

Petroleum: Keeping Pace with a Rapidly Changing Sector

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The surveys the market loves to hate

Oil analysts of all stripes spend an inordinate amount of time poring over, forecasting, second-guessing EIA oil data – most of all WPSR (the ‘weeklies’)

- US still accounts for nearly ¼ of global oil market, > 60% of the OECD gasoline market
- EIA data peerless in scope, detail, timeliness
- Global price impact, beyond the US market
- Easy target

<HELP> for explanation, <MENU> for similar functions. N242 n Index ECOS
299<Go> to View Graph

Economist Estimates

Date/Time	Indicator	BN Survey	Actual	Prior	Revised
03/05/08	UNITED STATES	ECONOMIST ESTIMATES			
3/ 5 10:30	US DOE U.S. Crude Oil Inventories	(FEB 29) 2400K	-3056K	3231K	--

Economist	Firm Name	Estimate	Date	Summary
1) Eric Wittenauer	A.G. Edwards & Sons	2000K	3/5/2008	Median 2400K
2) Phil Flynn	Alaron Trading Corp	3000K	3/5/2008	Average 1943K
3) Peter Beutel	Cameron Hanover Inc.	3250K	3/5/2008	High 3250K
4) Tim Evans	Citigroup Global Markets	2500K	3/5/2008	Low -700K
5) Kyle Cooper	IAF Advisors	2500K	3/5/2008	Number 15
6) Drew Wozniak	ICAP Energy	700K	3/5/2008	
7) Sung Yoo	J.P. Morgan Chase	1100K	3/5/2008	
8) James Crandell	Lehman Brothers	2500K	3/5/2008	
9) Mike Fitzpatrick	Man Financial	2400K	3/5/2008	
10) Andy Lebow	Man Financial Inc.	2000K	3/5/2008	
11) Antoine Half	Newedge USA	-700K	3/5/2008	
12) Jim Ritterbusch	Ritterbusch & Assoc.	500K	3/5/2008	
13) Remy Penin	Societe Generale	2200K	3/5/2008	
14) Brad Samples	Summit Energy	2400K	3/5/2008	
15) Addison Armstrong	TFS Energy	2800K	3/5/2008	

Historical Analysis
Enter the Economist #

View Graph Clear All

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
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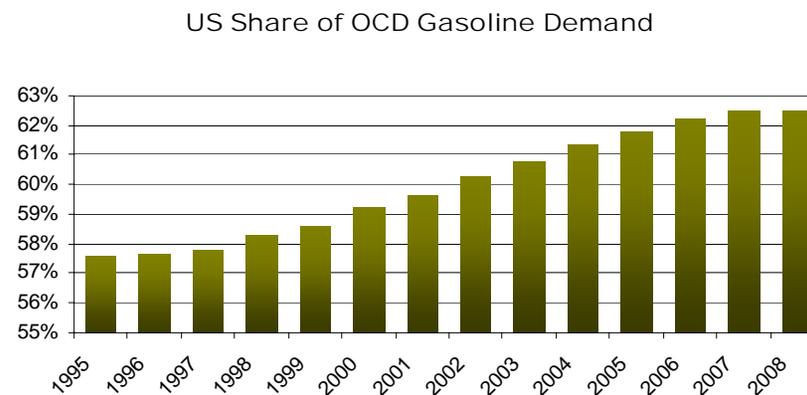
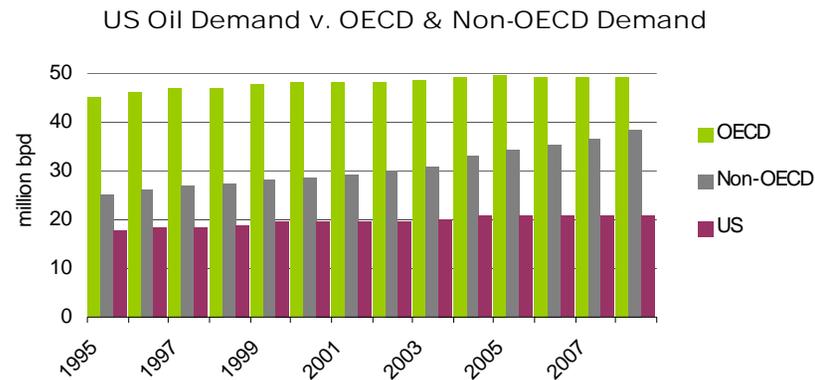
'Reasons' to pick on EIA data

1. Parochialism. The market is changing. Non-OECD demand is catching up with OECD. The US is less relevant. What about China and India?
2. Near-sightedness. The market is globalizing. The US is increasingly dependent on product imports. Product markets ignore borders. Over-emphasis on US framework gives a distorted view not only of the global market, but of the US market itself
3. Rigidity. Environmental standards are tightening. Product definitions are changing. EIA survey categories are rigid, definitional changes distort historical comparisons
4. Irrelevance. Funds. Inflation. Currency depreciation. Diminishing impact of 'fundamentals' (as captured in data) on price formation: price/fundamental 'disconnect'
5. Unreliability. Revisions, inconsistencies between data sets



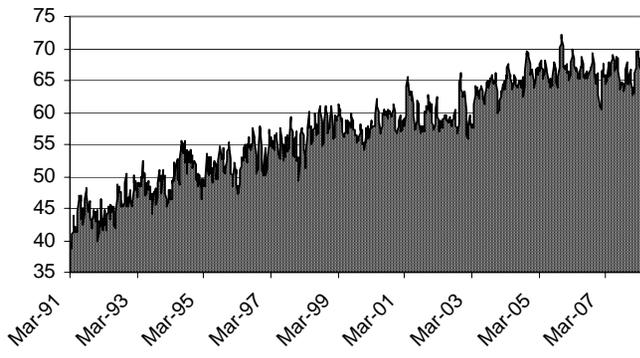
In fact, eroding US market share cuts both ways...

- In some ways, the globalization of oil markets makes US data **more** relevant, not less (when the US sneezes, the world catches a cold)
- The slide in US market share is **gradual and uneven** across the demand barrel (dieselization of the European car fleet actually increases US gasoline market share)
- Oil market's expansion, increasing complexity **boost demand for detailed statistics** – there is no substitute for EIA data

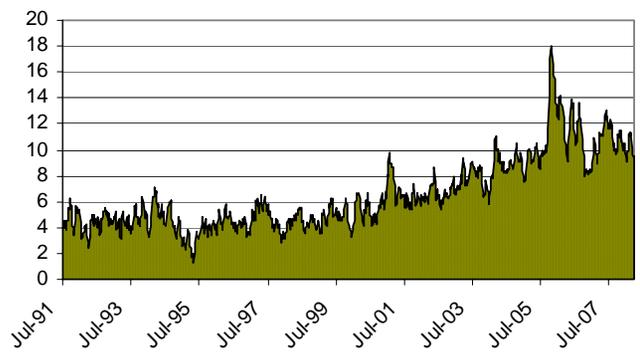


US import dependency: crude v. products (EIA data)

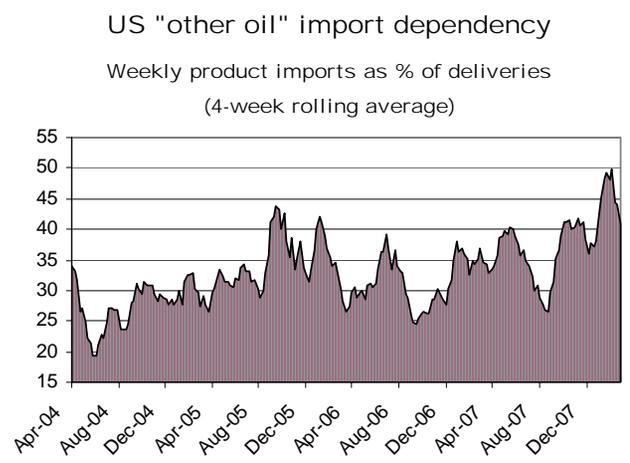
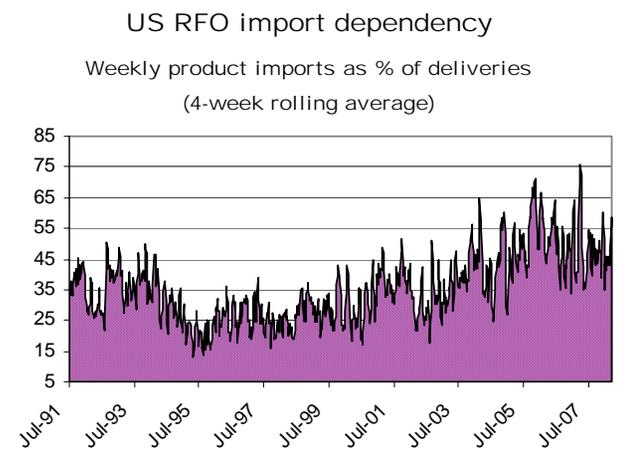
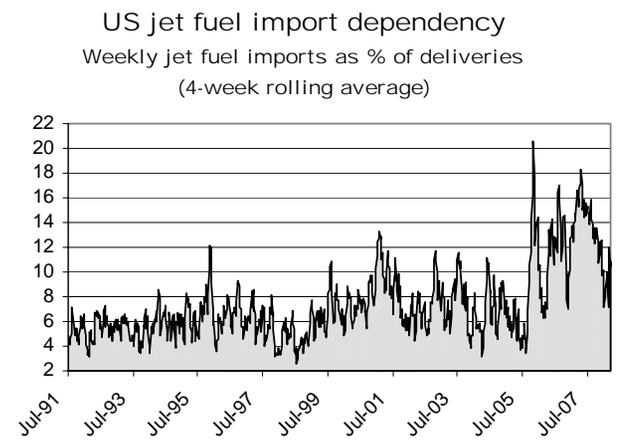
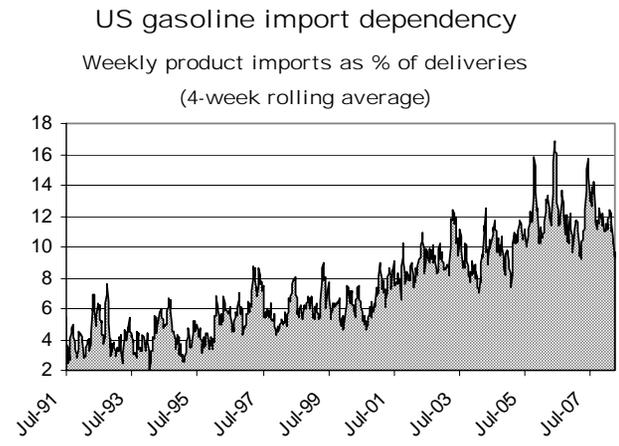
US crude oil import dependency
Weekly product imports as % of deliveries
(4-week rolling average)



US product import dependency
Weekly product imports as % of deliveries
(4-week rolling average)



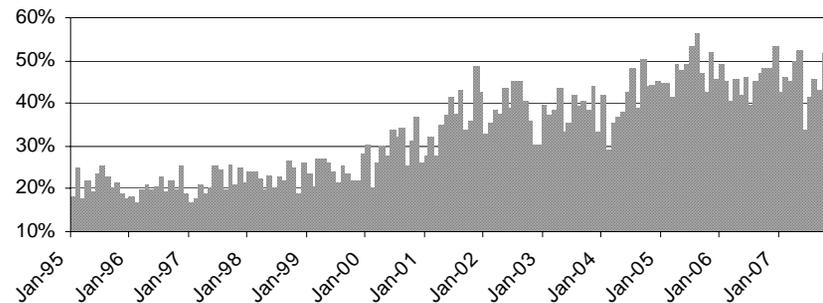
US product import dependency (EIA data)



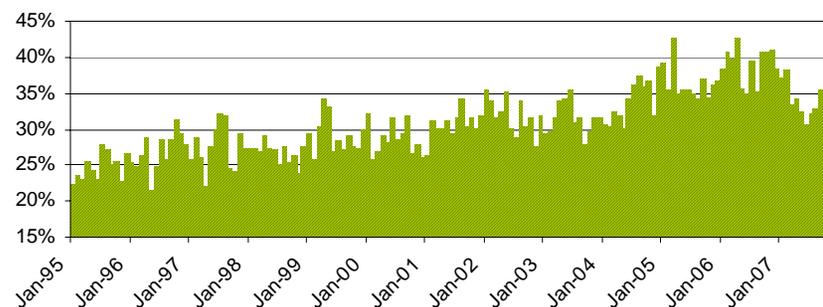
European product import dependency also on the rise...

- Europe has become structurally short jet fuel and distillates
- Europe is structurally long gasoline – a ‘by-product’ of European refining
- Europe depends on the US to dispose of excess gasoline production
- The global distillate market is increasingly interdependent – lately global distillate demand has pulled US exports

OECD Europe Jet fuel Import Dependency
(International Energy Agency)

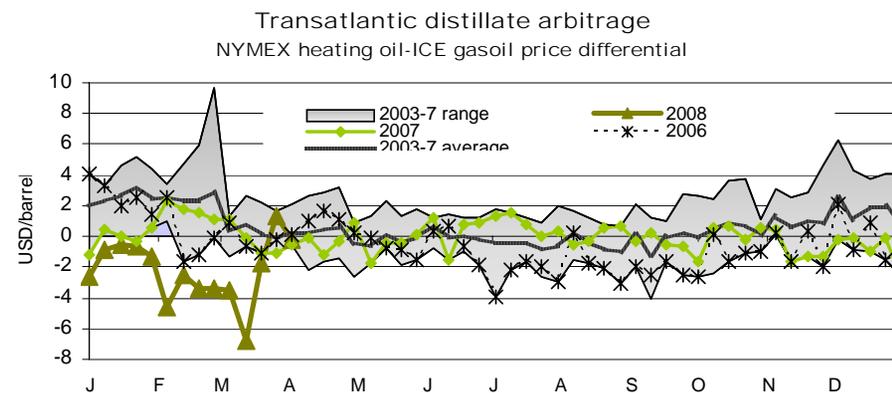
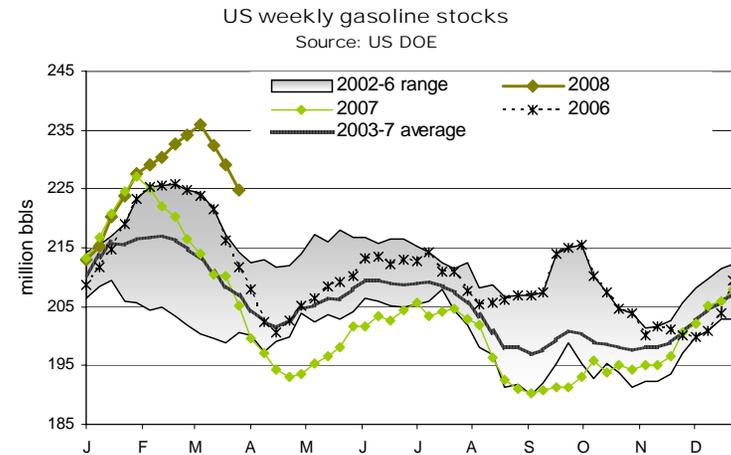


OECD Europe Distillate Import Dependency
(International Energy Agency)



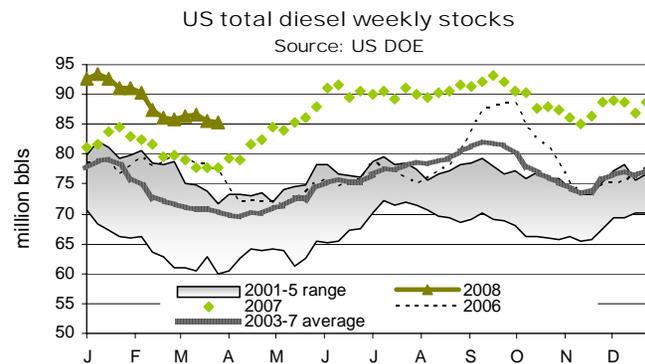
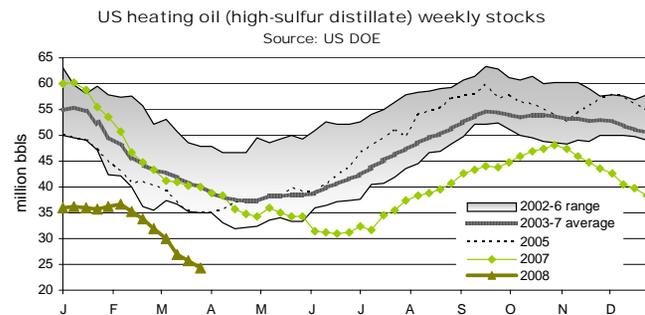
Atlantic co-dependency: EIA data shed light on Europe

- Recent surge in US gasoline stocks shut outlet for excess US gasoline production
- ‘Discretionary’ European refinery run cuts
- Curtailed Euro. refining activity tightens Atlantic Basin distillate supply
- ‘Abnormal’ Atlantic arbitrage open from the US to Europe
- Counter-seasonal strength in US heating oil crackspreads



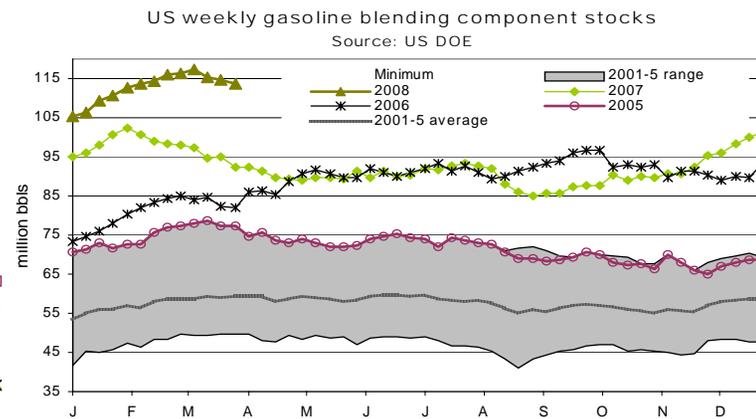
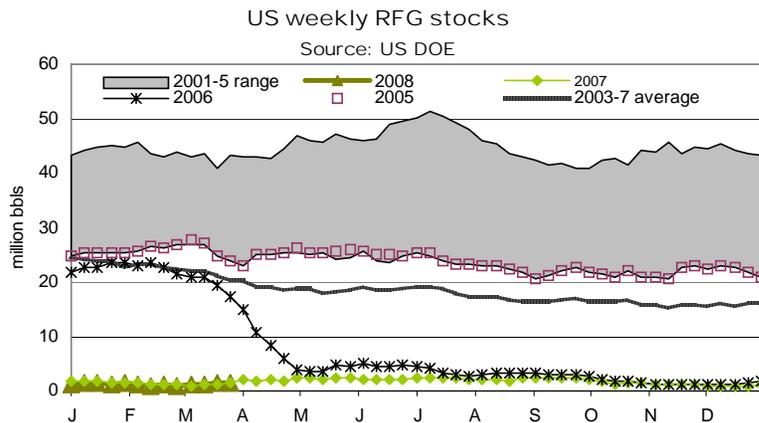
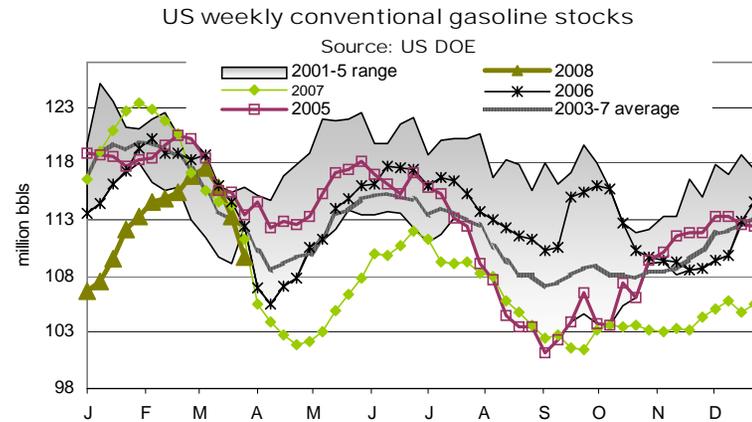
Changing emission standards distort year/year comparisons...

- Tighter sulfur standards mean re-labeling of off-road diesel
- Shifting product categories partly account for divergence in high-sulfur ('heating oil'), low-sulfur ('diesel') distillate stock movements
- More than semantics to rapidly accelerating 2008 high sulfur stock draws
- Definitional changes upset the analytical routine, but identifying products by quality rather than end-use makes sense



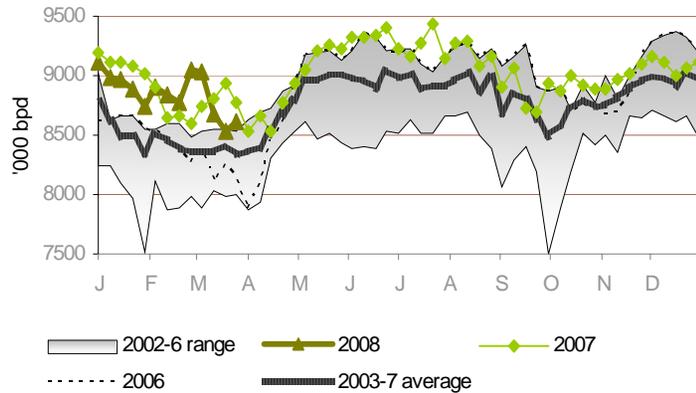
... as do changes in regulatory standards

- May 2006 phase-out of gasoline oxygenate MTBE: upheaval in gasoline logistics, blending, storage and terminology
- Divergence in finished, unfinished gasoline inventory movements
- The end of RFG storage

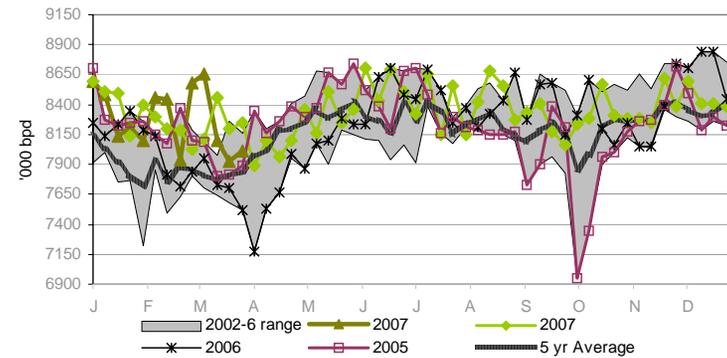


Beyond the headline figure: defining gasoline production

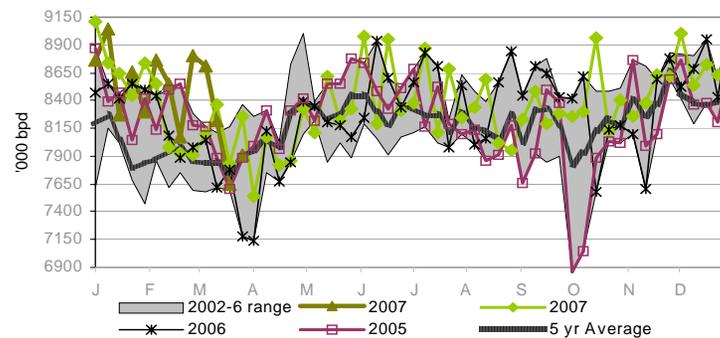
US Weekly Gasoline Output
Source: US DOE



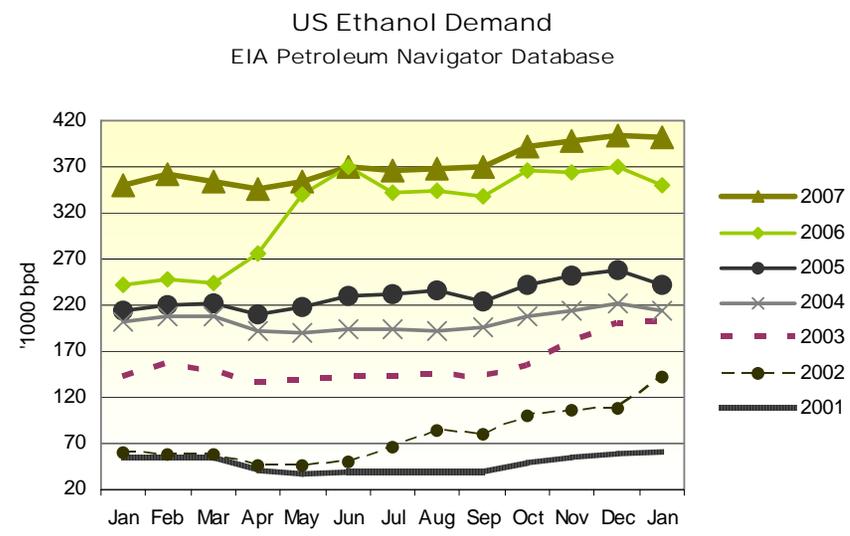
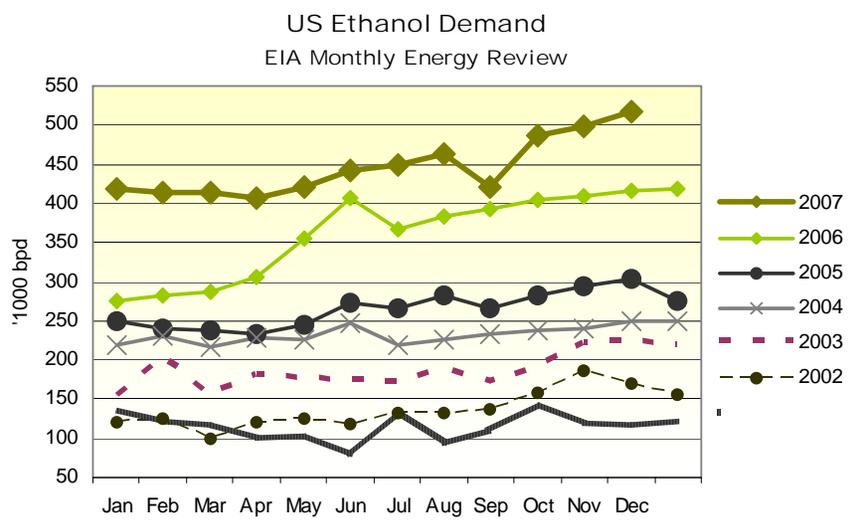
US Weekly Gasoline Output
Net of Blending Component Imports
Source: US DOE



US Weekly Gasoline Output
Net of Blend. Comp. Imports and Stock Changes
Source: US DOE

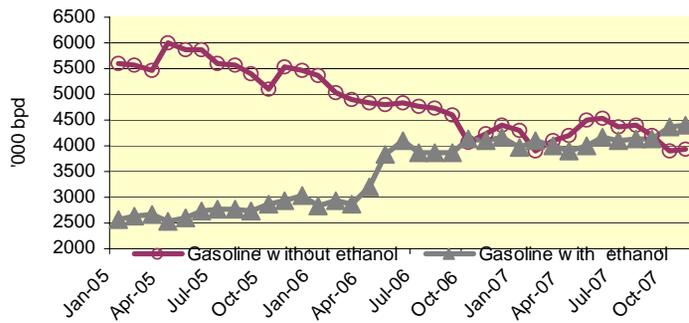


Apparent inconsistencies between data sets?

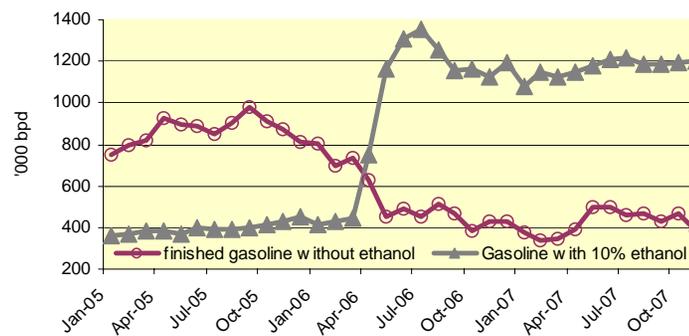


Mapping ethanol's market penetration

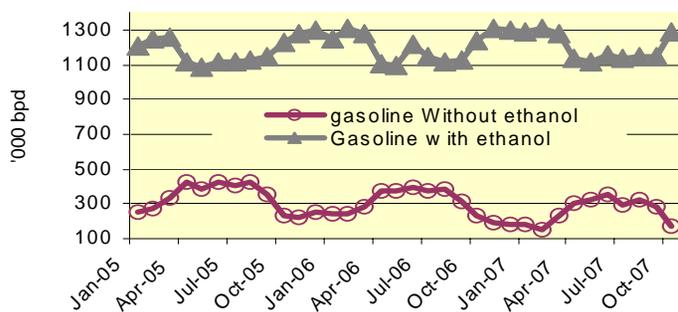
US Monthly Gasoline Production from Refiners & Blending Terminals



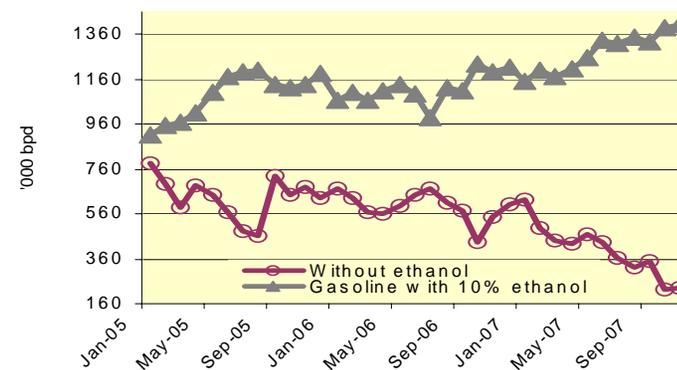
US Padd 1 Monthly Gasoline Production from Refiners & Blending Terminals



US Padd 5 Monthly Gasoline Production from Refiners & Blending Terminals



US Padd 2 Monthly Gasoline Production from Refiners & Blending Terminals



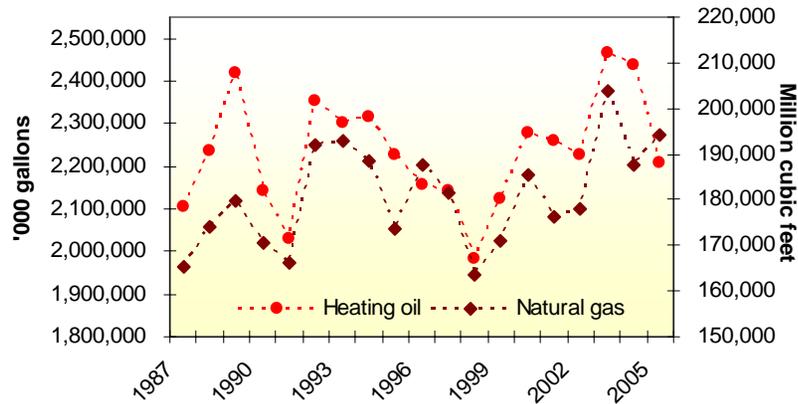
Ethanol penetration: PADD 1 (East Coast)

YOY Change	DEMAND			PRODUCTION								
	000 bpd	TOTAL GASOLINE	RFG	Conventional	TOTAL GAS.	RFG	with ethanol	Conventional	with ethanol	w/o ethanol	Gas. w/ ethanol	Gas w/o ethanol
Jan-07	84	69	15	245	250	672	-4	-3	-1	669	-424	74
Feb-07	246	-31	277	355	371	721	-14	-3	-11	718	-363	63
Mar-07	-23	-4	-19	288	289	682	0	-5	5	677	-389	68
1Q	98	13	85	294	301	691	-6	-4	-2	687	-393	69
Apr-07	-18	-52	34	158	217	398	-60	-7	-53	391	-233	66
May-07	76	-2	79	58	20	22	38	-7	45	15	43	37
Jun-07	72	49	23	-96	-100	-95	4	-3	7	-98	2	2
2Q	44	-2	46	40	45	107	-6	-6	0	102	-62	35
Jul-07	23	-1	25	-132	-163	-156	31	15	16	-141	9	-14
Aug-07	-189	-18	-172	-122	-102	-94	-20	21	-41	-73	-49	-13
Sep-07	79	7	71	-9	2	2	-12	22	-34	24	-33	-6
3Q	-30	-4	-26	-89	-89	-84	0	19	-20	-64	-24	-11
Oct-07	59	150	-91	114	3	3	111	27	84	30	84	6
Percentage	TOTAL GASOLINE	RFG	Conventional	TOTAL GAS.	RFG	with ethanol	Conventional	with ethanol	w/o ethanol	Gas. w/ ethanol	Gas w/o ethanol	ethanol
Jan-07	2.7	5.8	0.8	20.2	31.6	182.6	-0.9	-6.8	-0.3	162.4	-52.9	168.2
Feb-07	7.8	-2.4	14.8	31.6	50.9	190.2	-3.5	-6.1	-3.2	167.8	-52.1	150.0
Mar-07	-0.7	-0.3	-0.9	24.4	36.6	171.8	0.0	-10.2	1.5	151.8	-52.9	158.1
1Q	3.0	1.0	4.3	25.0	39.0	181.1	-1.4	-7.8	-0.6	160.3	-52.6	159.2
Apr-07	-0.5	-4.1	1.7	11.4	24.6	56.8	-12.0	-13.2	-11.9	51.9	-37.2	146.7
May-07	2.3	-0.2	3.8	3.6	1.8	2.0	7.5	-12.1	10.0	1.3	9.5	49.3
Jun-07	2.1	3.8	1.1	-5.3	-8.0	-7.6	0.7	-5.5	1.4	-7.5	0.4	1.8
2Q	1.3	-0.1	2.2	2.5	4.2	10.5	-1.1	-10.3	0.0	9.5	-11.7	44.9
Jul-07	0.7	-0.1	1.1	-7.3	-12.5	-12.0	6.2	27.8	3.6	-10.4	2.0	-10.6
Aug-07	-5.4	-1.4	-7.6	-6.9	-8.4	-7.8	-3.6	42.0	-8.1	-5.8	-9.6	-9.8
Sep-07	2.5	0.6	3.5	-0.6	0.2	0.2	-2.3	48.9	-7.3	2.1	-7.1	-4.9
3Q	-0.9	-0.3	-1.2	-5.1	-7.3	-6.9	0.0	38.8	-4.1	-5.1	-5.1	-8.5
Oct-07	1.8	12.6	-4.4	7.4	0.3	0.3	25.6	57.4	21.8	2.6	21.8	5.4

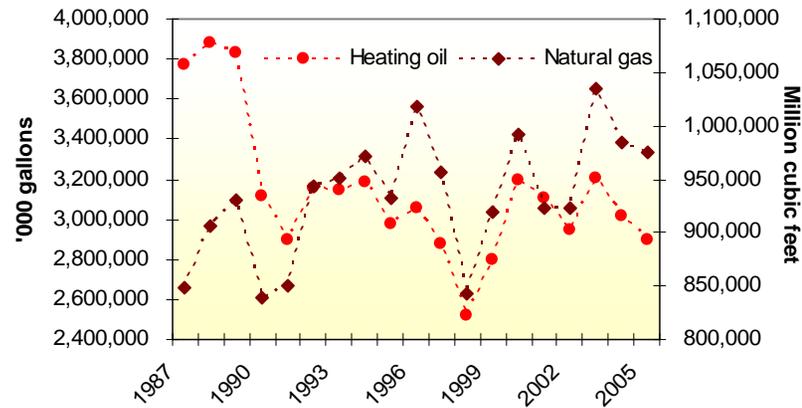


Interfuel comparisons: natural gas penetration

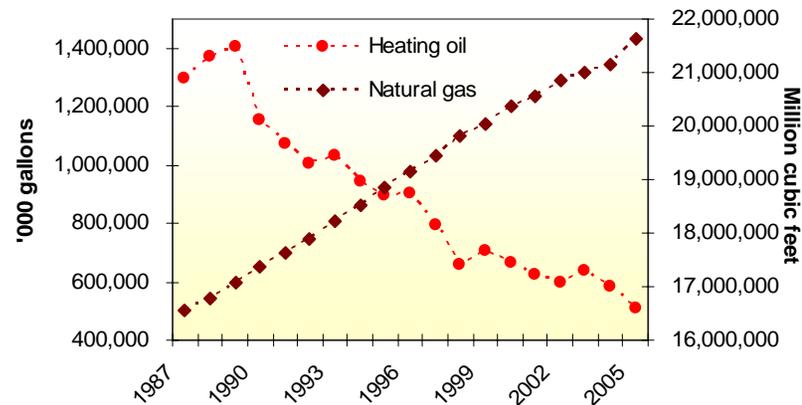
PADD 1A Residential Annual Fuel Consumption: Heating Oil v. Natural Gas



PADD 1B Residential Annual Fuel Consumption: Heating Oil v. Natural Gas

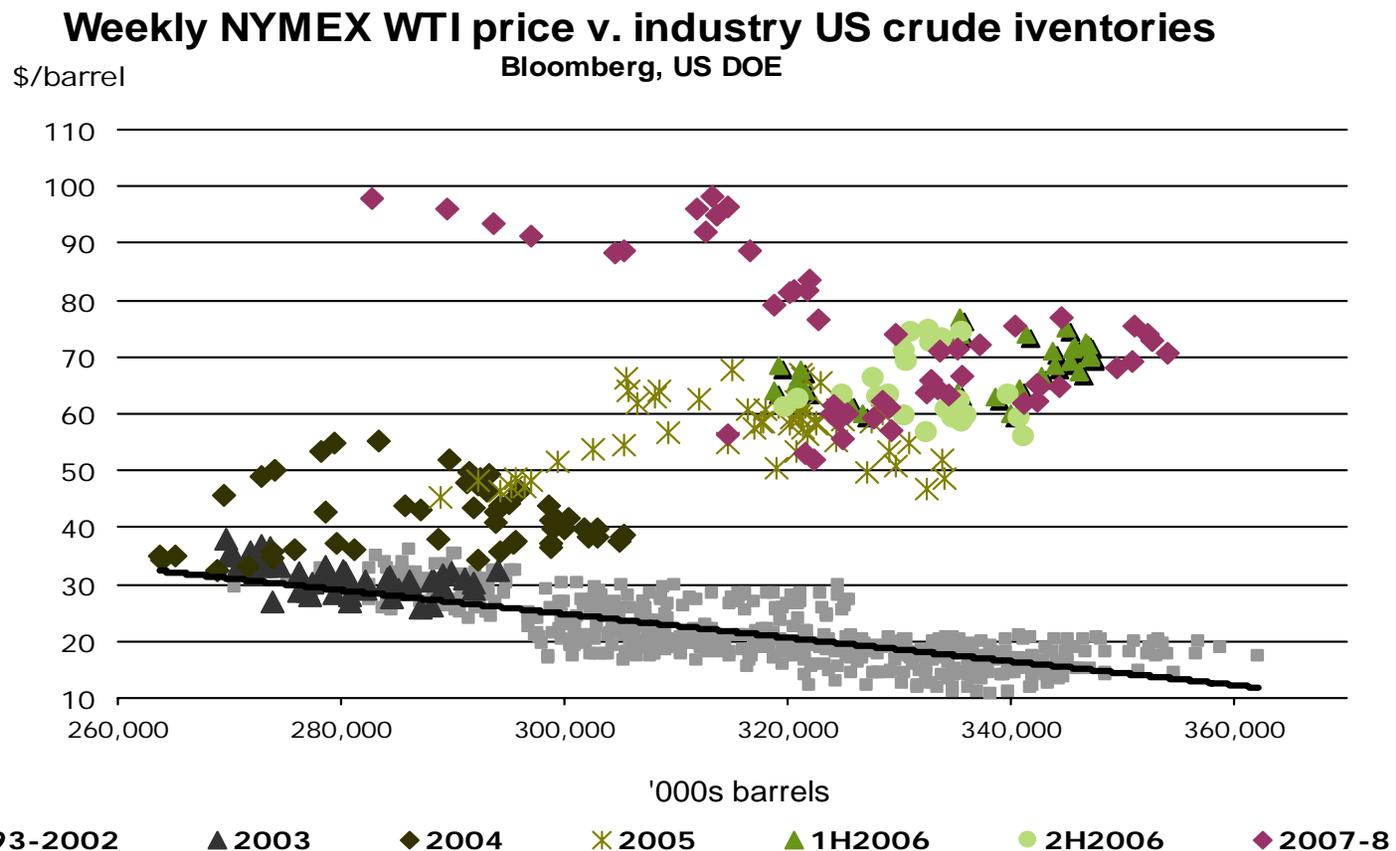


PADD 2 Residential Annual Fuel Consumption: Heating Oil v. Natural Gas

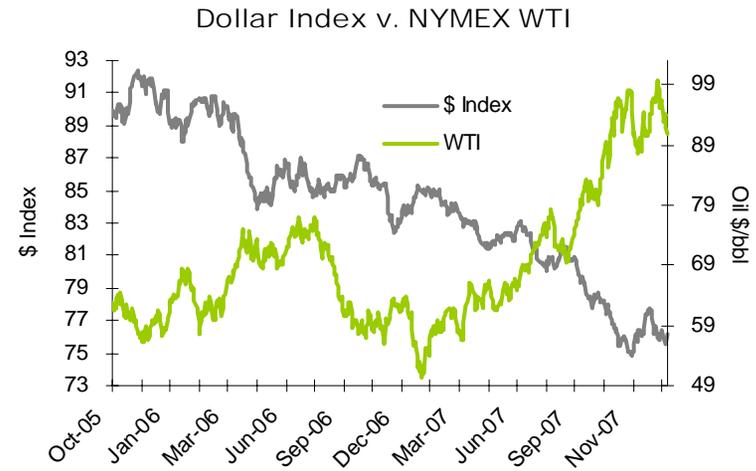


Stock/price 'disconnect': data reveal shifting market dynamics

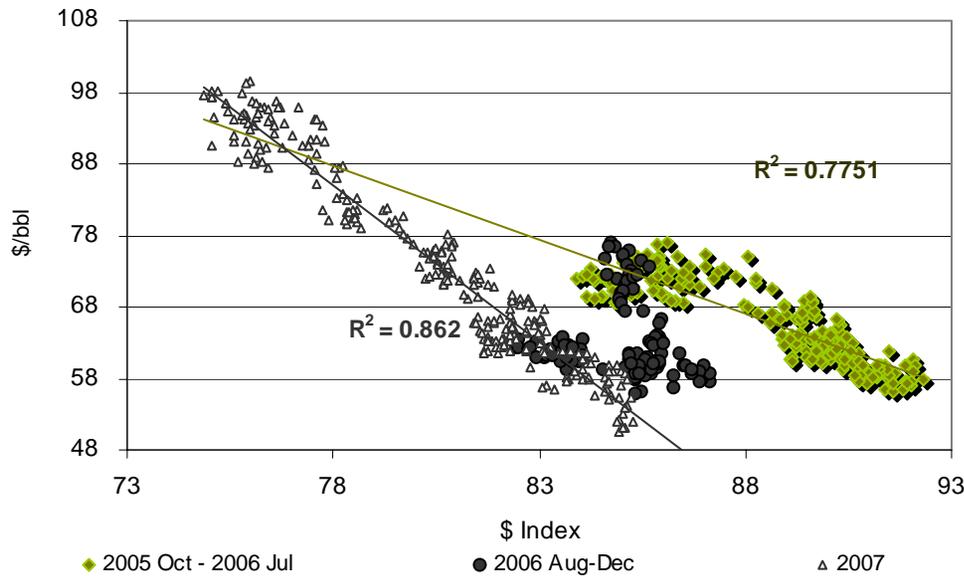
Apparent stock/price disconnect shows shifting market conditions which the data help reveal



Oil and the dollar: less than meets the eye

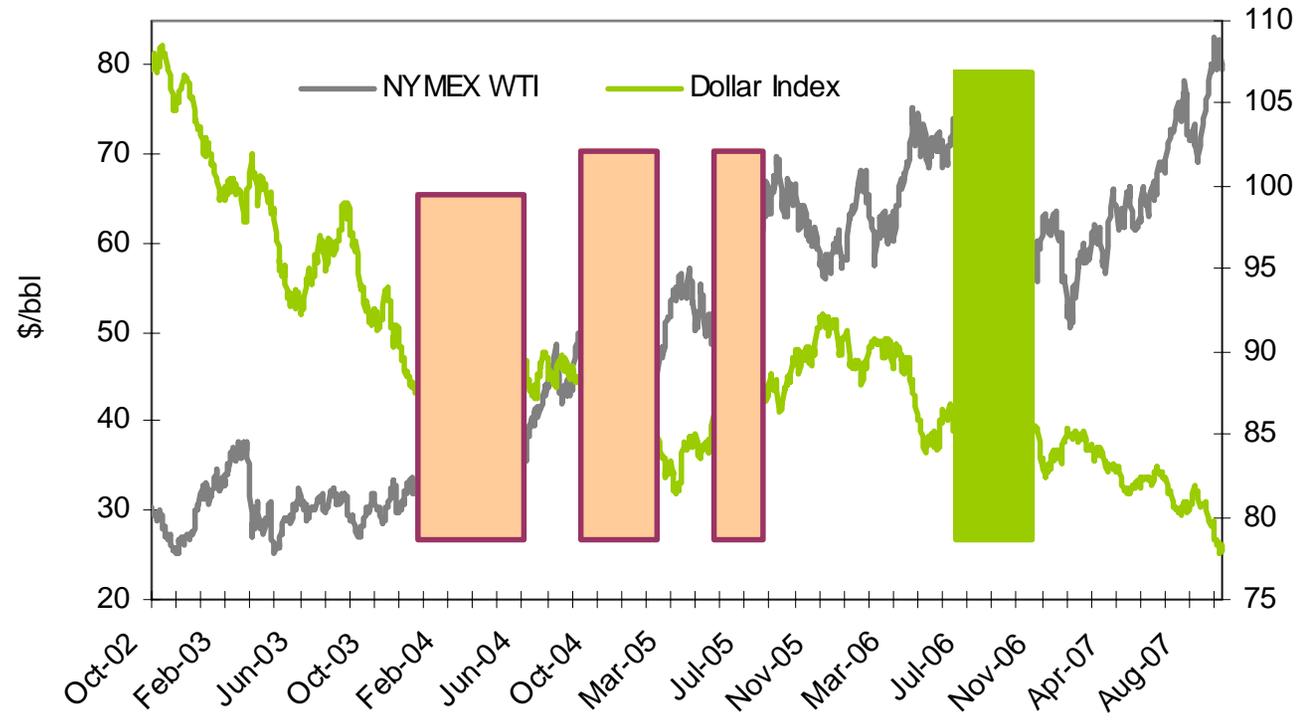


Oil Prices and Currency Fluctuations:
Front-month NYMEX WTI v. dollar index, Oct 2005-Jan 2008



Oil as currency hedge

Oil & the Dollar: Spurious Correlation?



In conclusion...

- Knowledge is a voyage from error to error, not truth to truth – the quest for perfect data will always be elusive
- Data users must understand their inherent limitations and move beyond headline figures to uncover hidden data narratives
- Apparent ‘problems’ with the data are pregnant with meaning. Less facts than challenges
- Value of the data depends on how they are used
- EIA remains the golden standard of data timeliness and detail...
- ...but ultimately data depend on input. Corporate reporting a casualty of cost cutting and industry consolidation. Companies must reprioritize reporting and upgrade their systems



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