

Cycle Projections Energy

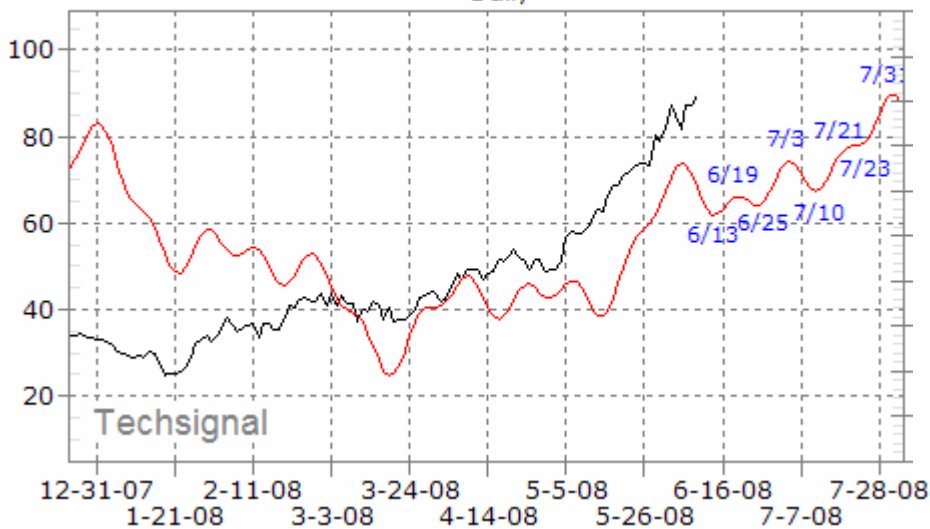
MAY 2008

ENERGY AND INFLATION

How high is up?

All too often does the word, “bubble” come to commentator’s lips when describing commodity prices, gold and crude oil. Prices have rallied significantly but not to bubble proportions. The NASDAQ 100 rallied in two years 3.75 times to the 2000 high and gold rallied in 1980 over 5 times. This year the CRB has rallied 1.65 times, crude rallied about 2.3 times and gold rallied about 2 times. Soybeans have rallied 2.97 and corn about the same. All are short of the previous “bubbles”. In addition, the level of the NASDAQ in 2000 and gold in 1980 had a significant element of mania not unlike the many historic bubbles such as the Tulip Mania. The current price rises are not manic and I do not think they are a bubble because they are built up on solid demand that cannot be met by current supplies. This would argue for corrections in prices but not collapses. We have included coal in this report for the first time. The cover shows ANR, a coal stock, and we are very bullish on coal. **Crude**

Alpha Natural Resources ANR
Daily



Oil: The price of crude has rallied past every cycle top in the last month. The once dominant 15-week cycle is likely inverted and should top on a short-term basis by the third week in June. This is not likely to be a major decline based upon the reasoning above. **Gasoline:** No commentator has to tell anyone about the price of gas. The average person may not know the level of the Dow Jones Industrials but they do know the price at the pump. The cycles are calling for a correction but not an end to the high

prices. Again energy costs are not going down without new supplies and that is years away. Conservation is the only relief and that help will be minimal. Once the correction is finished assume that prices will settle into the higher \$3.00 range. **Heating Oil:** Heating oil as well as crude continued to rally past its usual seasonal correction, but we expect that supplies will now build and more normal patterns will return; but prices will not return to historic levels. We are on a new plateau and prices will retreat but only in an orderly way. Daily and weekly cycles are down. **Natural Gas and Propane:** Like the other series in the energy complex Natural Gas is due for a correction and this is shown in the cycle projections. Propane is due to correct as well. **Interest Rates, Inflation and Commodity Prices:** We have not seen the effect in the CPI and PPI of higher commodity prices but that is likely to be over and we expect inflation and that means higher yields, higher dollar, and lower bond prices. This should help stunt the growth of commodities but not lower the prices.

Written 9/10/08

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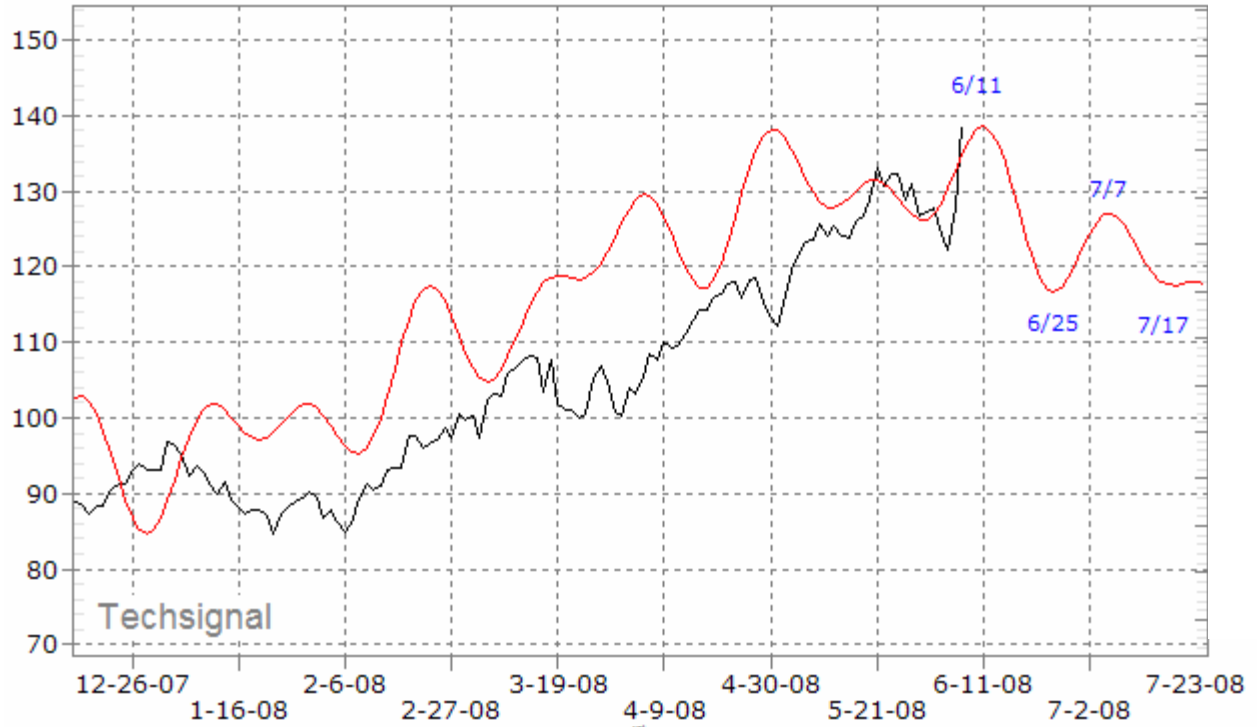
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Daily Crude Oil

Crude Oil NY (Pit) C CL
Daily



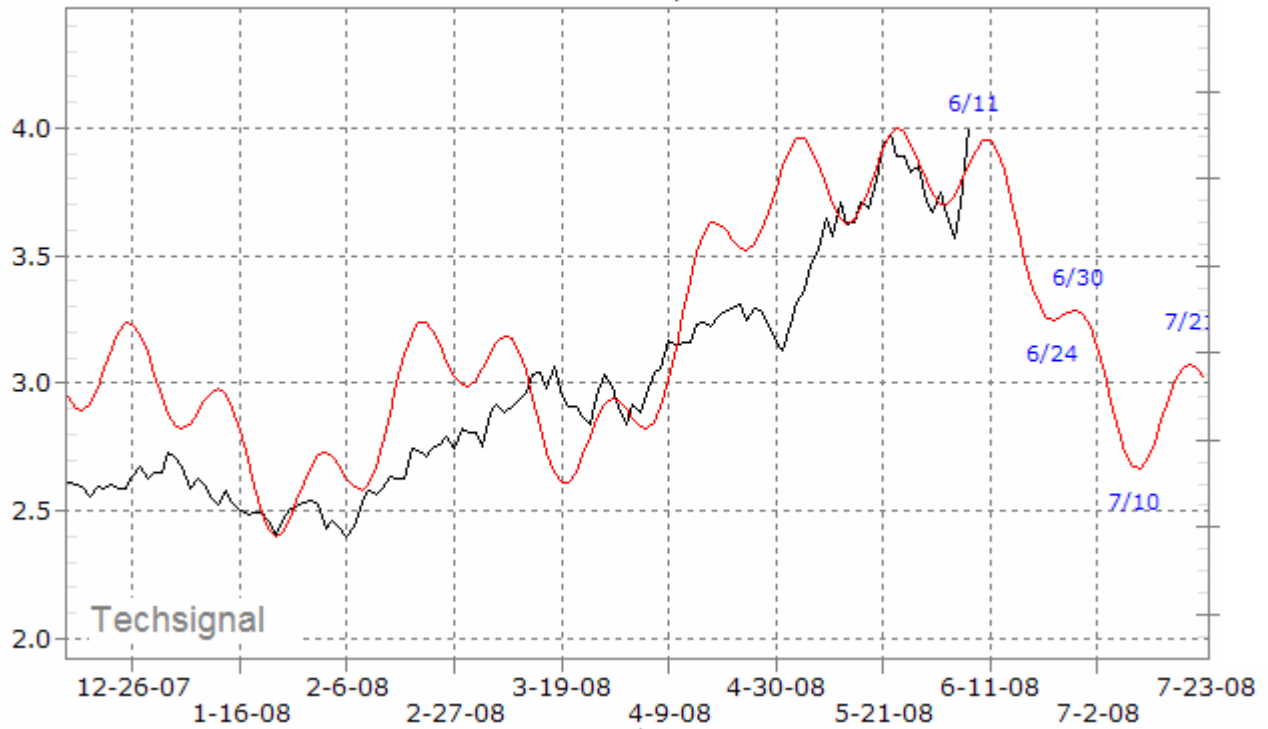
Weekly Crude Oil

Crude Oil NY (Pit) C CL
Weekly



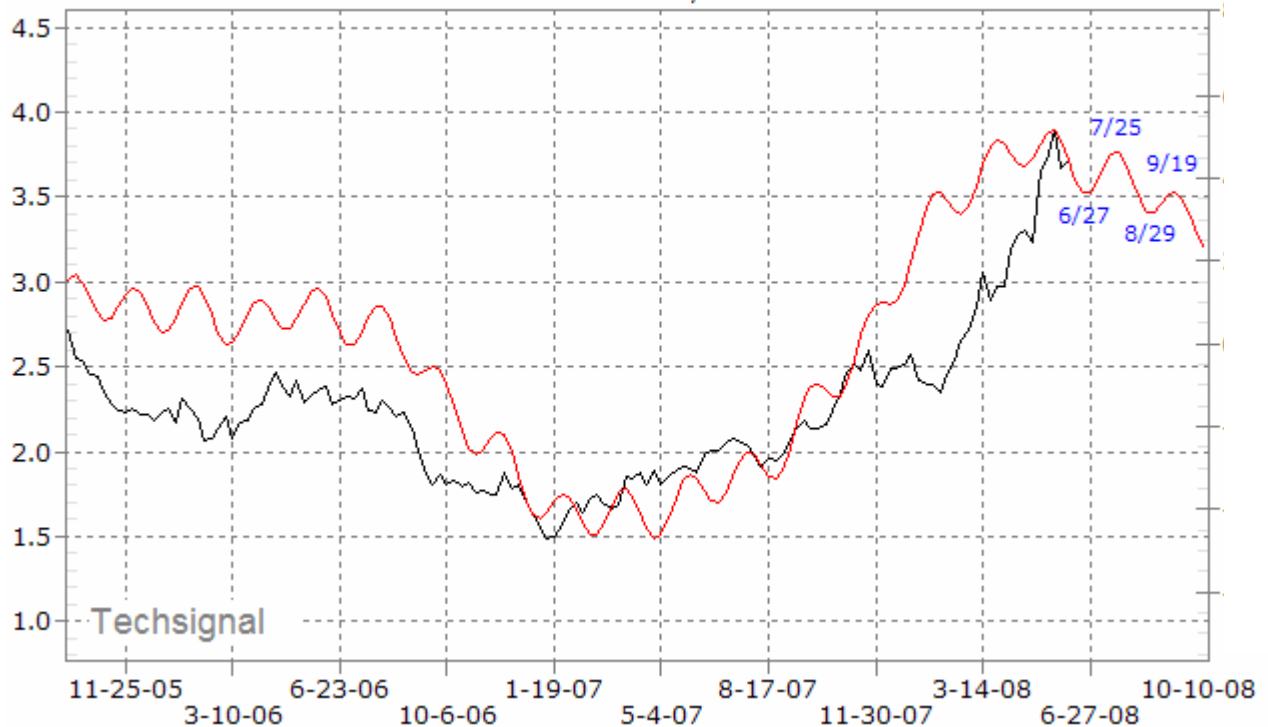
Daily Heating Oil

Heating Oil NY (Pit) HO
Daily

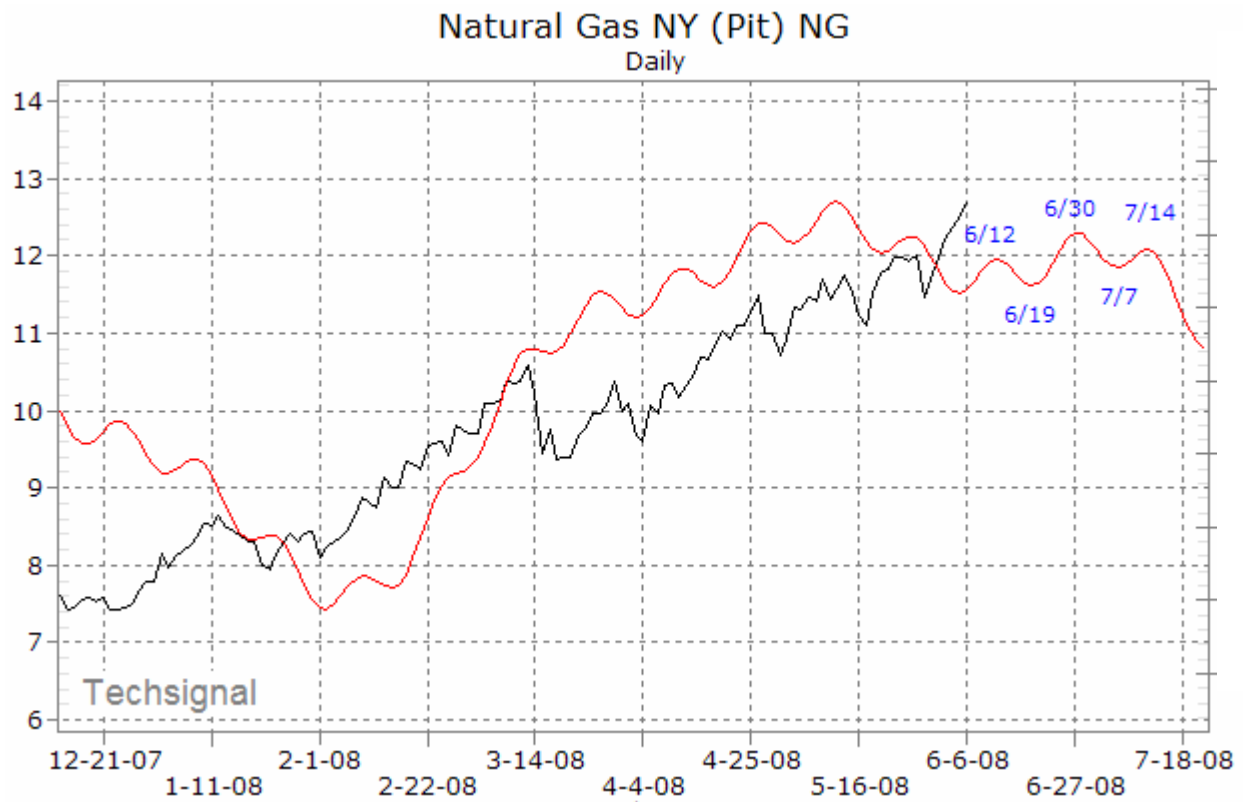


Weekly Heating Oil

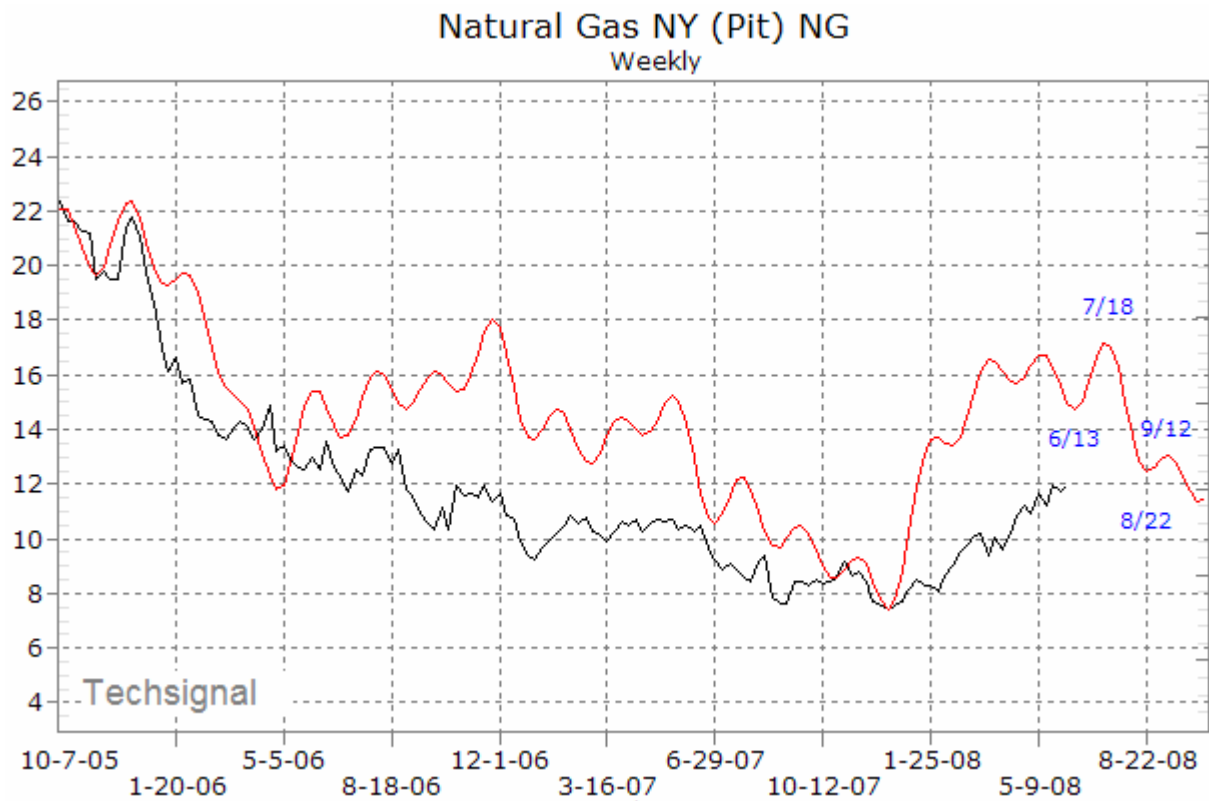
Heating Oil NY (Pit) HO
Weekly



Daily Natural Gas

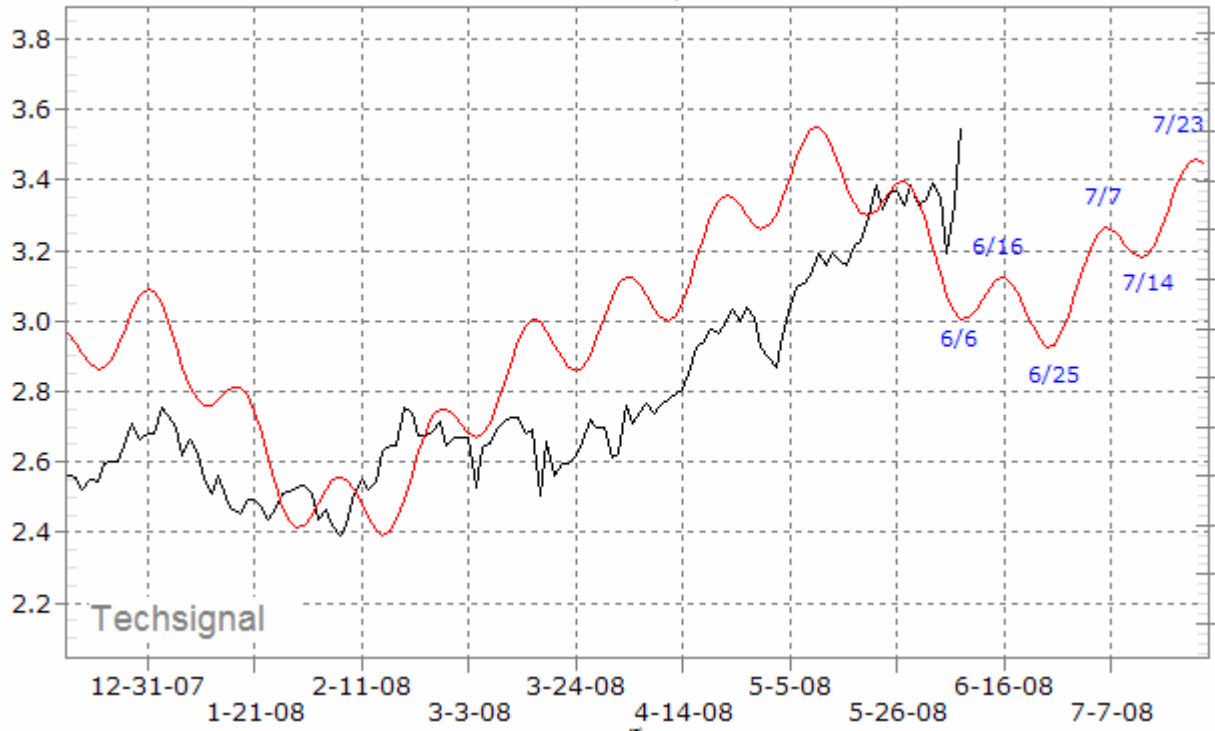


Weekly Natural Gas



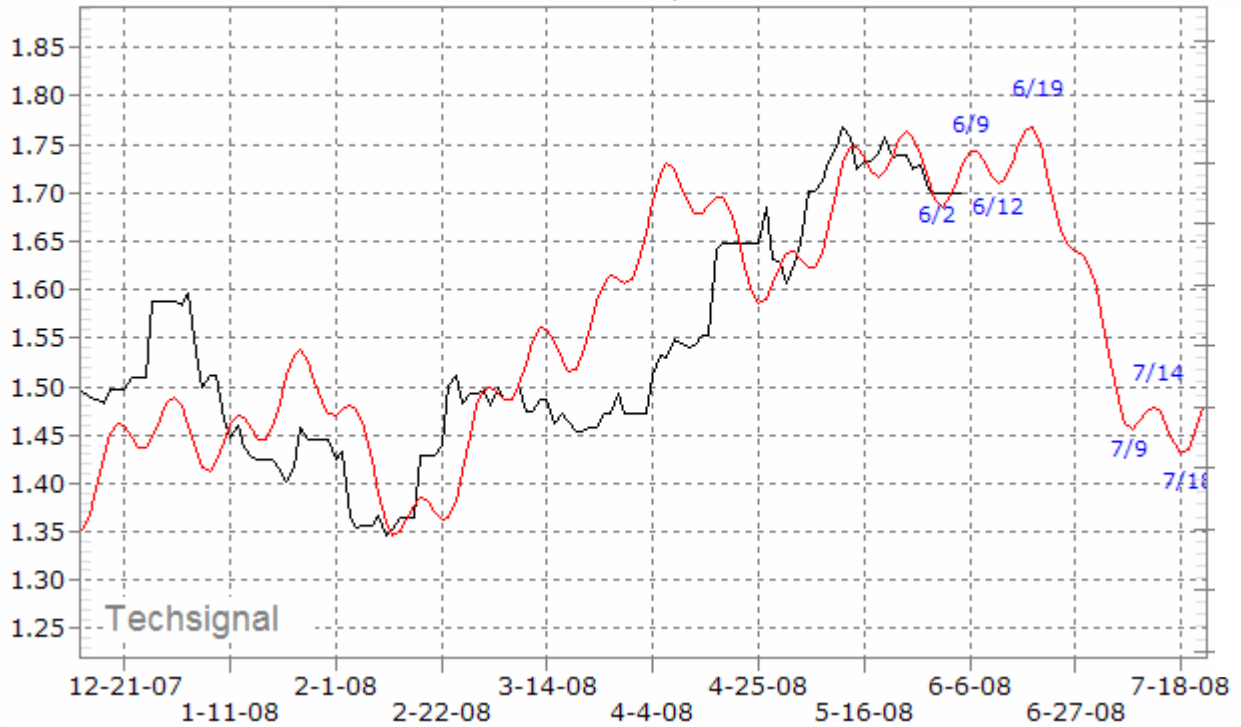
Daily RBOB Gasoline

RBOB Gasoline (PIT) RB
Daily



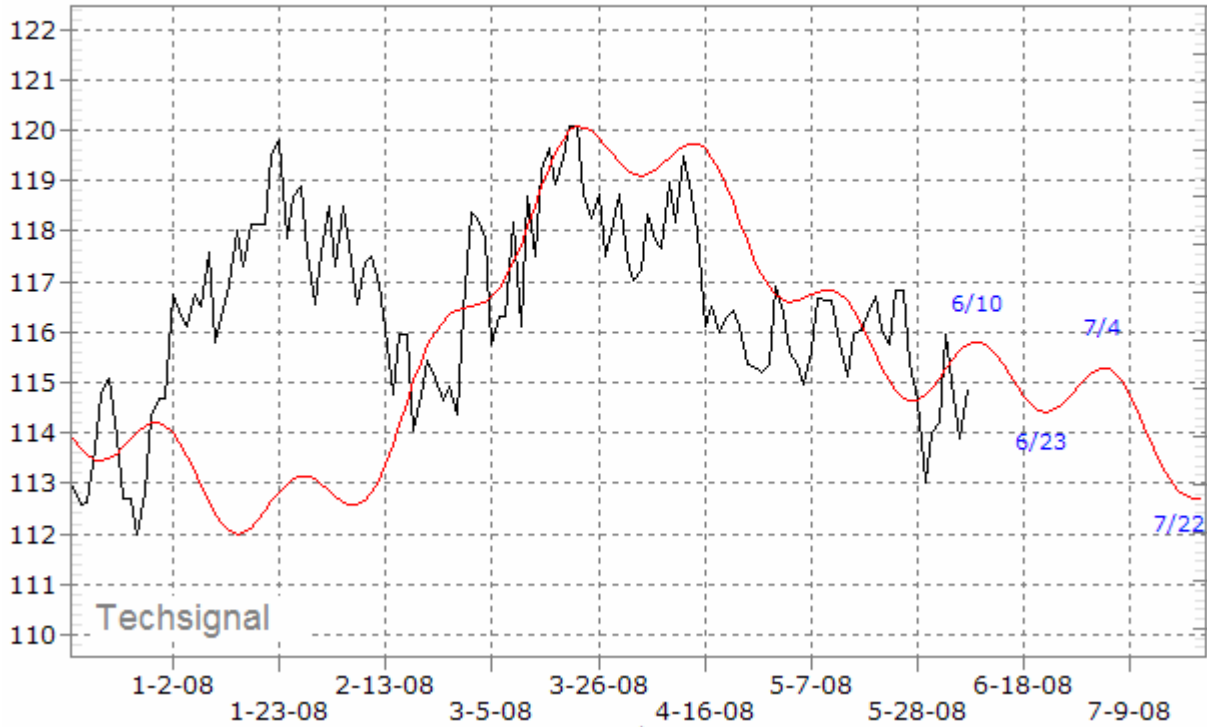
Daily Propane Gas

Propane Gas NY (Pit) PN
Daily



Daily T-Bonds 30 yr

T-Bonds 30Yr CBT Pit TQ
Daily



Daily CRB Index

INDEXFAM CRB Reuters/Jefferies Index CRBI-
Daily

