

DAILY ENERGY COMMENT

November Brent futures: 59.57 +0.05
OPEC Basket: 10/13/06 54.90 +0.71
Alaskan North Slope: 10/13/06 \$53.30 +0.70
Cash Henry Hub: 5.120 +0.850
U.S. Average Ethanol: 10/13/06 1.8386 +0.0091 (per gallon)

The weekly data...

	BLOOMBERG SURVEY	BOG FORECAST	LAST YEAR
CRUDE OIL		+1.0 to +1.5 mb	+5.6 mb
GASOLINE		Flat to +0.5 mb	+2.9 mb
DISTILLATE		Flat to +0.5 mb	-1.9 mb
RUNS		+1.0 to +1.5% _p	+1.8% _p

Gasoline prices...

We periodically update our normalized gasoline prices. To compare prices across periods, we divide the average hourly wage by the average price of gasoline. In our opinion, this is a better measure than inflation adjusted prices because it calculates the impact on workers rather than the relative price against all other goods. With falling prices and rising wages, consumers are getting a break.

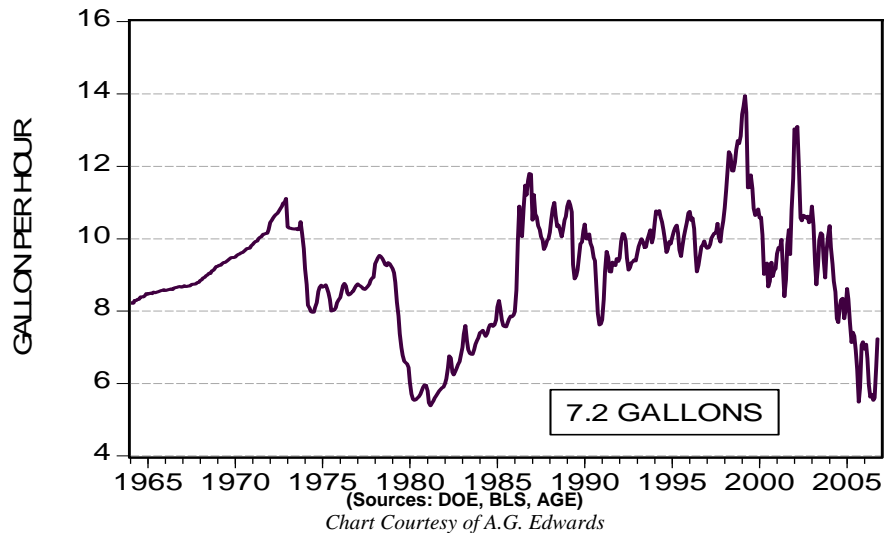
In July, this number had dipped to 5.6 gallons per hour, near the levels seen in 1981. As the chart shows, it has lifted strongly since then. This increase, in part, explains the improvement in consumer confidence.

OPEC and Middle East news...

OPEC continues to negotiate a production cut. An emergency meeting is scheduled for Thursday in Doha. As we have detailed over the past week, the group generally agrees that they need to do something

to stem the decline. The problem is how to allocate cuts. Since about half the cartel can't produce to quota now, they would want to see a cut in quotas that would force the cuts to those nations producing over quota. Algeria's oil minister has indicated there will be a cut of 1.0 mbpd, but the key nation, Saudi Arabia, has not indicated it is in agreement. We expect the deal to fail which would be bearish for the market.

**AVERAGE HOURLY EARNINGS/
AVERAGE RETAIL GASOLINE PRICE**



According to *GeoStrategy Direct*, the Bush administration has quietly abandoned its drive to democratize its Sunni allies in the Gulf, meaning that Saudi Arabia and others can enjoy improved relations with the U.S. without changing their policies. The U.S. wants Saudi help in quelling the Sunni insurgency in Iraq and

assistance in Palestine. The Saudis want assurances that Iraq will not fall into the hands of the Shiites. According to this report, in return for ending the push for democracy, the U.S. wants the Sunni states to consider Iran an enemy. Iran has been working to improve relations with the Gulf States and the U.S. wants to undermine this drive.

Related to this news, *Bloomberg* reports that a high level delegation from the U.S. will be visiting the Gulf States to discuss how these nations can protect themselves from an Iranian missile attack. Sales of Patriot missile batteries could be considered.

The MENL reports that the U.S. military believes that Iran and Syria are continuing to support various insurgencies in Iraq. Syria is thought to harbor former figures from the Hussein regime and is also the conduit for foreign insurgents.

Finally, Iran Focus reports that 200k Iranian workers have been unpaid for months.

Quick news....

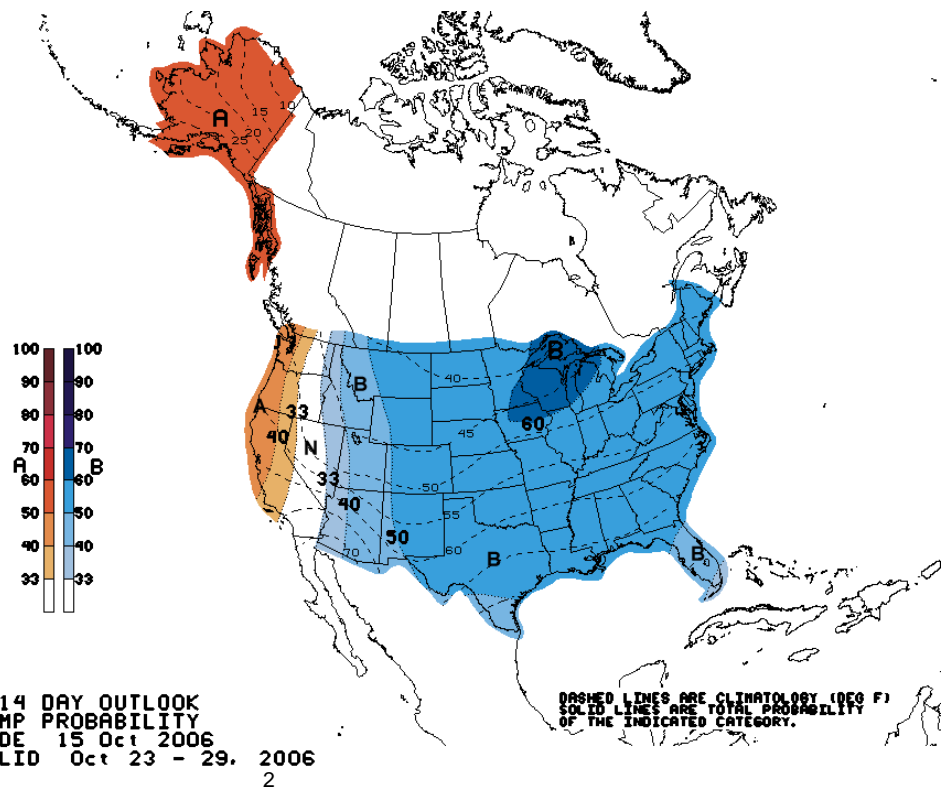
- EI reports that Japanese oil product consumption growth has slipped into negative territory. Japanese refiners have stepped up exports in response. The source suggests that some of the decline in demand is seasonal but a part is secular; higher prices are prompting demand destruction.
- EI reports an increase in refining capacity worldwide; by 2012, 10.4 mbpd of new refining capacity is expected to be developed. The U.S. is expected to contribute 1.7 mbpd of that expansion, almost all due to expansion projects in existing refineries.
- Indonesia has reported its 53rd fatality from H5N1.
- One factor that could support oil prices in the coming months is that China has started filling its SPR. It is starting with a 43 mb storage facility in Zhenhai. Both China and India have indicated they intend to use their reserves as buffer stocks, which means they would sell oil out of reserve when prices are “high” and buy when prices are “low.” The trick, of course, is determining what prices meet this criterion. *Bloomberg* reports today that about 10% has been filled so far with Russian oil.

Natural gas...

Natural gas prices are recovering today. While there is no evidence of tropical activity, the 8-14 day remains cold (see graphic). Also helping gas prices are *Bloomberg* reports of increasing hedge fund activity on the long side. Some quotes in the report suggest double digit gas prices this winter if the weather is cold...which is rather obvious. Natural gas prices are extraordinarily sensitive to temperature and the key to prices in the winter is cold.

On a more ominous note, EI reports several natural gas producers are curtailing production in light of the drop in prices. Such actions, while short-term rational, raise the potential for a major spike if we ever do get a cold winter.

For this week’s data, the average build for this reporting week is 63 bcf.



CSU forecasters indicate that the odds of a major storm for the remainder of the tropical storm season have declined significantly. They also indicate that el Niño conditions have accelerated and have caused their earlier, more aggressive forecast, to be in error. While details are sketchy, it would suggest that the potential bullishness from a hurricane in the GOM has declined which is adding to price pressures.

Common abbreviations...

Given that this is a daily comment, and speed is critical, I use a set of abbreviations for people or sources that are referred to often. However, I do get questions about these abbreviations from new readers, and so the list below details what these abbreviations represent.

AAZ	Ayman al-Zawahiri	mb	Million barrels
Bcf	Billion Cubic Feet	Mbpd	Million barrels per day
BTU	British Thermal Units	MEK	Mojahedee-e-Khalq
CERA	Cambridge Energy Research Associates	MEND	Movement for the Emancipation of the Niger Delta
CSIS	Center for Strategic and International Studies	MENL	Middle East Newline
DJ	Dow Jones	MMS	U.S. Minerals Management Service
DOE	Department of Energy	MRF	Medium Range Forecast Model
DPA	Deutsche Presse-Agentur	NHC	National Hurricane Center
EI	Energy Intelligence	NYT	New York Times
FERC	Federal Energy Regulatory Commission	OBL	Osama Bin Laden
FSU	Former Soviet Union	OECD	Organization for Economic Cooperation and Development
FT	Financial Times	SITE	Search for International Terrorist Entities
GCC	Gulf Cooperation Council	SPR	Strategic Petroleum Reserve.
GOM	Gulf of Mexico	Tcf	Trillion Cubic Feet
GTL	Natural gas to liquids	TD	Tropical Depression
IDF	Israeli Defense Force	TS	Tropical Storm
IEA	International Energy Agency	UNSC	U.N. Security Council
ISN	International Relations and security Network	WGR	Weekly Geopolitical Report
Kbpd	Thousand barrels per day	WP	Washington Post
LNG	Liquefied Natural Gas	WSJ	Wall Street Journal
		YTD	Year to date

Trades...

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Bill O'Grady/Eric Wittenauer



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