's more, overall cooling demand was a scorching 51% higher year-on-year for the same week. Be that as it may, the bulk of last week's demand was centered on New England and the Mid Atlantic. Elsewhere, a/c load dropped. Overall demand on the week fell by around 23%.

Meanwhile, down on the NYMEX yesterday, Henry Hub bears had us second guessing our recent bias shift early and often. Alas, by the closing bell we were able to take comfort in the spot contract's 6.2% rally off of the 30-day pivot moving average. Thus, our bearish bias was able to survive session #1, albeit by the thinnest of margins.

As far as today goes, bids through the 6.626 trend midpoint clear a path to the August 16th gap at 6.720 and our 6.785 inflection point. We will look for further strength above here towards our 6.950 intraday and the 50% retracement, 6.985. On the other hand, offers through yesterday's 6.383 pivot low alert to renewed weakness to our 6.358 inflection point. Below here we will look for offers down towards the 6.223 trend bottom and our 6.200 intraday.

NYMEX NG Oct'07 Daily



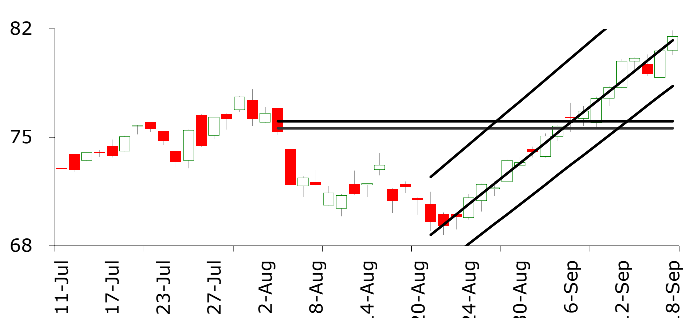
Near Term Bias: BULLISH

NYMEX WTI

WTI V Open 80.60 High 81.90 Low 80.30 Close 81.51

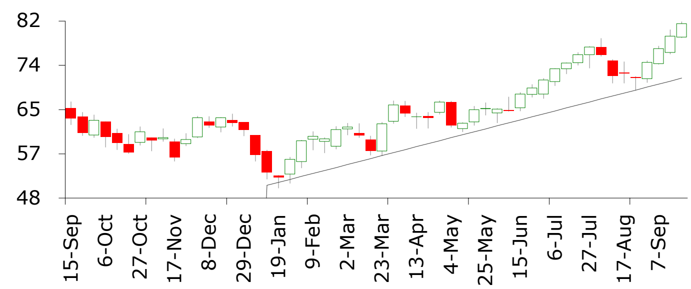
Spot NYMEX WTI opened around unchanged on Tuesday and eventually found support at Monday's 80.30 pivot high. From there bulls managed to mount yet another rally through the 81.26 trend midpoint before momentum stalled a dime in front of 82.00. In the process, bulls managed to push the spot Oct'07 to a new all-time high, 81.90 and close, 81.51. Today the market is looking for another large draw per the DOEs. Thus, it likely does not get any easier for the bears.

NYMEX CL Oct'07 Daily



Near Term Bias: BULLISH

NYMEX CL Continuous Weekly



Long Term Bias: BULLISH

As far as today goes, post DOE bids through the trend midpoint – marked today at 81.91 – alert to follow through momentum towards a long-dated target at 82.44 and then to our 83.22 inflection point. Above here we will look for strength towards our 84.17 intraday. Otherwise, offers through yesterday's 81.10 pivot low cautions for corrective weakness to our 78.83 inflection point and Monday's 79.75 pivot low. Below here we will look for weakness to the 78.95 trend bottom and our 78.75 inflection point.

ICE BRENT

BRENT X Open 77.20 High 78.60 Low 76.29 Close 77.59

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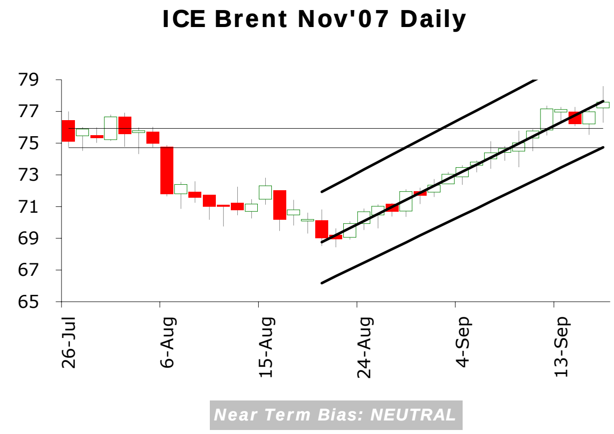

LIGHT ENDS

RBOB V Open 203.50 High 205.80 Low 203.00 Close 206.03

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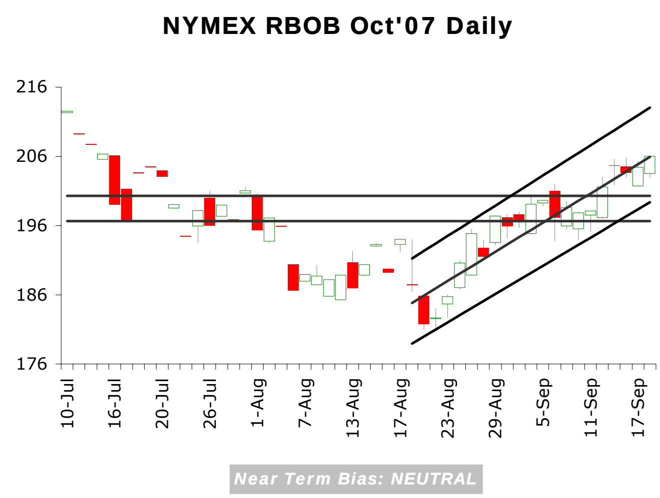
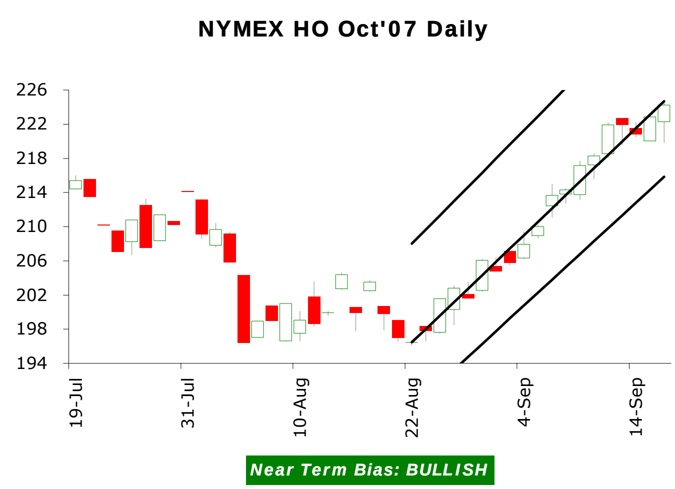


MIDDLE DISTILLATES

HEATING OIL V Open 222.25 High 224.50 Low 219.80 Close 224.23

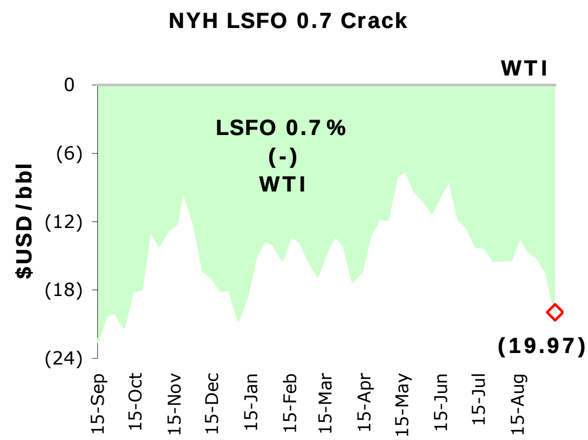
Another day, another record high in the heating oil pit. The count is now 5, as in five consecutive all-time highs and settles for spot heating oil. In yesterday's iteration, Oct'07 heating oil shot to 224.50 before closing at 224.23.

As far as today goes, post DOE bids through the 226.25 trend midpoint alert to follow through momentum towards a long-dated trendline at 228.56 and our 229.40 inflection point. We will look for strength above here towards our 232.49 intraday and our 232.56 weekly inflection point. On the other hand, failure to hold yesterday's 219.80 low print clears a path to our 219.18 inflection point. Below here we will look for weakness to the 217.34 trend bottom and our 216.14 intraday.



RESIDUAL FUEL OIL

Monday, September 17, 2007 - Spot WTI topped $80 for the first time in the contract's history last week. From our point-of-view the long-term trend for WTI and by extension resid remains bullish. According to estimates on Bloomberg, 0.7% in the Harbor was quoted in between 56.75 and 59.25 and averaged 58.08 through the week, down 0.09%. As such, the average differential on the Resid/WTI crack jumped 17.2% to minus $20.88 per barrel. At $58.08 resid in the Harbor is the equivalent of ≈$9.18 natural gas. As opposed to last Friday's $6.523 settle on ICE for Transco Z6 gas. In other words… gas is still cheap.



BIOFUELS

Monday, September 17, 2007 - Prompt ethanol sputtered once again, although the market did appear to find a floor thanks to a midweek rebound in the NYMEX RBOB contract. Gasoline bulls were granted a reprieve after Humberto knocked out ≈1 out of 10 barrels of GoM (PADD III) refinery capacity. With that capacity not expected to be fully restored this week, the gasoline market will likely remain jittery. Despite the "floor" in spot alcohol, the CBOT ethanol complex took another tumble. The weekly average for the Dec'07 fell for a fourth straight week, while Dec'07 CBOT corn rose 0.4%. Consequently, the Dec average corn crush dropped 5.1% on the week to 82.0 cents per gallon, a thirteen week low. According to the Monthly Crop Production report from the USDA, the fall harvest is on course for the second highest corn yield on record. Much-needed heavy rainfall across the central Corn Belt during August helped to promote strong crop development. Corn production is forecast at 13.3 billion bushels, up 2.0% from last month and a whopping 26% above 2006. Yields are expected to average 155.8 bushels per acre, up 3.0 bushels from August and second only to the 160.4 bushel yield in 2004. If realized, 2007 production will be the largest on record as growers expect to harvest the most corn acres for grain since 1933. Poor distillation margins will further fuel skepticism regarding the "flood" of ethanol production schedule to onstream this year. Thus, while near-term alcohol fundamentals are shaky, the table could be set for a Q4'07/Q1'08 rebound.

WEEKLY OUTLOOK (Sep 17th to 21st)

NAT-GAS… As far as this week goes, bids through 6.501 alert to follow through momentum into the 38/50% box from 6.597 to 6.985, inclusive of our 6.782 weekly inflection point. We will look for further strength above here towards the 7.000 critical point of reference and our 7.152 intraweek. Above here we will look for a run at the pivot range from the week ended June 22nd from 7.243 to 7.470, inclusive of a nascent bullish trend top at 7.426. On the other hand, offers through the 6.000 critical point of reference clear a path to our 5.814 weekly inflection point. Below here we will look for weakness to our 5.537 intraweek and the 5.419 trend bottom.

WTI… As far as this week is concerned, offers through last week's 78.00 pivot low and a long-dated trendline at 77.70 alerts to further corrective weakness towards the 77.07 trend midpoint. Below 77.00 we will look for a run towards the pivot range from the week ended September 07th from 76.29 to 75.47 and then to our 75.24 weekly inflection point. A close early in the week below here then sets the table for further weakness to our 72.97 intraweek before Thursday's expiry. On the other hand, bids through the Oct'07 life-of-contract high, 80.51, caution to further bullish momentum towards a monthly target at 82.44 and then to our 83.16 weekly inflection point. Above here we will look for strength to our 84.89 intraweek.

SCORECARD

BUY NATURAL GAS

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

SELL NATURAL GAS

- Brisk Baker Hughes rig counts,
- Strong Q2/3 production,
- Questionable economy,
- Gas-weighted industrial demand destruction,
- **FADING HURRICANE SEASON?**
- Increased LNG imports and
- Decreased NGL extraction.

BUY OIL

- Capacity woes,
- Tight global spare capacity,
- Strong global economic growth,
- **Geo-political risks,**
- Extant damage from Katrina/Rita and
- Strong gasoline demand.

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	**9**	**3**	**5**		**3**	**9**	**5**

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.