



# Daily Energy Speculator<sup>SM</sup>

Trade safe, trade smart.



Monday, July 23, 2007

Preferred Subscriber

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## EMI 2007 Course Schedule

June Events	Date	Location
Fundamentals of Petroleum Phone: 888- 871-1207 <a href="http://www.energyinstitution.org">www.energyinstitution.org</a>	6/20 - 6/21	Weehawken, New Jersey
July Events	Date	Location
Futures, Options & Derivatives Phone: 888- 871-1207 <a href="http://www.energyinstitution.org">www.energyinstitution.org</a>	7/16-7/17	Disney World, Florida
OTC Derivatives: Options & Linear Instruments Phone: 888- 871-1207 <a href="http://www.energyinstitution.org">www.energyinstitution.org</a>	7/18 - 7/19	Disney World, Florida
Technical Analysis Options & Linear Instruments Phone: 888- 871-1207 <a href="http://www.energyinstitution.org">www.energyinstitution.org</a>	7/31 - 8/1	Santa Monica, Calif

*"The right to be heard does not automatically include the right to be taken seriously."*

- Hubert H. Humphrey (1911 - 1978)

## Trading Stage

### Complex Lower on Technically Based Selling

The market started off the week on a down swing as the market continued to move lower on technically based selling Monday. As we discussed this morning with little or no market driving news in the media prices continued to drift lower. Gasoline continues to be the hardest hit as more refineries come back online.

As we reported this morning last week the inventories saw a modest increase in refinery runs, a small increase in oil products production and a slight increase in demand. Inventories declined on the week due to a surprise decline in imports, especially for gasoline. The big question this week will be "Was last week's reduced gasoline import level the start of a new trend or just an anomaly?" With prices still strong in the US it is likely we will see imports closer to the level they have been running at rather than at the reduced level seen last week. Also we expect refinery runs to continue to make gains thus increasing production.

Overall we expect the market to put in another week of prices trading in a wide pattern while waiting for the mid-week inventory snapshot. As has been the case for the last several weeks the EIA reports will quickly become the main market drivers for the second half of the week.

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## Daily Energy Speculator Market Direction & Sentiment

Likely Short Term Direction						Monday, July 23, 2007
	WTI	HO	RBOB	Brent	Gasoil	NG
Outright	Range	Down	Range	UP	Range	Down
1/2 Mo Spread	Range	Range	UP	Range	UP	Range
		HO Crack	RBOB Crack	Gasoil Crack		WTI/Brent
		UP	UP	Range		Down
		HO/UL		HO/Gasoil		
		DWN		Range		

## DES Macro Directional Sentiment Index

	Geo-Politics	Fundamentals	Technicals	Weather	Overall
WTI	3	4	3	1	2.8
Brent	3	4	3	1	2.8
HO	3	4	3	1	2.8
Gasoil	3	4	3	1	2.8
UL	3	4	3	1	2.8
Nat Gas	3	4	3	1	2.8
Overall Sentiment Indicator				Neutral	
Ranking Interpretation					
1	2	3	4	5	
	Cautiously		Cautiously		
Bearish	Bearish	Neutral	Bullish	Bullish	

## News That Could Impact Energy Trading with DES Comments

• Valero's Ardmore Refinery to Restart FCC Unit Later in Wk. The gasoline producing catalytic cracking unit at Valero Energy Corp.'s 90,000 bpd refinery in Ardmore, Oklahoma, is expected to restart later this week, according to company spokesman Bill Day. The unit shut July 6 for unplanned maintenance. The company's preliminary estimates had the outage lasting 14-16 days. "Work is still progressing there and now we expect a startup later this week," he stated. During the unit's downtime, Valero estimated a loss of about 35,000 bpd of gasoline and 10,000 bpd of diesel production. (DES Comments: Just Informational.)

• Chevron Starts California Refinery Crude Unit. Chevron Corp., the second-largest U.S. oil company, reported that it flared sulfur oxide during plant startup at its refinery in El Segundo, California. The flare occurred at about 12:57 p.m. yesterday, San Ramon, California-based Chevron said in a filing on a state of California Web site. A refinery spokesman wasn't immediately available to comment on the incident. The El Segundo plant has a processing capacity of about 270,000 barrels a day, according to Chevron's Web site. Chevron shut down the principal crude units at the refinery, capable of pro-

cessing between 180,000 and 200,000 barrels a day, on June 1 to perform maintenance work. The Los Angeles Times reported yesterday that Chevron expects to have the refinery back at full production by midweek. Exxon Mobil Corp., based in Irving, Texas, is the world's largest oil company. (DES Comments: Just Informational.)

• ConocoPhillips Reports Malfunction at Plant in Borger, Texas. ConocoPhillips, the second-largest U.S. refiner, conducted emergency flaring yesterday after a malfunction at its refinery in Borger, Texas. The Houston-based company reported the incident, which it described as a "process upset," in a filing with the Texas Commission on Environmental Quality. Terry Hunt, a ConocoPhillips spokeswoman, didn't immediately respond to a message seeking information any impact to production. The Borger plant, which is capable of processing 146,000 barrels of oil a day, is located about 50 miles (80 kilometers) north of Amarillo, Texas. The incident resulted in the emergency flaring of 500 pounds of sulfur dioxide, a byproduct of a poisonous gas called hydrogen sulfide. Flares are refinery safety devices that burn off chemicals into the air. (DES Comments: Just Informational.) ■

## DES Presents the Continuing Trading Education Tidbit of the Day

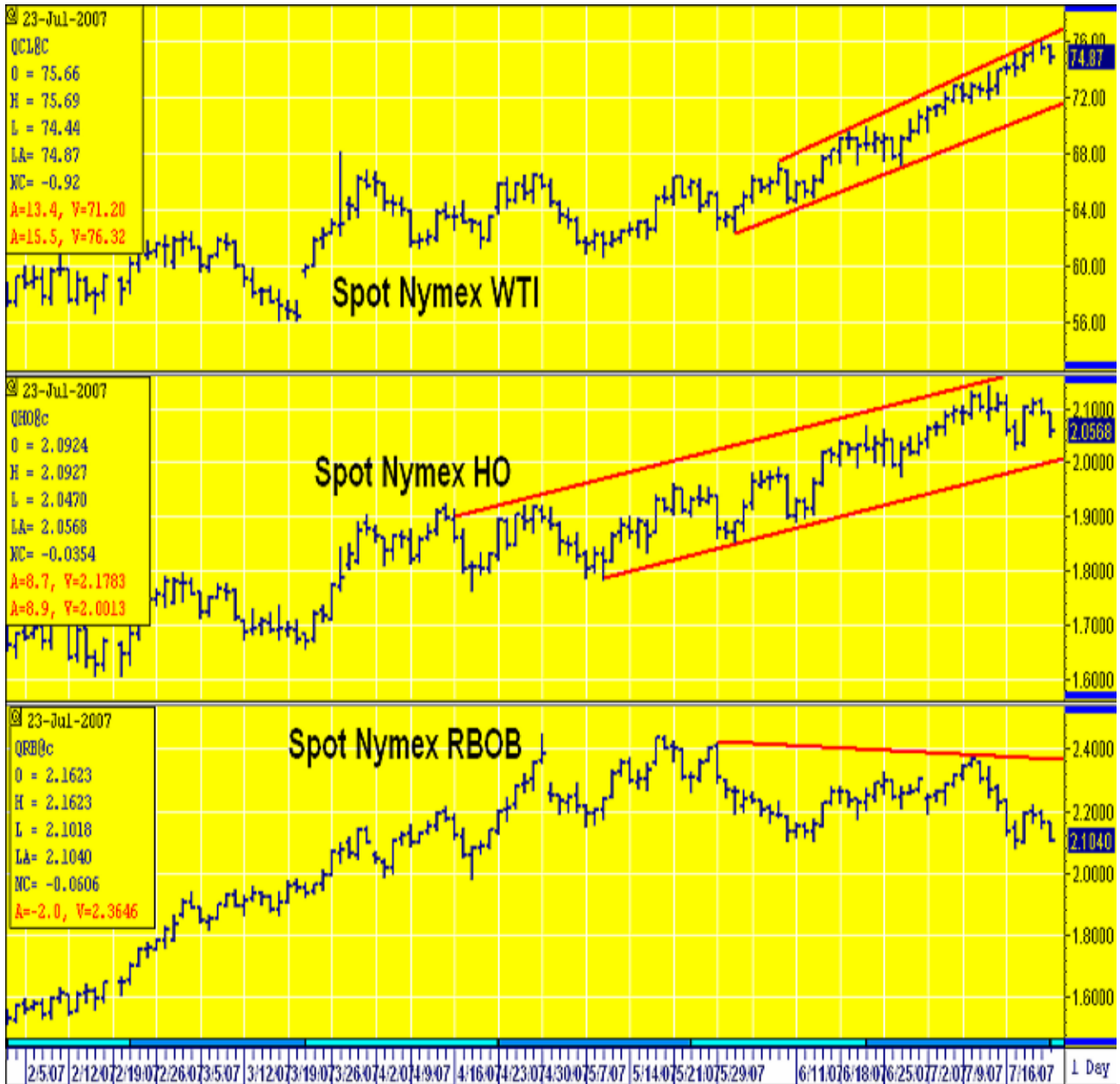
### EIA: This Week in Petroleum - Will Crude Oil Prices Reach \$80

The price of crude oil has risen considerably since the beginning of the year, with the near-month futures price of light, sweet crude oil traded on the New York Mercantile Exchange (NYMEX) reaching \$75 per barrel at one point during trading on Tuesday, July 17, which is only \$2 per barrel less than the previous closing day record price of \$77.03 per barrel set almost exactly a year

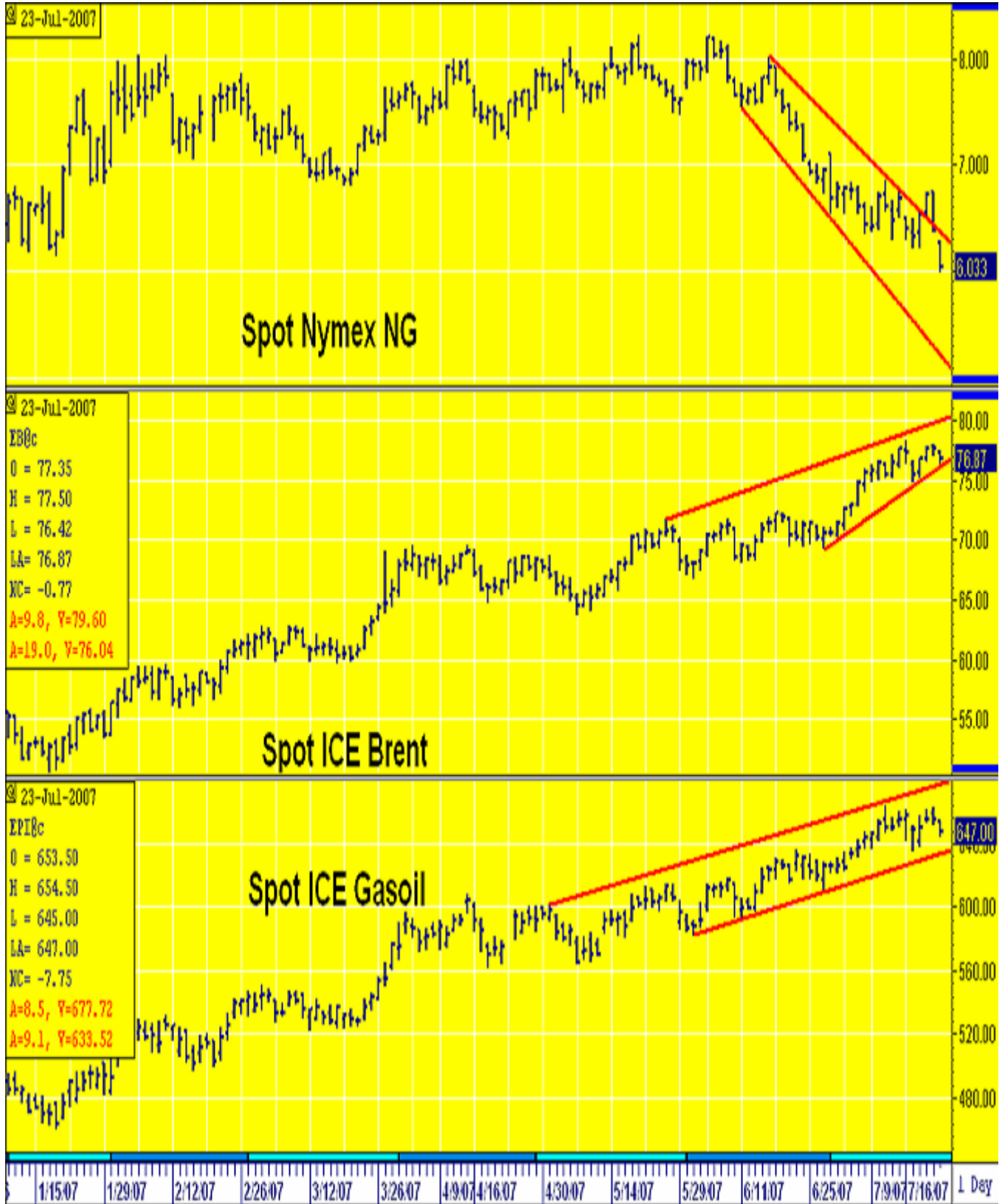
ago (July 14, 2006). With the futures price increasing, some people are wondering if crude oil prices will reach \$80 per barrel at some point this year. The trick answer to this question, though, is that light, sweet crude oil prices have

*Continued on page 5*

## Current Market Snapshot



**Current Market Snapshot Contd.**



Source: DTN/ProphetX

## Trader's Corner – Long/Short Trading Portfolio

Outright Direction: (MTM Follows) –We remain on the sidelines.

### Daily Speculator Long/Short Portfolio Positions Table

Jul-23

Entry Date	Pos. #	Trade Cont	Entry Price	Exit Price	Latest Close	Com & Exch Fees	P/(L) \$/unit	P/(L) Total \$	Stops	Initial Margin (IM)
<b>Closed Positions</b>										
							<b>Total Unrealized Equity</b>	<b>\$0</b>		
							<b>Total Initial Margin</b>			\$0
							<b>Initial Jun Equity</b>			\$1,514,378
							<b>IM as % of Equity</b>			0.0%

### Outright Trading Recommendations

	Long Entry	Short Entry	Stop if Long Exec.	Stop if Short Exec.	Expiration Date	Initial Margin per Contract
<b>Nymex Electronic</b>						
Sep WTI	Sideline	Sideline			21-Aug	\$4,050
Aug HO	Sideline	Sideline			31-Jul	\$5,738
Aug UL RBOB	Sideline	Sideline			31-Jul	\$8,100
Sep NG	Sideline	Sideline			29-Aug	\$6,750
<b>ICE</b>						
Sep Brent	Sideline	Sideline			16-Aug	\$4,200
Aug Gasoil	Sideline	Sideline			10-Aug	\$3,500

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already reached \$80 per barrel, just not for West Texas Intermediate (WTI), which is the light, sweet crude oil traded at the Cushing, OK delivery point for the NYMEX futures contract. Any premium on light, sweet crude oils has implications for retail prices for refined products, such as gasoline and distillate fuel.

As shown in the chart below, other light, sweet crude oils traded globally and here domestically have already reached \$80 per barrel or are quickly approaching that price level. Nigerian Bonny Light (Bonny Lt) crude oil spot prices in Europe have been at or above \$80 per barrel since July 9, while here in the United States, Louisiana Light Sweet (LLS) reached \$80 per barrel late last week. Another widely traded light, sweet crude oil, Brent, was recently trading above \$78 per barrel in Europe. At the beginning of this year,

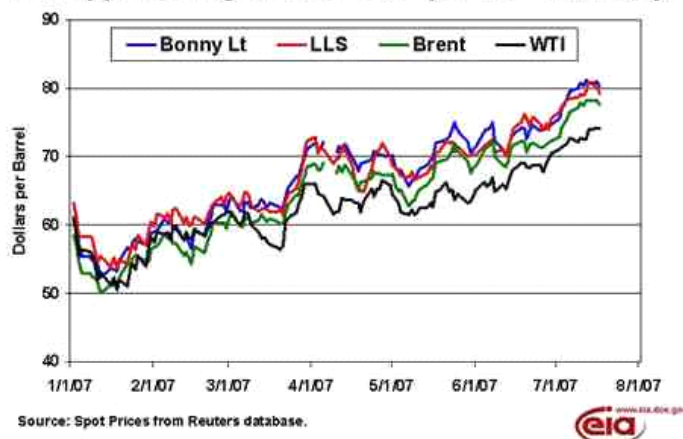
Brent was trading at a discount to WTI, Bonny Light was at a very small premium, and LLS (over \$2 per barrel) was at a considerable premium to WTI. But given the price of Brent, Bonny Light, and LLS, WTI would be expected to be very close to \$80 per barrel, if not above, already. EIA has already discussed the reasons why WTI is now at a considerable discount to all three other crude oils (see the March 21, 2007 edition of TWIP and the May 2, 2007 edition of TWIP). What has been overlooked among many analysts is how the price of crude oil has risen much more than may be initially apparent, and what impact that has had on U.S. retail gasoline and diesel prices.

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Continued From Page 5

In analyzing the rise in retail gasoline and diesel prices this summer, much of the analysis has focused on refinery outages, both from maintenance and unplanned events. These refinery outages are a key factor in the rise in retail gasoline and diesel prices. But what has been overlooked by many is the impact high crude oil prices have had, as well. With fuel specifications evolving towards cleaner and cleaner refined products, refiners are looking to purchase more sweet (low sulfur) crude oils, thus putting an increasing premium on these types of crude oils. If not for the primary focus on WTI, this premium would be much more visible, but it exists nonetheless. As a result, a significant portion of the rise in retail gasoline and diesel prices is related to higher crude oil prices, particularly light, sweet crude oils. While the U.S. refining situation will continue to cause retail prices (especially gasoline) to fluctuate up and down, it is crude oil prices that will likely keep retail prices from falling dramatically over the next few weeks, and could lead to further retail price increases as summer progresses. A continued premium for light, sweet crude oil in the fall and upcoming winter, could put upward price pressure for heating oil. Regardless of where crude oil prices head over the remainder of the year, \$80 per barrel prices have already occurred, both overseas and domestically. ■

### Other Light, Sweet Crude Oils Are Approaching or Above \$80 per Barrel Already



## Trader's Corner – Spread Trading Portfolio

Spreads: (MTM Follows) – We did not enter into any new spread trades today

### Spread Trading Recommendations

	Long Entry	Short Entry	Stop if Long Exec.	Stop if Short Exec.	Expiration Date	Initial Margin per Contract
<b>Nymex Electronic</b>						
<b>Inter-Month Spreads</b>						
Sep/Oct WTI	Long				21-Aug	\$400
Aug/Sep HO	(\$0.0110)	(\$0.0260)			31-Jul	\$250
Aug/Sep RBOB	\$0.0560	\$0.0120	\$0.0385	\$0.0295	31-Jul	\$250
Aug/Sep NG		Short			29-Aug	\$1,000
<b>Inter-Market Spreads</b>						
Aug HO/Aug UL RBOB	Long				31-Jul	\$5,062
Sep HO/Sep WTI Crack	\$16.00	\$10.00	\$15.25	\$10.75	21-Aug	\$4,388
Sep UL RBOB/Sep WTI Crack	\$17.00	\$11.00	\$16.25	\$11.75	21-Aug	\$6,075
<b>ICE</b>						
<b>Inter-Month Spreads</b>						
Sep/Oct Brent	Long				16-Aug	\$1,185
Jul/Aug Gasoil	Long				10-Aug	\$1,125
<b>Inter-Market Spreads</b>						
Sep Gasoil/Sep Brent Crack	\$12.50	\$10.5000	\$11.75	\$11.25	16-Aug	\$3,690
Sep WTI/ Brent	(\$3.50)	(\$6.50)	(\$3.90)	(\$6.10)	16-Aug	\$3,690
NYM Aug HO/ICE Aug Gasoil		Short			31-Jul	\$6,000

## Trader's Corner – Spread Trading Portfolio Contd.

**Daily Speculator Spread Portfolio Positions Table**
**23-Jul**

Entry Date	Pos. #	Cont	Trade	Entry Price	Exit Price	Latest Close	Com / Fees	Slippage Penalty	P/(L) \$/unit	P/(L) Total \$	Stops	Initial Margin (IM)
<b>Closed Positions</b>												
6/20	L	17	Aug/Sep WTI	(\$0.68)		(\$0.19)	\$15	\$50	\$0.43	\$7,225	Rolled MOC	
<b>Open/Existing Positions</b>												
7/6	S	20	Jun/Jul NG	(\$0.115)		(\$0.081)	\$15	\$50	(\$0.041)	(\$8,100)	(\$0.0650)	\$20,000
7/12	L	20	Aug/Sep Gasoil	(\$3.75)		(\$3.50)	\$15	\$50	(\$0.40)	(\$800)	(\$5.6000)	\$22,500
7/16	L	20	Aug Ho/Aug RBOB	(\$0.1500)		(\$0.0480)	\$15	\$50	\$0.1005	\$84,380	(\$0.0730)	\$101,240
7/16	L	20	Sep/Oct Brent	\$0.27		\$0.18	\$15	\$50	(\$0.16)	(\$3,100)	(\$0.2200)	\$23,700
7/20	L	20	Sep/Oct WTI	\$0.25		\$0.12	\$15	\$50	(\$0.20)	(\$3,900)	(\$0.1500)	\$8,000
<b>Total Unrealized Equity</b>										<b>\$68,480</b>		
<b>Total Initial Margin</b>												<b>\$175,440</b>
<b>Initial May Equity</b>												<b>\$2,300,362</b>
<b>IM as % of Equity</b>												<b>7.6%</b>

**Daily Speculator Spread Portfolio Performance Table**
**23-Jul**

Date	Starting Equity	Realized/Booked G/(L)	Unrealized G/(L)	Ending Equity	Rate of Return
Sep-06	\$1,000,000	\$60,552		\$1,060,552	6.1%
Oct-06	\$1,060,552	\$149,978		\$1,210,530	14.1%
Nov-06	\$1,221,968	(\$35,508)		\$1,186,460	-1.2%
Dec-06	\$1,186,460	\$91,166		\$1,277,626	7.7%
Jan-07	\$1,277,626	\$7,198		\$1,284,824	0.6%
Feb-07	\$1,284,824	\$294,444		\$1,579,268	22.9%
Mar-07	\$1,579,268	\$144,334		\$1,723,602	9.1%
Apr-07	\$1,723,602	\$191,859		\$1,915,461	11.1%
May-07	\$1,915,461	\$297,559		\$2,213,020	15.5%
Jun-07	\$2,213,020	\$87,342		\$2,300,362	3.9%
Jul-07	\$2,300,362	\$140,436	\$68,480	\$2,509,278	9.1%

**Daily Speculator Trade Stats Since Inception**

	All Trades	Long Trades	Short Trades
# Trades	167	82	85
# Winners	82	42	40
# Losers	85	40	45
% Successful	49.1%	51.2%	47.1%

## Trader's Corner – Spread Trading Portfolio Contd.

Daily Speculator Spread Portfolio Performance Table

23-Jul

Date	Starting Equity	Realized/ Booked G/(L)	Unrealized G/(L)	Ending Equity	Rate of Return
Sep-06	\$1,000,000	\$60,552		\$1,060,552	6.1%
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## DES Trading Road Map

The DES has been designed to mirror a typical trading operation as closely as possible. We will start with two trading books...one for outright (long & short) trading and one for a variety of selected spreads. In the near future we will be adding an options trading book to the portfolio. Following are the highlights:

Each trading account will be initialized with \$1,000,000.

Each account will limit position size to not exceed 30% of initial equity basis exchange initial margin requirements. Once determined the position size will remain constant for one month. Position size will be recalculated and adjusted up or down at the end of each month based on equity and exchange margins at the time.

For the outright portfolio position size will start at 5 contracts per trade for the first month.

For the spread portfolio position size will start at 10 contracts per trade for the first month.

All trading will be based on the Nymex & ICE electronic full size contracts.

Trading will be assumed to be conducted during the full exchange trading hours, including overnight hours.

DES will only use limit and stop type orders and no market orders. All orders will be assumed filled when the market hits the limit or stop order price.

The MTM will assume the following fee structure which will be charged in full when the trade is initially executed:

Outright broker & exchange fees - \$10/contract/round turn.

Spread broker & exchange fees - \$15/spread contract/round turn.

We will not include any execution slippage.

Stops will assume to be placed immediately upon execution of a new position. From that point on DES will employ trailing stops. Stops will be adjusted each day based on the closing price at 5:15 PM EST (when Nymex electronic platform closes) and will remain in place until the next closing period. Stops will only be adjusted on days when the position goes in favor of DES. Otherwise the current stop will remain in place.

All open position will assume to be rolled (to the next month) at the closing price (5:15 PM) the day prior to expiration of the contract. For spreads that would be the expiration date of the front month contract of the spread. All expiration dates are included in the Order Entry tables.

The MTM will be valued each day based on the closing prices at 5:15 PM EST. The DES chose this evaluation time to coincide with the daily closing of the Nymex electronic contracts.

## Trading Volume Monitor

Volume continues to grow for electronic trading vs. the floor.

### Energy Trading Volume Monitor

Nymex Energy	Volume as of % of Total	
	7/20/07	Commodity
<b>NYMEX WTI Crude (physical/floor)</b>	65,328	17.5%
<b>Globex WTI Crude (physical/electronic)</b>	297,759	79.6%
<b>Globex Mini Crude WTI Oil (electronic)</b>	10,760	2.9%
<b>Total Crude Oil</b>	373,847	
<b>NYMEX Heating Oil (physical/floor)</b>	8,582	15.2%
<b>Globex Heating Oil (electronic)</b>	48,032	84.8%
<b>Globex Mini Heating Oil (electronic)</b>	26	0.0%
<b>Total Heating Oil</b>	56,640	
<b>NYMEX RBOB(physical/floor)</b>	7,310	11.1%
<b>Globex RBOB(electronic)</b>	58,456	88.9%
<b>Globex Mini Gasoline (electronic)</b>	1	0.002%
<b>Total Gasoline</b>	65,767	
<b>NYMEX Nat Gas(physical/floor)</b>	14,209	14.5%
<b>Globex Nat Gas(electronic)</b>	80,209	81.6%
<b>Globex Mini Nat Gas(electronic)</b>	3,864	3.9%
<b>Total Nat Gas</b>	98,282	
<b>**Total Nymex Floor</b>	95,429	16.1%
<b>Total Globex Volume</b>	499,107	83.9%
<b>**Total Nymex Futures</b>	594,536	
<b>Electronic Futures Trading % (Total Globex/Total</b>	<b>83.95%</b>	
<b>ICE Energy</b>		
<b>ICE Brent Crude</b>	145,950	39.8%
<b>ICE WTI Crude</b>	163,719	44.7%
<b>ICE Gasoil</b>	56,592	15.5%
<b>Total ICE</b>	366,261	
<b>ICE Energy Futures Market Share</b>	<b>38.1%</b>	
<b>Nymex Energy Futures Market Share</b>	<b>61.9%</b>	

\*\* Volume Totals Do not include Option Volume

## Risk Disclosure Statement

The risk of loss in trading commodities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. In considering whether to trade or to authorize someone else to trade for you, you should be aware of the following:

- If you purchase a commodity option, you may sustain a total loss of the premium and of all transaction costs.
- If you purchase or sell a commodity future or sell a commodity option you may sustain a total loss of the initial margin funds and any additional funds that you deposit with your broker to establish or maintain your position. If the market moves against your position, you may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain your position. If you do not provide the requested funds within the prescribed time, your position may be liquidated at a loss, and you will be liable for any resulting deficit in your account.

- Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur for example, when the market makes a “limit move”.
- The placement of contingent orders by your trading advisor, such as a “stop-loss” or “stop-limit” order, will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders.
  - A “spread” position may not be less risky than a simple “long” or “short” position.
  - The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

This brief statement cannot disclose all the risks and other significant aspects of the commodity markets.