



Insider Energy Advisory

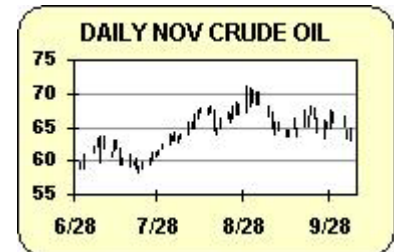
Thursday October 06, 2005

DAILY ENERGY COMPLEX COMMENTARY

10/06/05

MORE TECHNICAL LIQUIDATION IN CRUDE BUT PRICES ARE ALMOST TOO CHEAP

**OVERNIGHT CHANGES THROUGH 4:00 AM:
CRUDE -61, HEATING OIL -259, UNLEADED GAS -263**



The energy complex showed significant divergence throughout the action Wednesday, with the market clearly making a distinction between crude/gasoline and heating oil/natural gas. It would certainly seem like the speculative focus is shifting to winter fuels, as the market was presented with surprisingly large gasoline and distillate stocks declines, but yet only heating oil and natural gas markets saw decidedly beneficial reactions to the inventory data. We are a little surprised that the crude oil market finished weak and traded even weaker in the late afternoon trade, as the EIA was apparently surprised in the magnitude of the decline in the refinery operating rates and the large declines in distillate stocks certainly suggests that a lot of crude will be needed to just to bring winter fuel stocks back toward a safer winter margin. With the product stocks finally showing a significant decline, it is certainly possible that the impact of the storms is only just now beginning to surface. In other words, a number of analysts were wondering why product stocks hadn't declined, but despite the decline in inventory numbers yesterday the overall tilt in the energy complex remained in a weak posture. Even more surprising in the wake of the crude oil price slide yesterday, is the fact that the last 4 weeks have seen EIA crude stocks drop a combined 9.5 million barrels. EIA gasoline stocks fell 4.7 million barrels and are now 7.4 million barrels below the 13 year average, while API gas stocks fell by 4.3 million barrels and that should have lent support to unleaded prices. Gas demand in the report was pegged at 8.84 million barrels, which one might suggest is a solid demand figure as that is 330,000 barrels above the 5 year average. With part of the recent decline in prices was based on the expectation of falling demand and the significant tightening in distillate stocks we have to think that fundamental support if firming, even if technical support is weakening! However, given that the last COT report showed a minimal spec and fund long in crude oil and gasoline, and considering the significant price declines made since that report was marketed off, we have to think that the energy markets will be coming to a key low very soon. However, given the violation of consolidation support in December crude and unleaded gas yesterday, it is possible that crude falls down to \$61.52 and unleaded to 180.

Energy Stocks Report							
Crude Oil (Millions of Barrels)							
Week Of	EIA Wk Chg	API Wk Chg	EIA Chg From Last Yr.	API Chg From Last Yr.	EIA Oppr Rate % Wk Chg	API Oppr Rate % Wk Chg	API Imports
9/30/05	-0.25	-4.19	32.3	27	-16.94	-17.4	10.21
Gasoline (Millions of Barrels)							
Week Of	EIA Wk Chg	API Wk Chg	EIA Chg From Last Yr.	API Chg From Last Yr.	EIA Demand	EIA Demand 8yr Avg	EIA RFG Stocks

9/30/05	-4.377	-4.789	-9.45	-1.3	8.8	8.5	21.7
Distillates (Millions of Barrels)							
Week Of	EIA Wk Chg	API Wk Chg	EIA Chg From Last Yr.	API Chg From Last Yr.	EIA Demand	API Demand 8yr Avg	EIA Imports
9/30/05	-5.526	-4.919	4.63	7.17	4	3.8	0.31

NATURAL GAS: While the weekly petroleum stats showed a surprise decline in product stocks and that temporarily lifted natural gas prices (off the tight winter supply theme) it is clear that the BTU price differential between crude oil and natural gas undermined natural gas somewhat. However, the natural gas market might have reached an overly speculative condition on Wednesday with the analyst prediction of \$20 natural gas prices. On the other hand, we do think that the inventory readings today will provide support to natural gas against the ongoing liquidation in other energy markets. News that Chevron was opening several portions of the Henry Hub terminal might begin to break the logjam of support in natural gas prices and in the process send prices down in a catch up move with the crude oil market. Estimates for this week's storage report range from +25 bcf to +75 bcf for the week ending September 30th, but we think there could be a delayed statistical reaction from the storm that results in the injection rate coming in at or below the low end of the range. Gas storage stands at 2,885 bcf which is 116 bcf below year ago stock levels and 141 bcf above the 11 year average. Over the last 4 weeks, gas stocks have increased by 252 bcf. The 5 year average stock change for this time of year is for an injection of 72 bcf with stocks rising 79 bcf last year.

TODAY'S MARKET IDEAS:

None.

NEW RECOMMENDATIONS:

None

PREVIOUS RECOMMENDATIONS:

Long November crude oil \$66.50 put for 310 and short a November crude 64 put for 188, for a net cost of 122. Illiquidity seems to be impacting option settlement prices and that could mean that traders will need to hold for further weakness before attempting to bank some profits.

OTHER ENERGY CHARTS:



ENERGY COMPLEX TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

CRUDE OIL (NOV) 10/06/2005: The market broke to a new contract low. The moving average crossover down (9 below 18) indicates a possible developing short-term downtrend. Daily stochastics declining into oversold territory suggest the selling may be drying up soon. The market back below the 18-day moving average suggests the longer-term trend could be turning down. The outside day down is somewhat negative. The market setup is somewhat negative with the close under the 1st swing support. The next downside target is 61.17. The next area of resistance is around 63.83 and 65.36, while 1st support hits today at 61.74 and below there at 61.17.

HEATING OIL (NOV) 10/06/2005: Stochastics trending lower at midrange will tend to reinforce a move lower

especially if support levels are taken out. The market back below the 18-day moving average suggests the longer-term trend could be turning down. The downside closing price reversal on the daily chart is somewhat negative. The market setup is somewhat negative with the close under the 1st swing support. The next downside target is now at 194.62. The next area of resistance is around 205.73 and 211.61, while 1st support hits today at 197.23 and below there at 194.62.

UNLEADED GAS (NOV) 10/06/2005: The major trend has turned down with the cross over back below the 40-day moving average. Momentum studies trending lower at mid-range could accelerate a price break if support levels are broken. The close under the 18-day moving average indicates the longer-term trend could be turning down. The outside day down is a negative signal. The market is in a bearish position with the close below the 2nd swing support number. The next downside target is now at 177.64. The next area of resistance is around 199.28 and 211.64, while 1st support hits today at 182.28 and below there at 177.64.

NATURAL GAS (NOV) 10/06/2005: The market rallied to a new contract high. Studies are showing positive momentum but are now in overbought territory, so some caution is warranted. The cross over and close above the 18-day moving average indicates the longer-term trend has turned up. The daily closing price reversal down puts the market on the defensive. The market has a slightly positive tilt with the close over the swing pivot. The next upside target is 14.916. The market is becoming somewhat overbought now that the RSI is over 70. The next area of resistance is around 14.482 and 14.916, while 1st support hits today at 13.883 and below there at 13.717.

Tech Stats 10/06/2005

Contract	Close	RSI 9 Day	RSI 14 Day	14 Day Slow Stoch D	14 Day Slow Stoch K	20 Day MA	40 Day MA	60 Day MA
CLX5 CRUDE OIL	62.79	35.76	40.83	43.42	29.56	65.30	66.26	64.69
HOX5 HEATING OIL	201.48	45.16	49.40	71.52	63.39	202.16	199.37	191.19
HUX5 UNLEADED	190.78	39.95	46.06	67.91	56.54	197.95	192.39	181.78
NGX5 NATURAL GAS	14.183	73.12	72.76	83.77	83.89	12.92	11.74	10.67

Daily Swings 10/06/2005

Contract	Suprt 2	Suprt 1	Pivot	Resist 1	Resist 2
CLX5 CRUDE OIL	61.17	61.73	63.27	63.83	65.36
HOX5 HEATING OIL	194.61	197.23	203.11	205.73	211.61
HUX5 UNLEADED	177.64	182.28	194.64	199.28	211.64
NGX5 NATURAL GAS	13.716	13.883	14.316	14.482	14.916

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