

Cycle Projections Energy

APRIL 2008

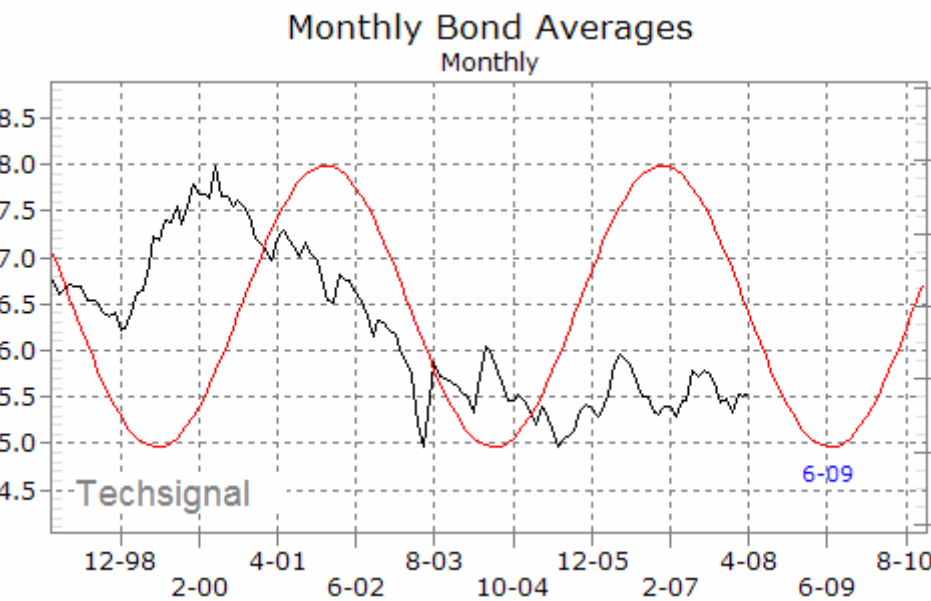
ENERGY AND INFLATION

The Economy and Energy

The economy has become global and we no longer have the luxury of just thinking about the United States economy. All you have to do is look at how much of our nation's largest companies' income comes from international sources. All of this brings us to the commodity bull market. This is not a rally built upon a drought or natural disaster where there is less of something while demand is consistent. This is a bull market built upon new demand from emerging economies that never demanded more protein in their diets or raw materials to build their infrastructure and it is not going away and hence energy is on the rise.

The accompanying chart shows the 60-year cycle in bond yields and that shows the 60-year cycle bottoming. Typically when this cycle bottoms or as it is bottoming, like in 1932, the economy goes

through a readjustment. This readjustment can be severe as it was in the great depression. This degree of severity is not the rule however. What follows the economic readjustment is growth in the economy. The main problem this time around is that yields are low but commodity prices are soaring. It is not likely that yields will stay low with commodities rallying as they are. If there is a major drop in commodity prices



then it would signal a lessening of demand, which can only be brought on by international economic problems and that would mean a severe economic readjustment.

But what level should crude oil finally find after the current buying runs its course, which it surely will? We are in uncharted territory so there is not support or resistance and when there is a lack of knowledge then anyone can have an opinion. The current prices should ameliorate and begin to find levels in the mid 90s. And my main reason for this level is that we should begin to see some conservation and that would mean higher inventories especially in distillates.

All of this should be seen in the context of yearly cycles that won't top until 2009 at the earliest, so our best guess, and that is what it is, is that crude will make higher highs but after a correction.

Written 5/5/ 08

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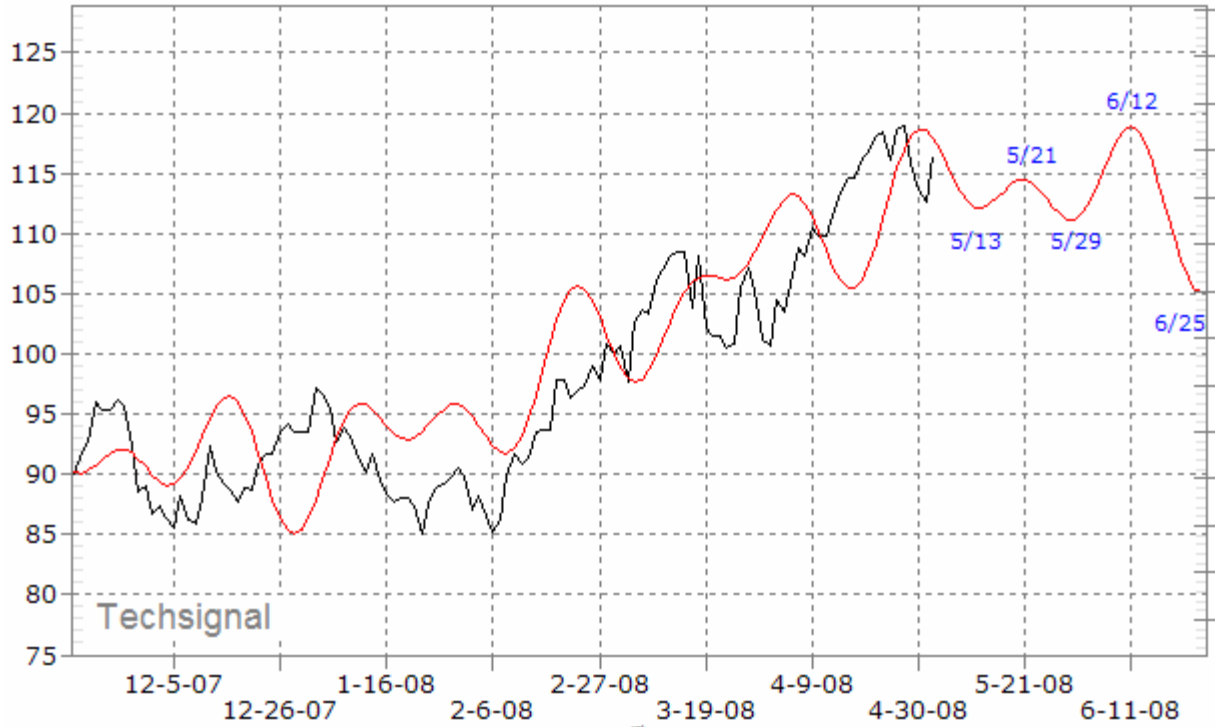
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Daily Crude Oil

Crude Oil NY (Pit) C CL 67
Daily

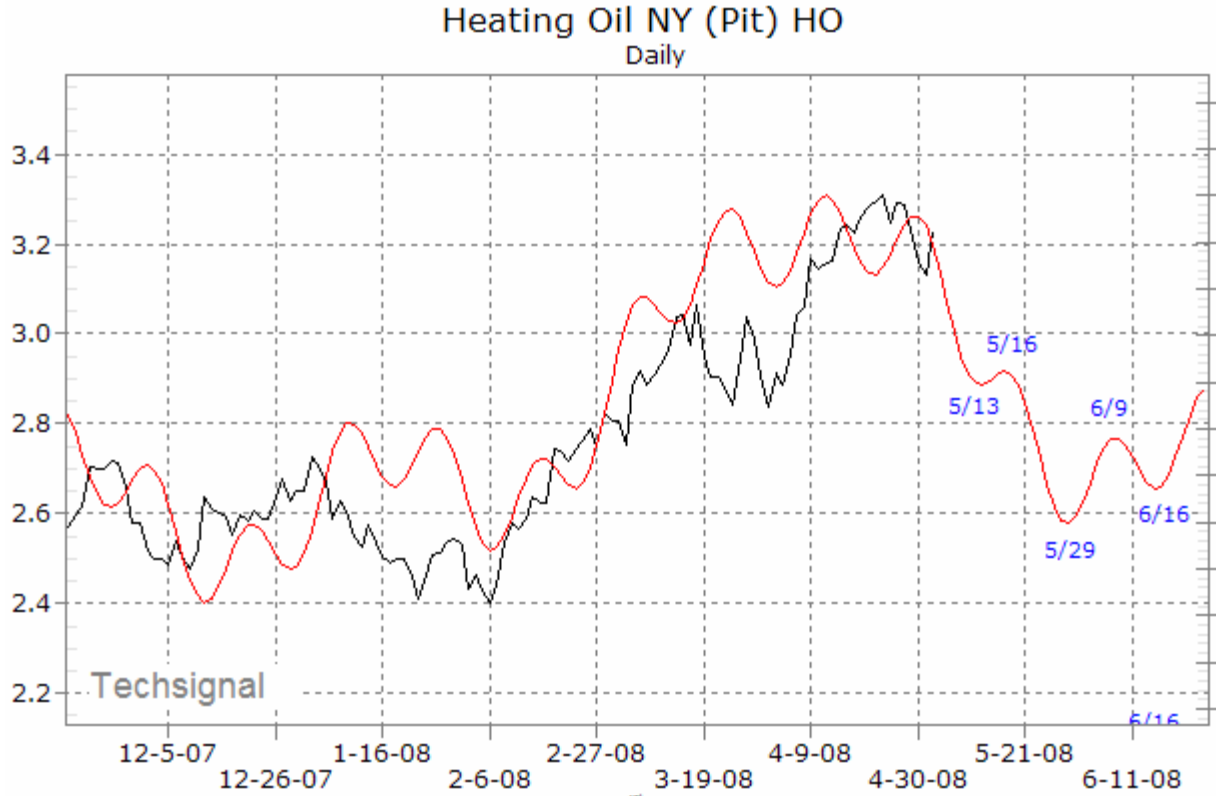


Weekly Crude Oil

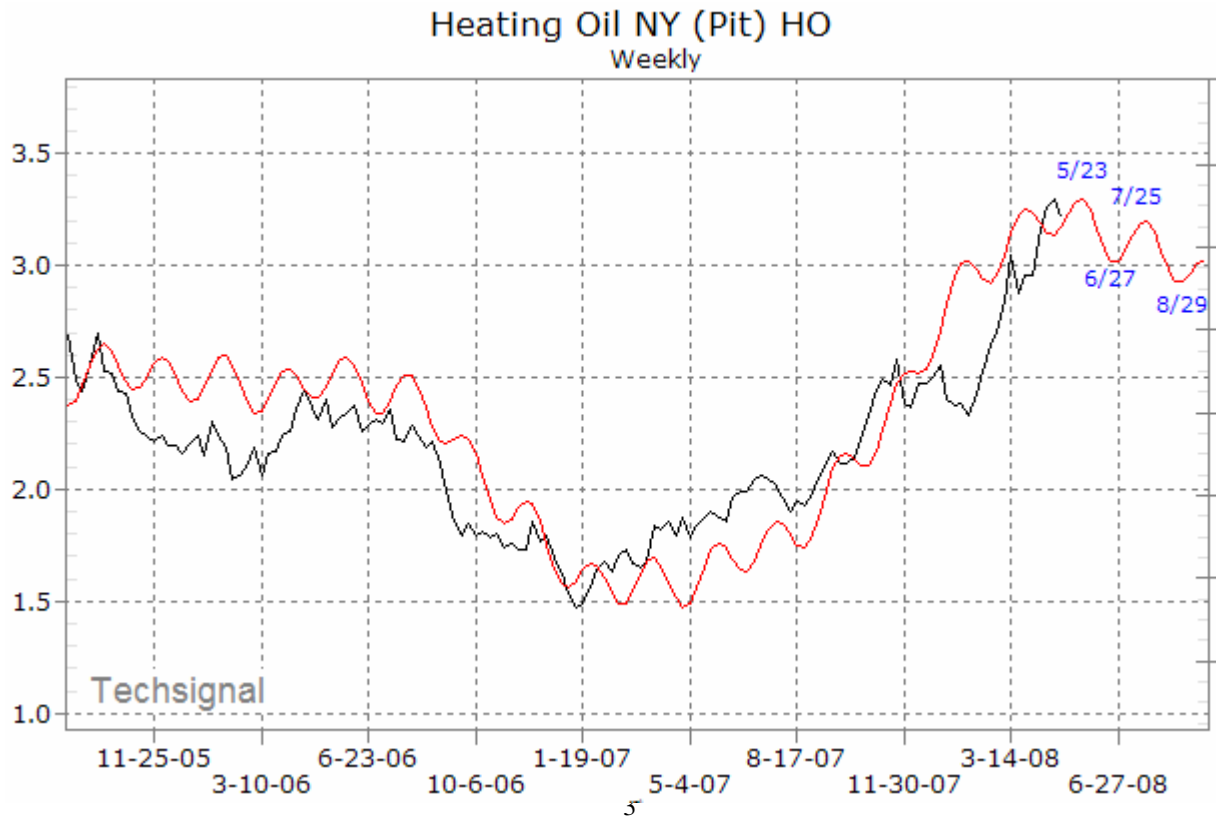
Crude Oil NY (Pit) C CL
Weekly



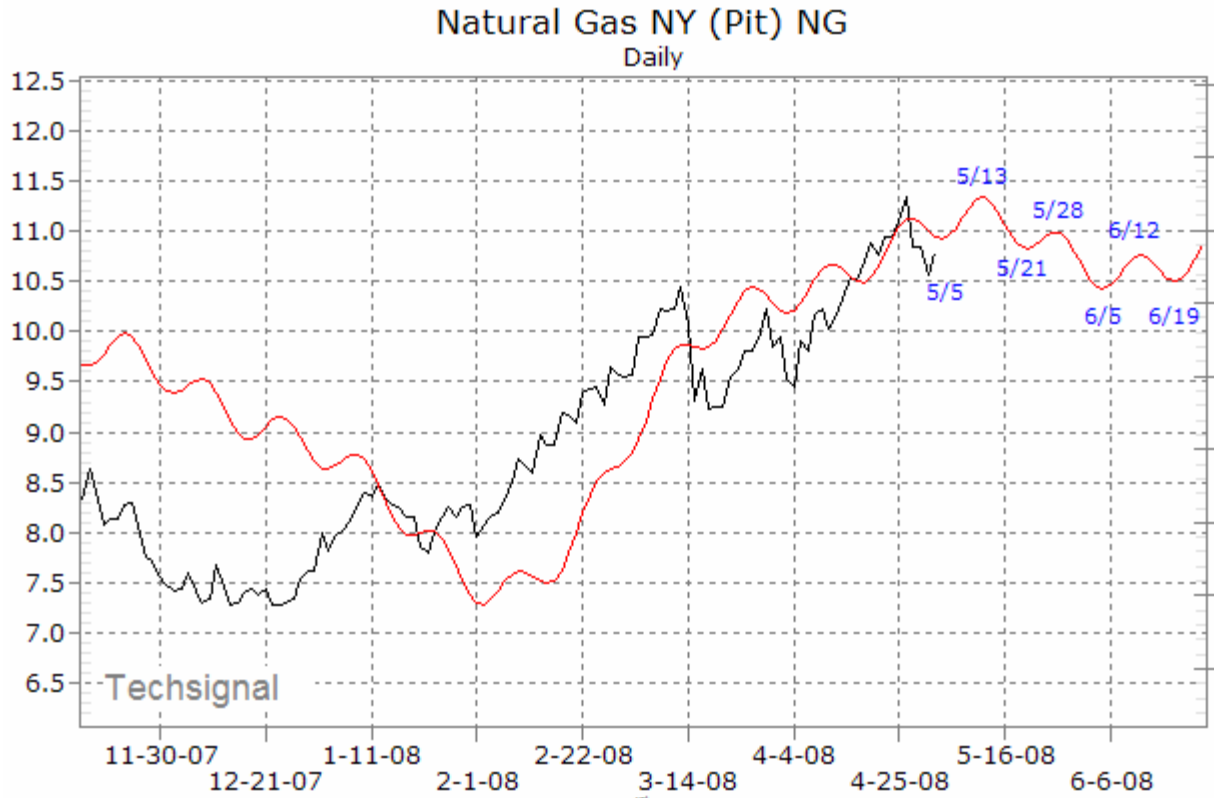
Daily Heating Oil



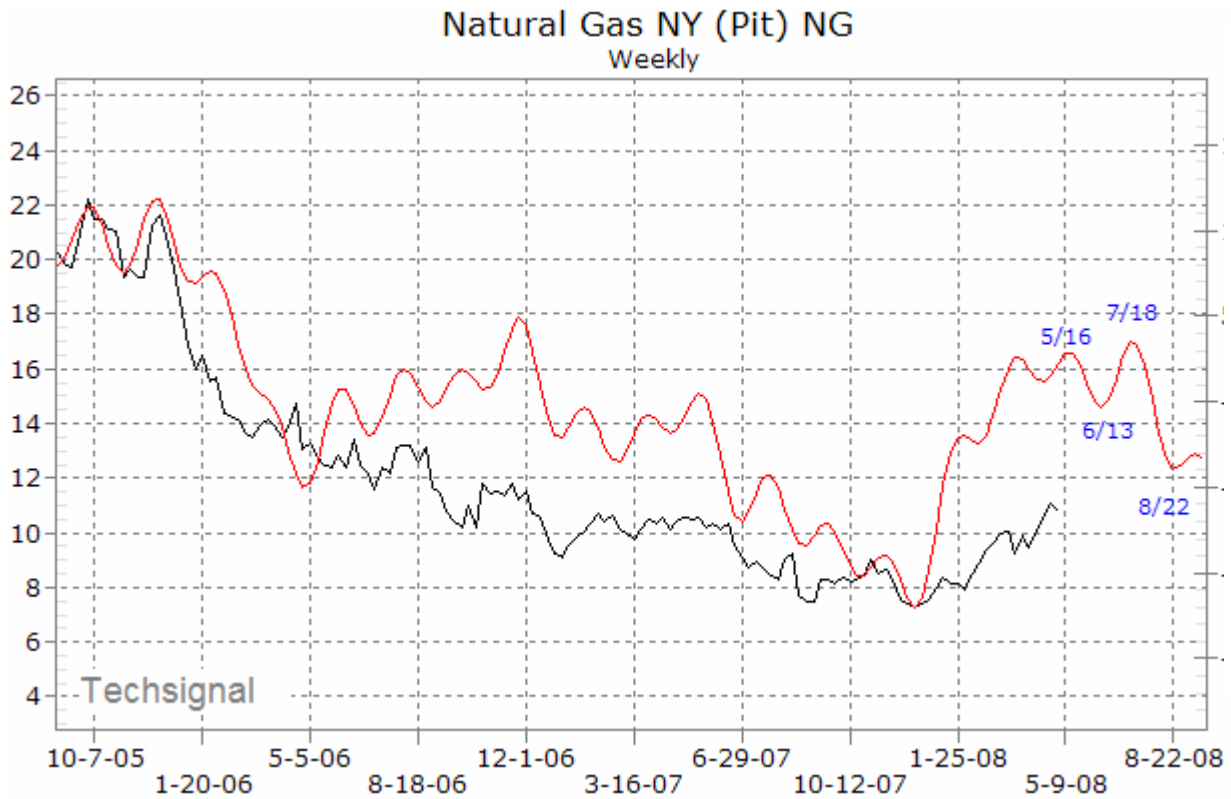
Weekly Heating Oil



Daily Natural Gas



Weekly Natural Gas



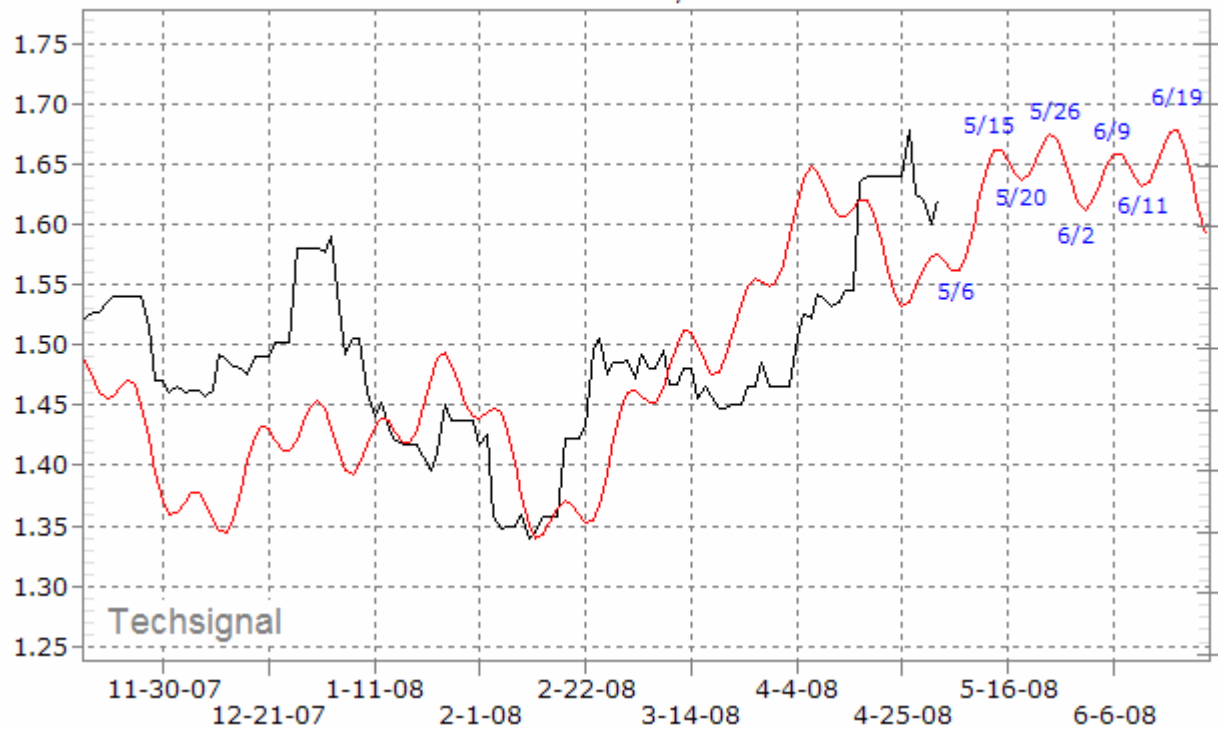
Daily RBOB Gasoline

RBOB Gasoline (PIT) RB
Daily

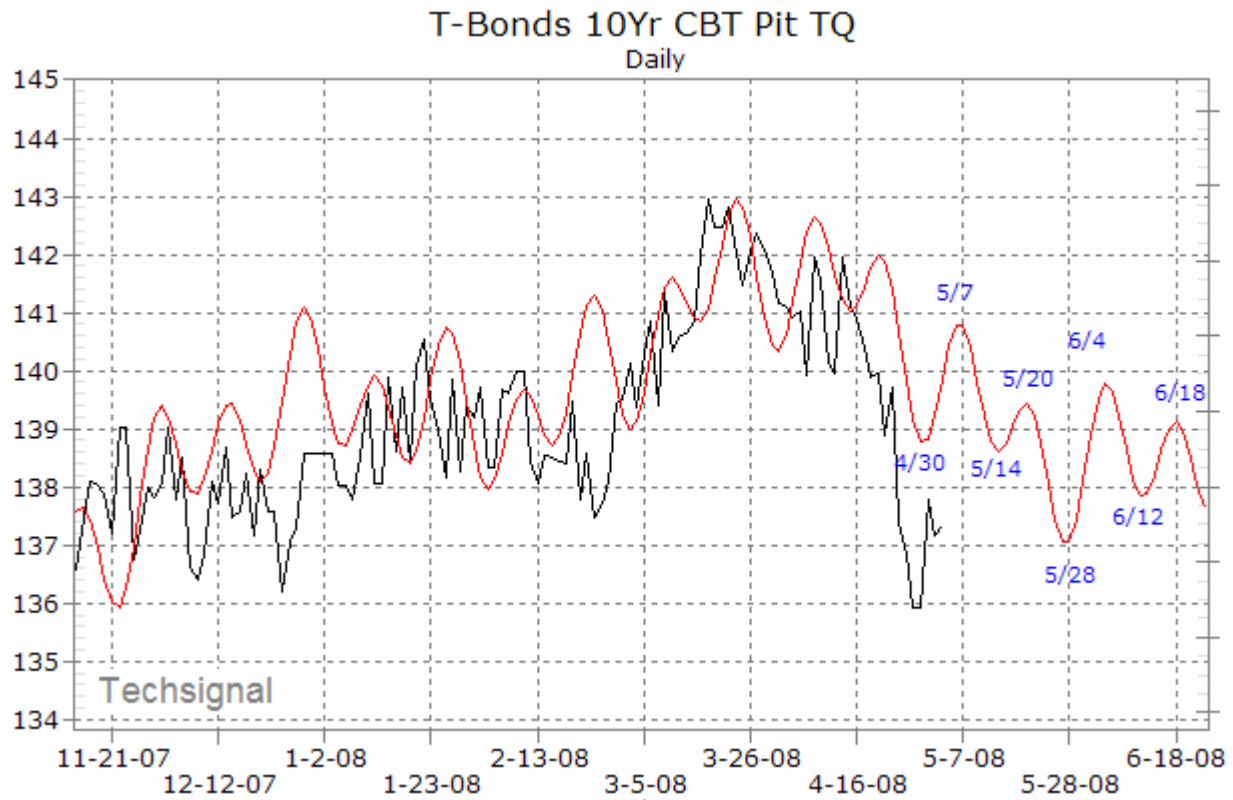


Daily Propane Gas

Propane Gas NY (Pit) PN
Daily



Daily T-Bonds 10 yr



Weekly CRB Index

