

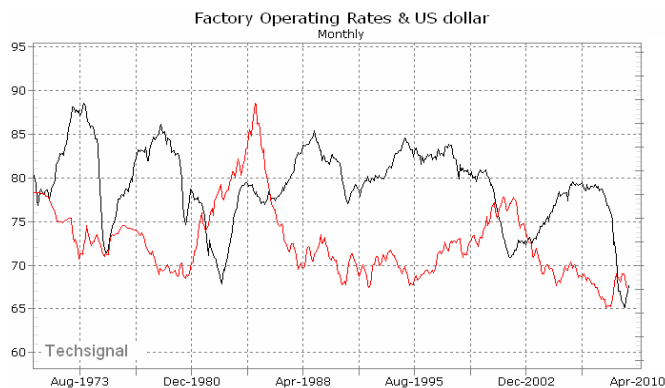
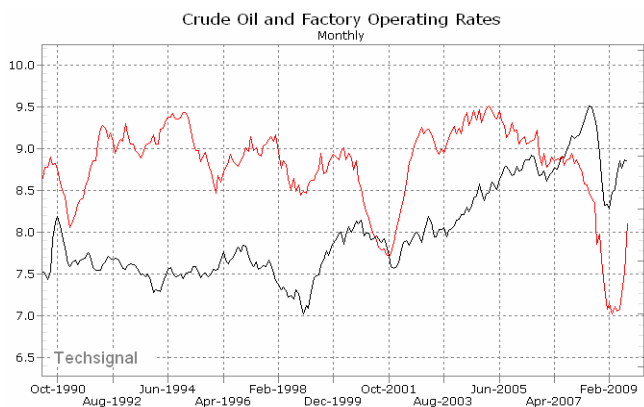
Cycle Projections Energy

OCTOBER-NOVEMBER 2009

ENERGY AND INFLATION

Energy and the Economy- How high can Oil Prices Go?

It is time to think outside the pump not the box. Where can crude prices go? We have included two charts this month. Clearly as factory operating rates, i.e. 'how much capacity in a factory is used' fall and rise so does crude oil. As crude gets relatively high the economy cools. Factory operating rates are now rising off the bottom and crude is rising. But look carefully at the next chart. Now we see operating rates and the US dollar.



One very clear pattern is that the last five peaks in operating rates have come with a falling dollar. After a low in Factory rates both the US dollar and operating rates can rise together for a time, but not for long. Only once in 40-years has this lasted for more than one year. Operating rates have now risen for four months. This means that for the economy to improve and crude oil to rise the US dollar will have to fall; but how low can it go. Our view is that if it breaks down below the all-time low in the Index that the economy will fall and crude with it. If it does not break down below its all-time low then there is limited upside for operating rates and the economy as well as crude oil. We believe that these circumstances have put a lid on crude. If the US dollar rallies however, at a certain point we will see economic trouble. We will under these conditions see the economy fall again despite the money being spent to solve the problems. Until we straighten out the US dollar mess don't expect economic improvement or crude to soar. Our view is that crude will continue in the current range and stretch the top of the range from the mid \$70s to the mid \$80s. We would be short from the higher level.

Crude Oil: The cycles continue neutral with a short-term bullish bias, but be careful in the intermediate term. Long term we are bullish. **Gasoline** Gas prices are short bullish but intermediate term neutral to bearish due to demand. **Heating Oil:** Cycles in heating oil short term are slightly bullish and should make their normal seasonal moves, but no more. **Natural Gas and Propane:** Natural gas, despite its rally, will move sideways to slightly down. Propane cycles are neutral to bearish. **Alternative Energy** No change in Alternative energy. Its bullish longer term. **Inflation:** No change in inflation. It will come, but we need better economic activity.

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Cycle Projections

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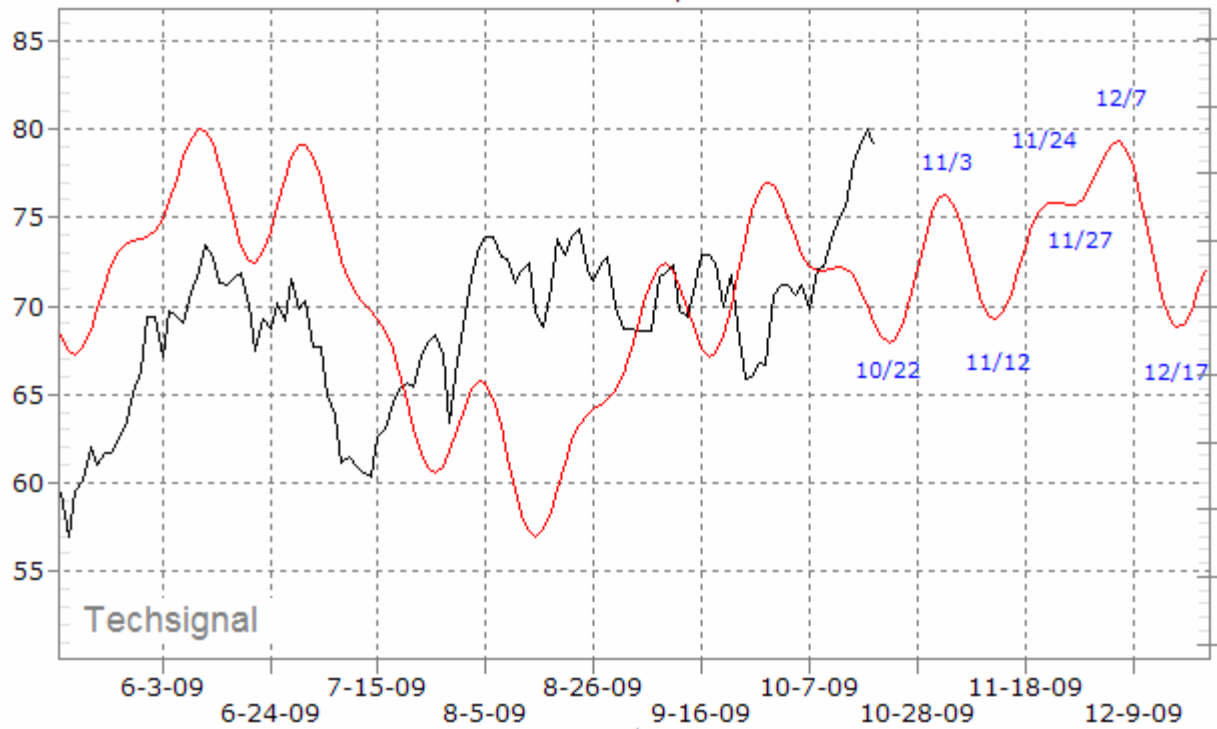
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Daily Crude Oil

Crude Oil NY (Pit) C CL
Daily



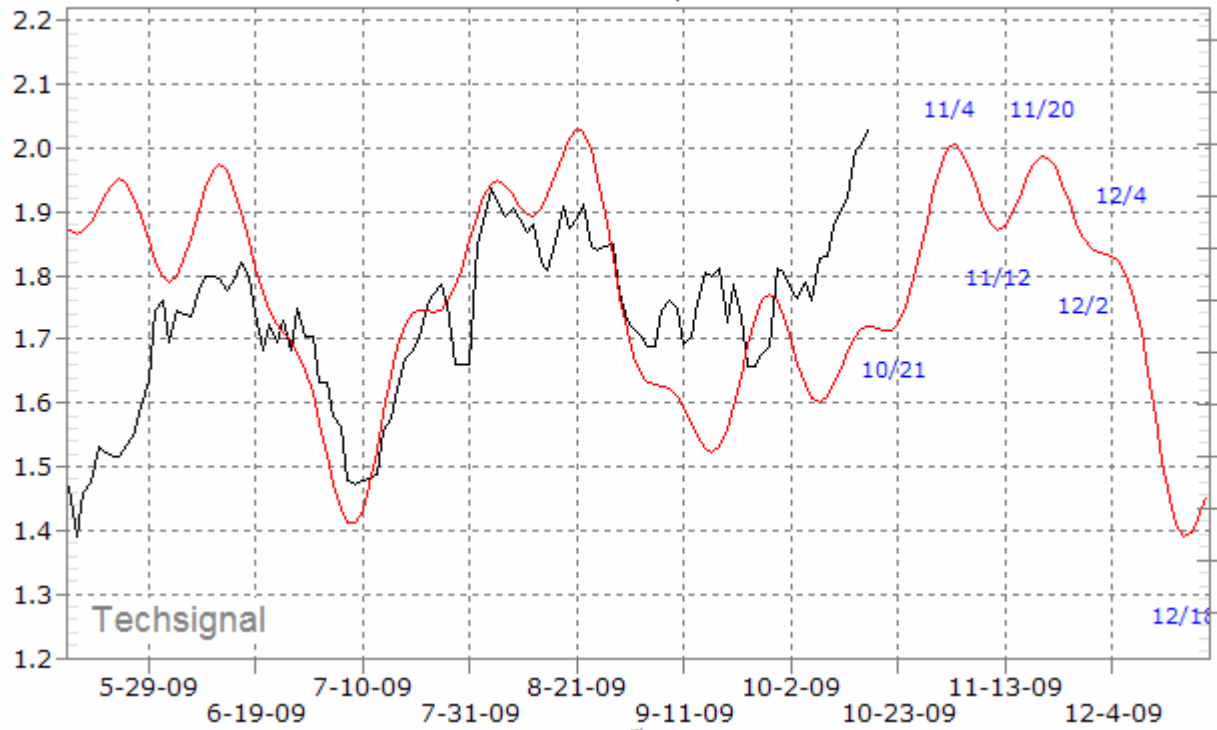
Weekly Crude Oil

Crude Oil NY (Pit) C CL
Weekly



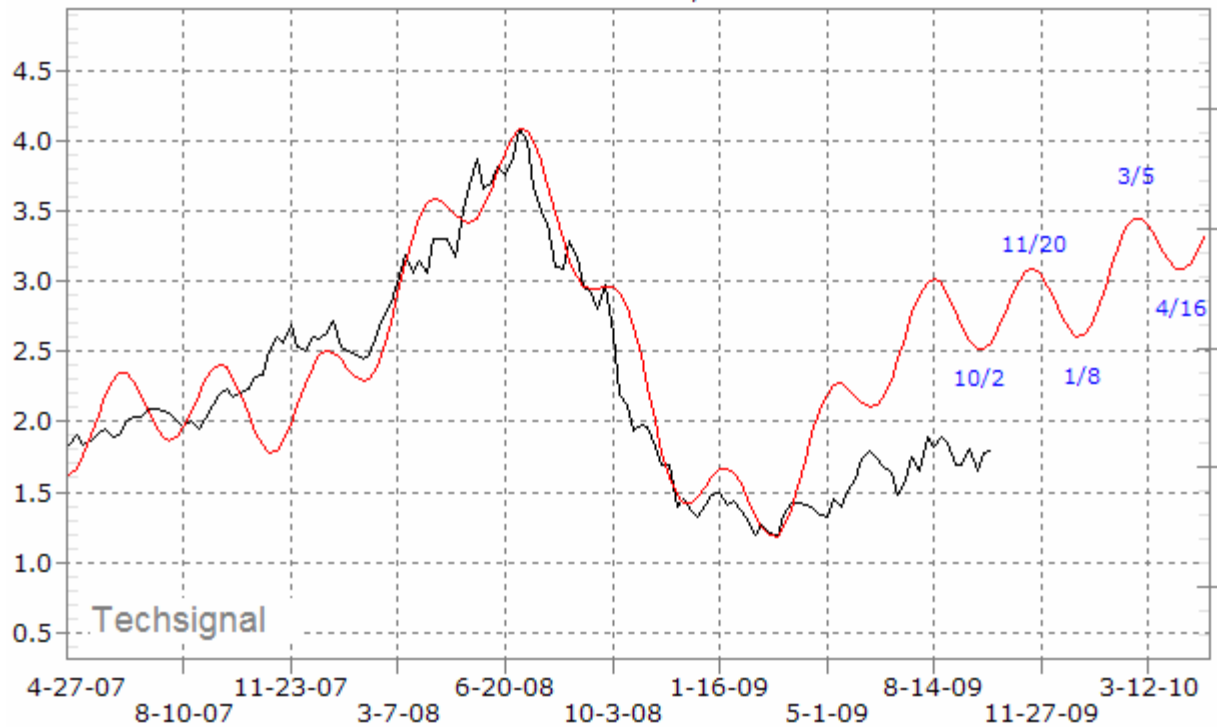
Daily Heating Oil

Heating Oil NY (Pit) HO
Daily



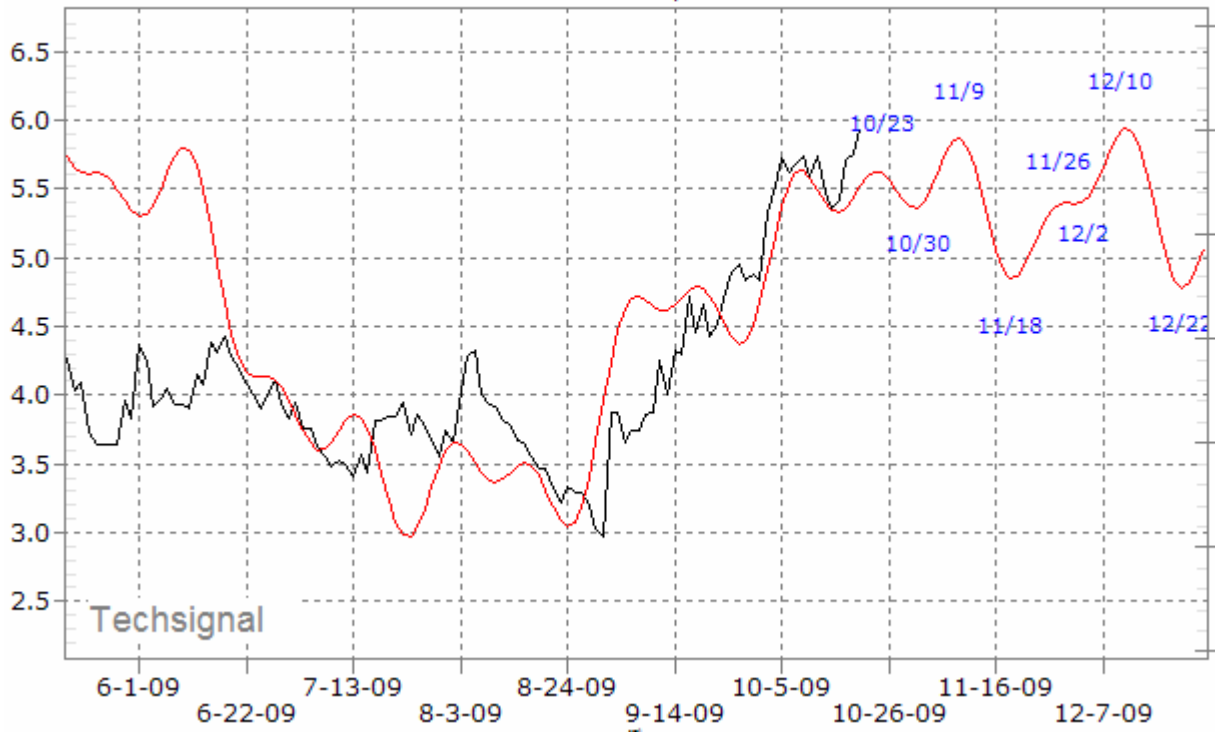
Weekly Heating Oil

Heating Oil NY (Pit) HO
Weekly



Daily Natural Gas

Natural Gas NY (Pit) NG
Daily

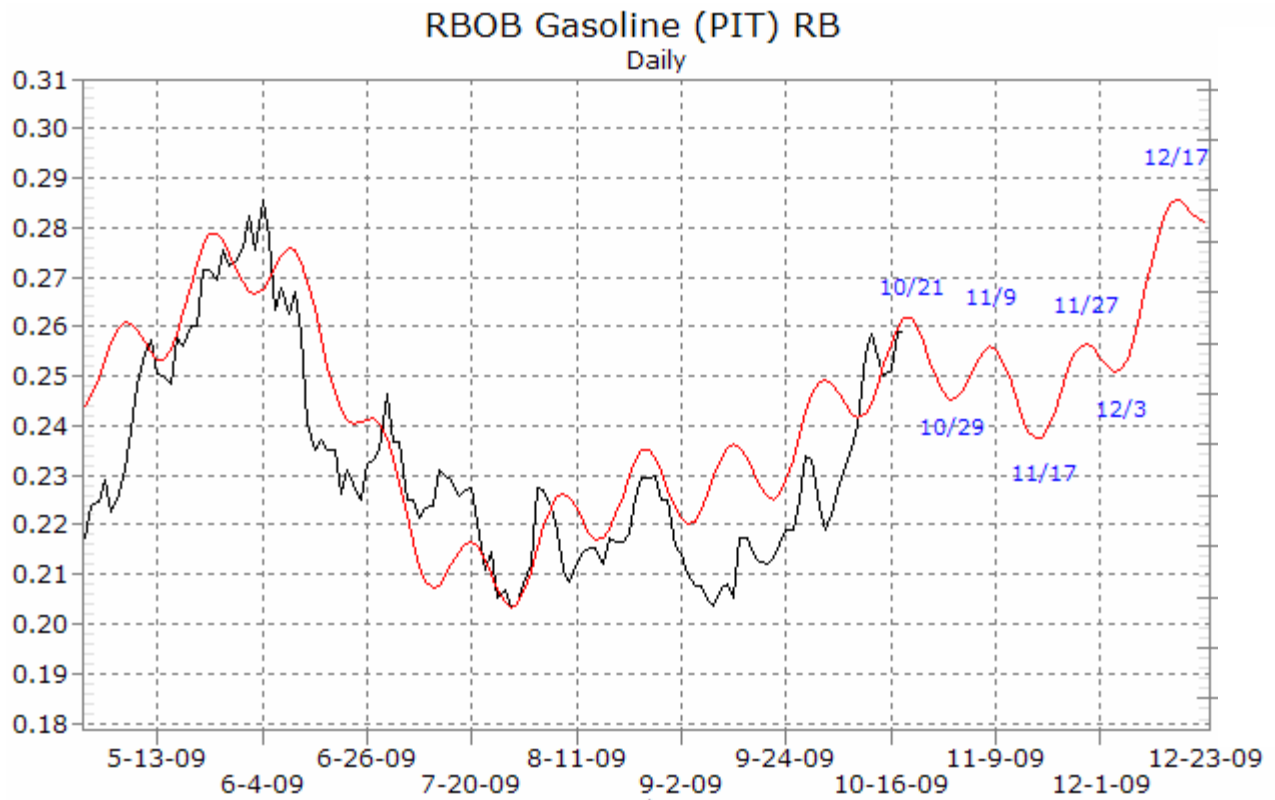


Weekly Natural Gas

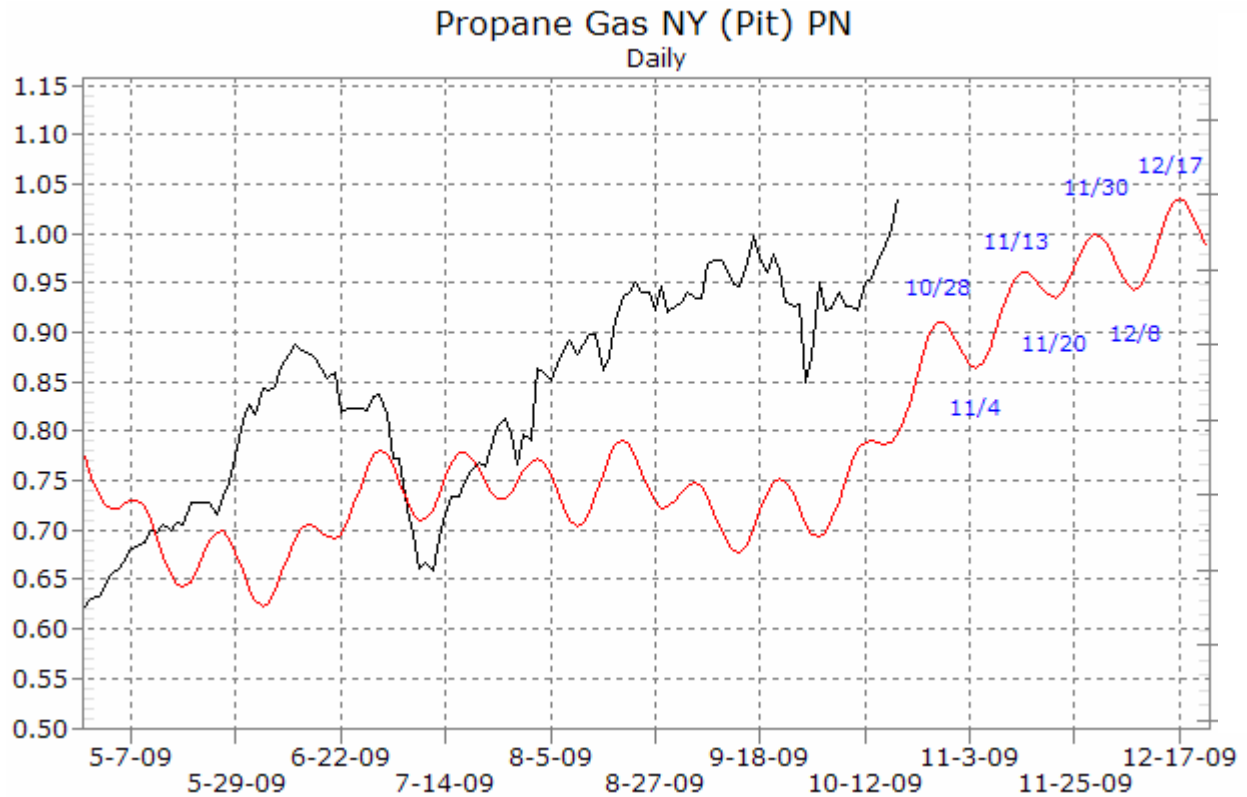
Natural Gas NY (Pit) NG
Weekly



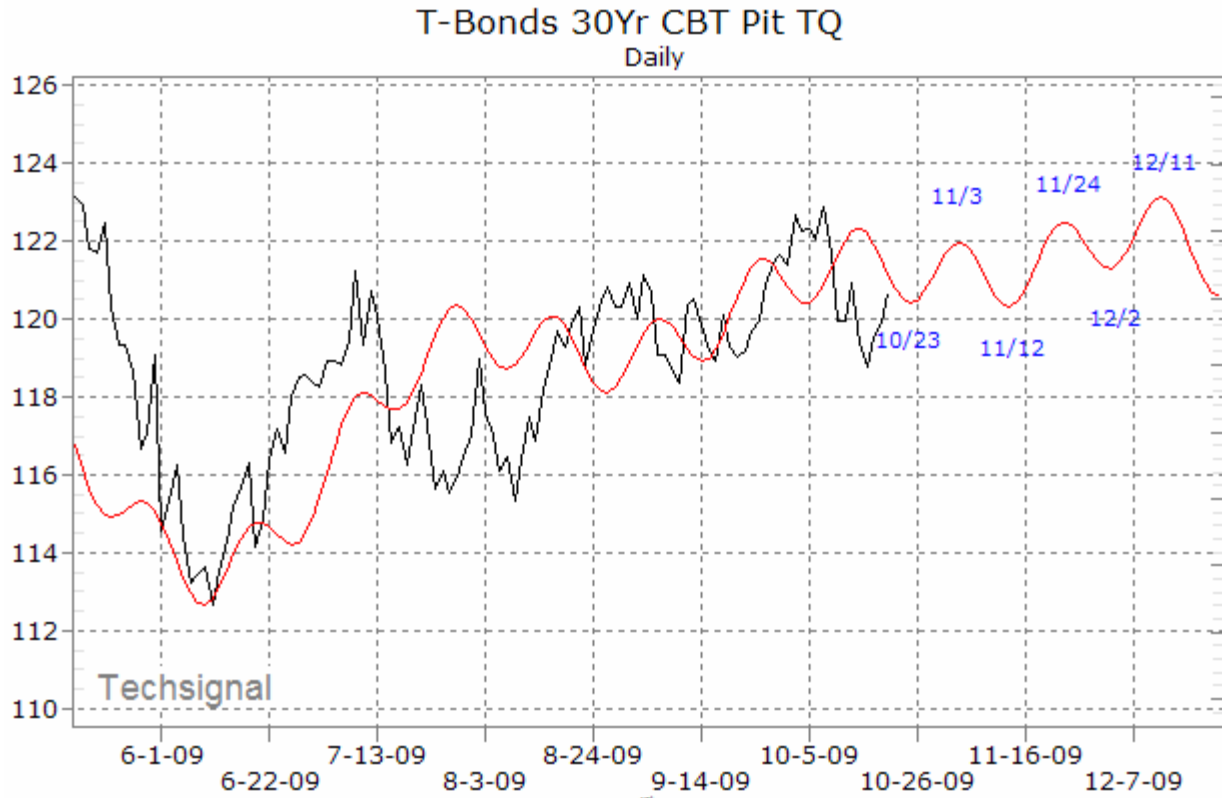
Daily RBOB Gasoline



Daily Propane Gas



Daily T-Bonds 30 yr



Daily CRB Index

