

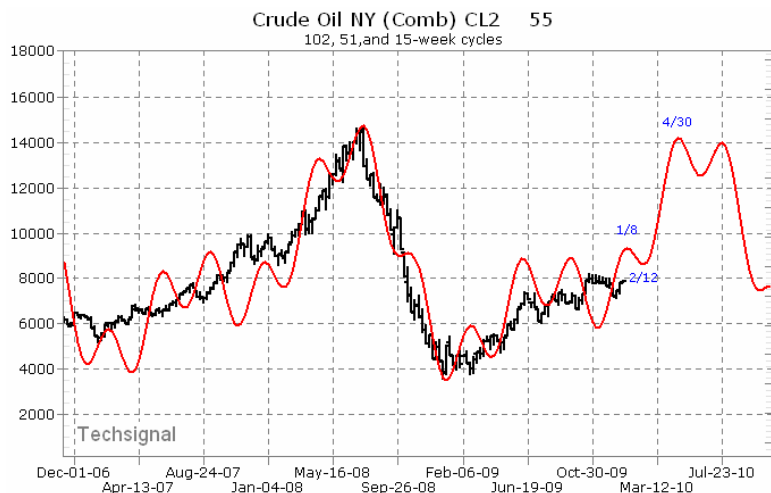
Cycle Projections Energy

DECEMBER 09-JANUARY 2010

ENERGY AND INFLATION

Don't forget the seasonals

The longer cycles in crude oil are now down, both the 28.5 and 13.72-year cycles. But does that mean the crude will go straight down? No it does not. The 15-month cycle is still positive and the all important seasonal cycles are definitely bullish. Crude has always been dominated by seasonal patterns with early winter lows and summer highs. This makes sense when you consider most crude is used in the driving season. Interestingly there are two seasonal tendencies, the yearly cycle, actually 51.2-weeks, and the twice seasonal or 102.4-week cycle which points to larger rallies and declines every two years. The chart below pictures these cycles along



with the dominant shorter 15-week cycle. It shows clearly the tendency for these cycles to enhance or diminish the longer trends. The 28.5 and 13.72-year cycles for example are down, but the market is rallying short-term on the shorter cycles. Early last winter the crude market bottomed and then rallied, but did not stop due largely to the 102-week cycle, which is now bullish. The shorter yearly cycle, 51-week was due to bottom but was diminished by the longer two year cycle. This happened in early 2008 when the 51-week cycle simply caused a little sideways action in the crude market. This cycle is also doing the same going into 2010.

Will the crude market make new highs? This is highly unlikely. Not only are the long cycles down, but demand has yet to return, When demand does return, in several years, we look to new highs in these markets, but not in the next couple of years. So do we stay in the trading range? The answer is yes, but at slightly higher levels than expected last month. We felt that \$77 or \$78 would hold crude, but it appears that we will stretch that range to about \$85. We still do not expect crude to see \$100, even with the seasonal higher. The seasonal will diminish a down trend and not enhance an uptrend.

Crude Oil: The cycles continue neutral to bullish with the seasonal pointing higher. **Gasoline** Gas prices continue at current levels with a neutral bias and moderate demand.. **Heating Oil:** The cycles are seasonally bullish, and if the cold weather continues they will rise a bit more than crude. **Natural Gas and Propane:** Natural gas and propane remain neutral, but a small rally is expected due to winter's upward bias. **Alternative Energy** No change in Alternative energy. It is still somewhat bullish longer term, but not as strong it was previously. . **Inflation:** Interest rates are flat. No change in inflation. Inflation is coming, but it could be after deflation.

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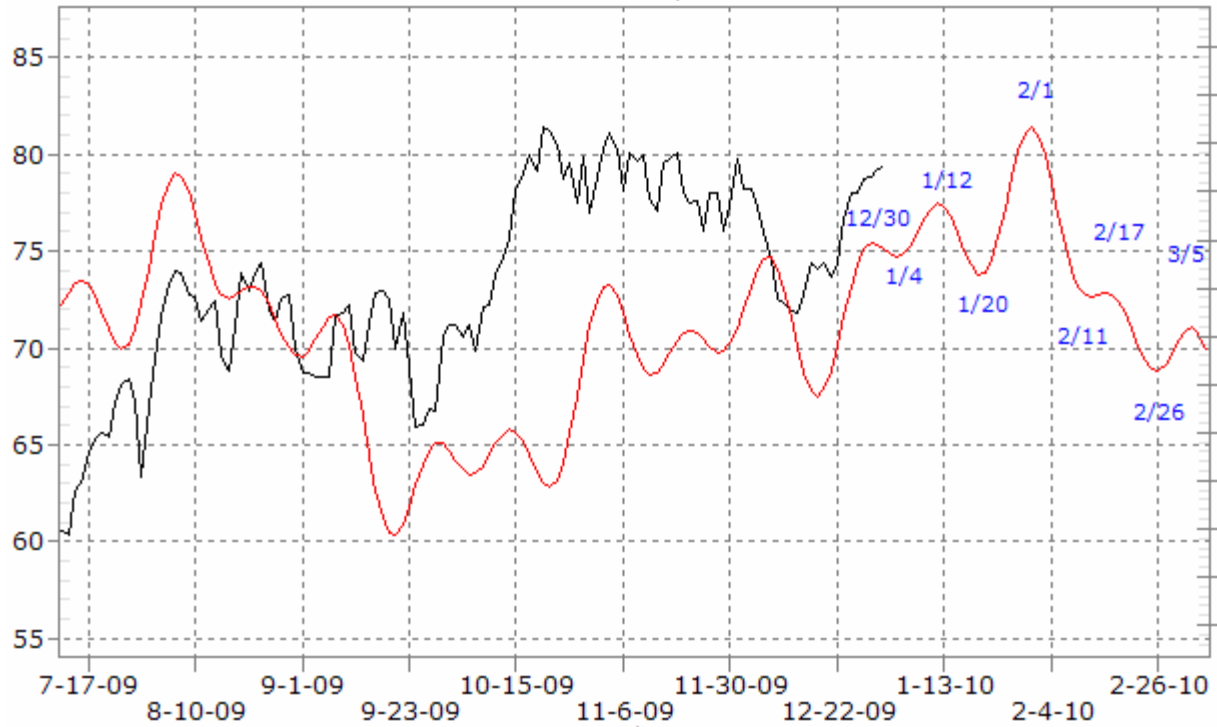
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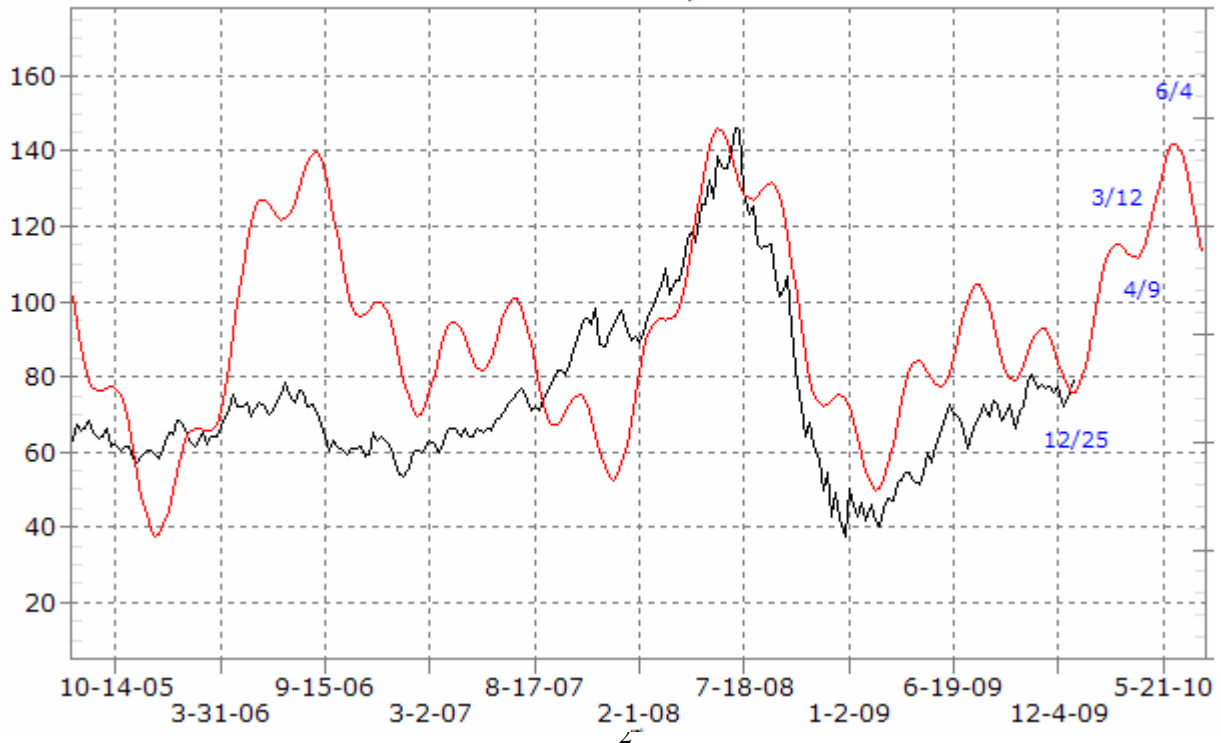
Daily Crude Oil

Crude Oil NY (Pit) C CL
Daily



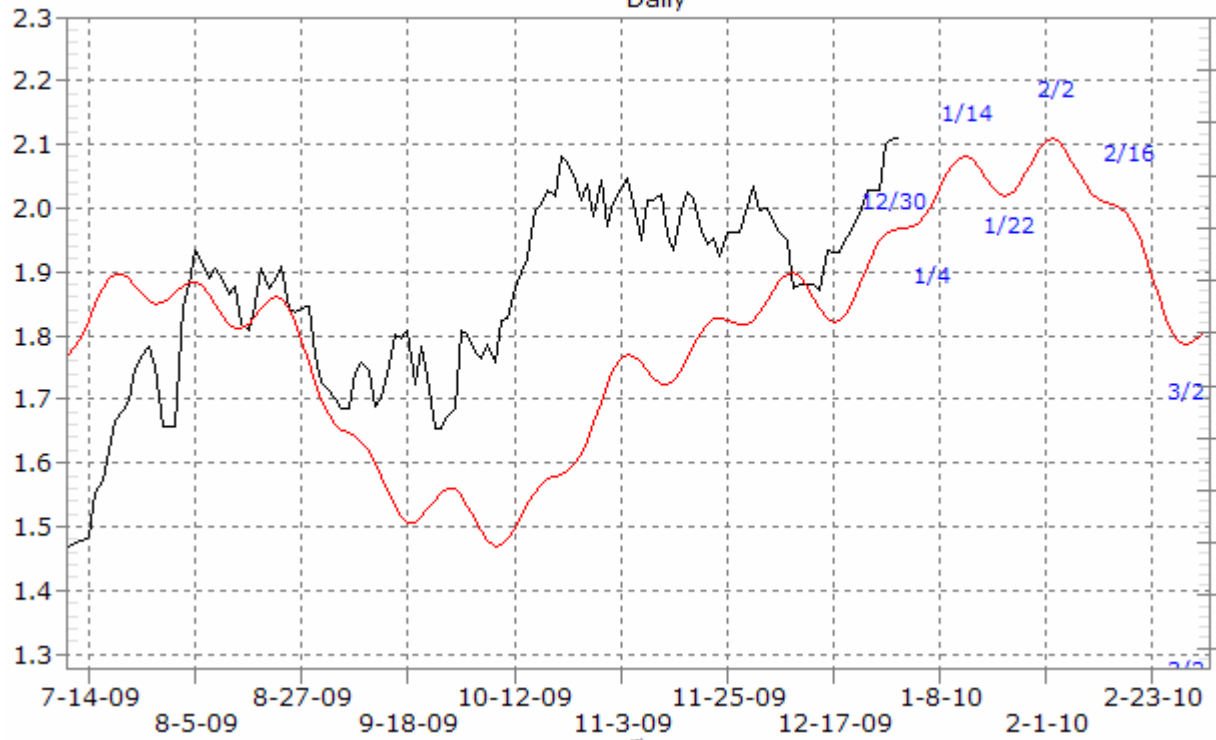
Weekly Crude Oil

Crude Oil NY (Pit) C CL
Weekly



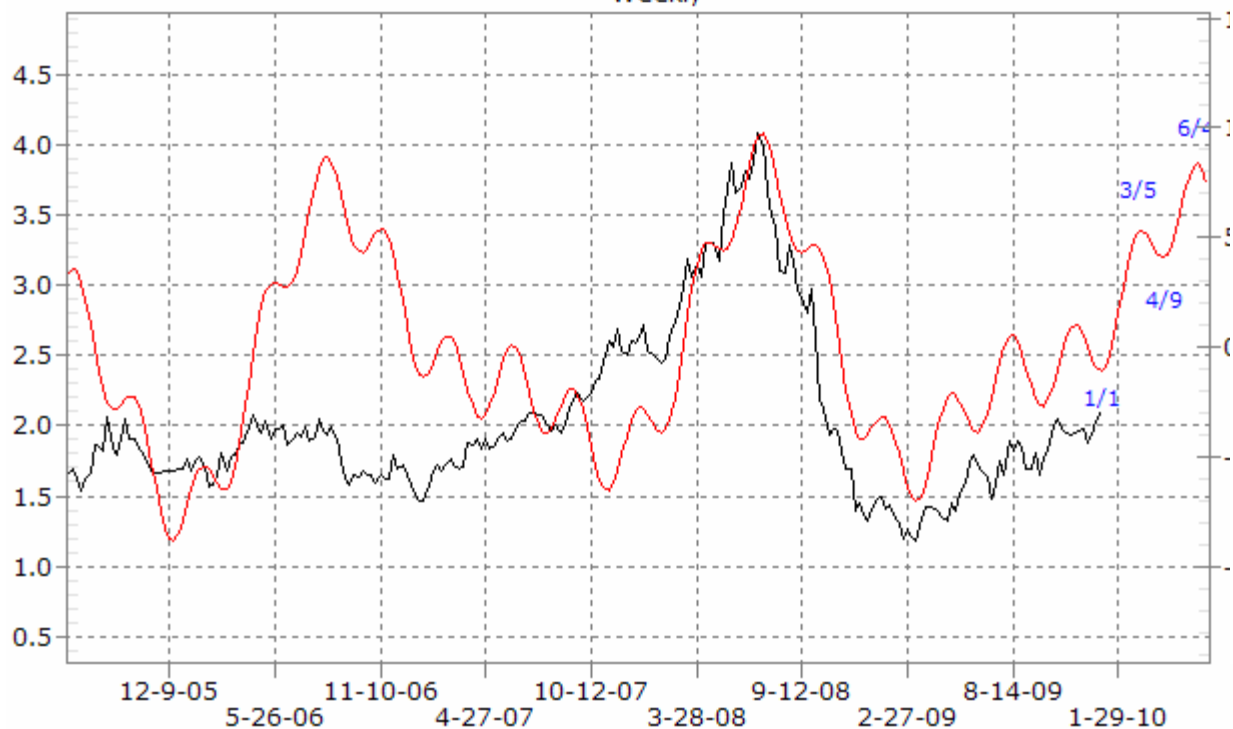
Daily Heating Oil

Heating Oil NY (Pit) HO
Daily



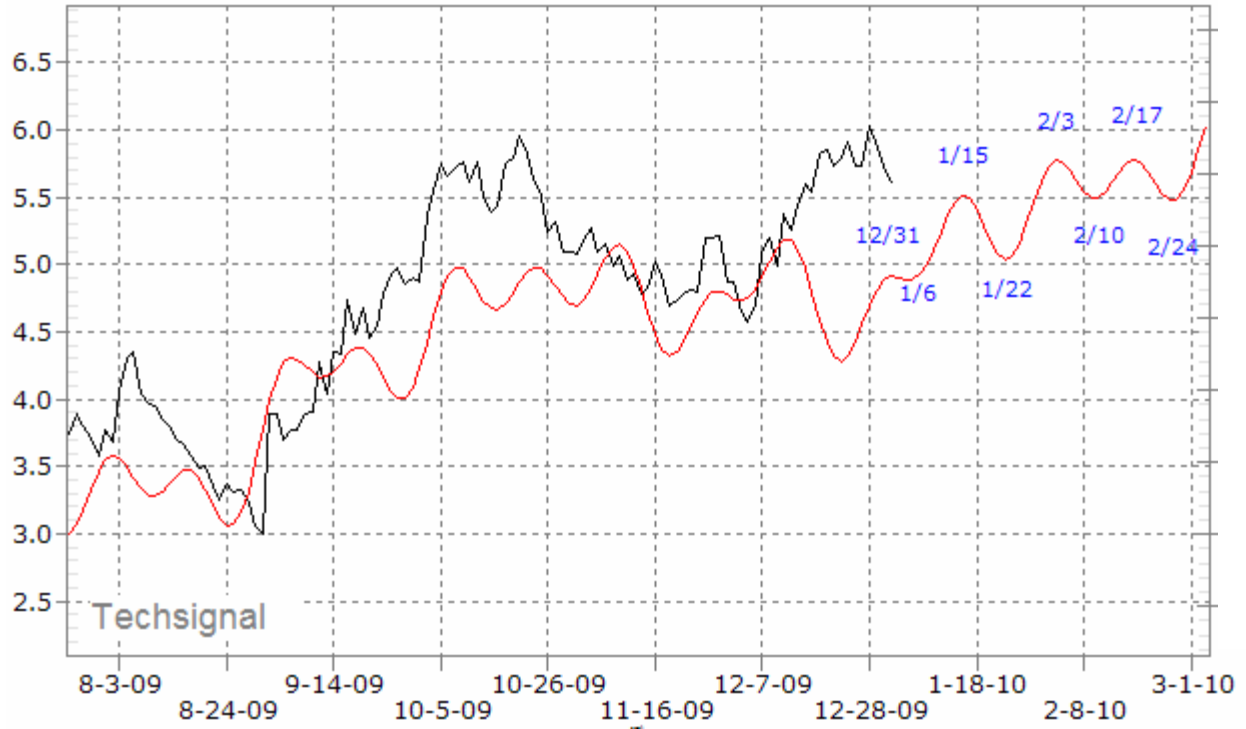
Weekly Heating Oil

Heating Oil NY (Pit) HO
Weekly



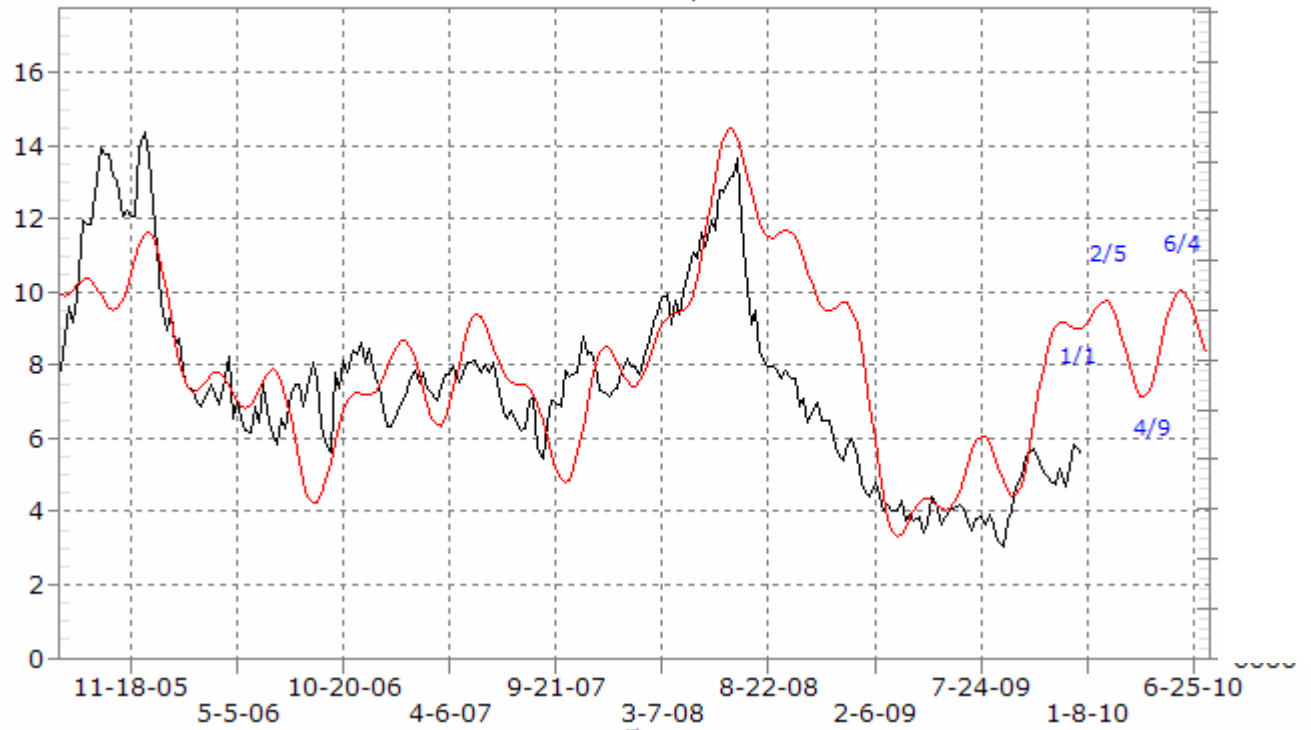
Daily Natural Gas

Natural Gas NY (Pit) NG
Daily



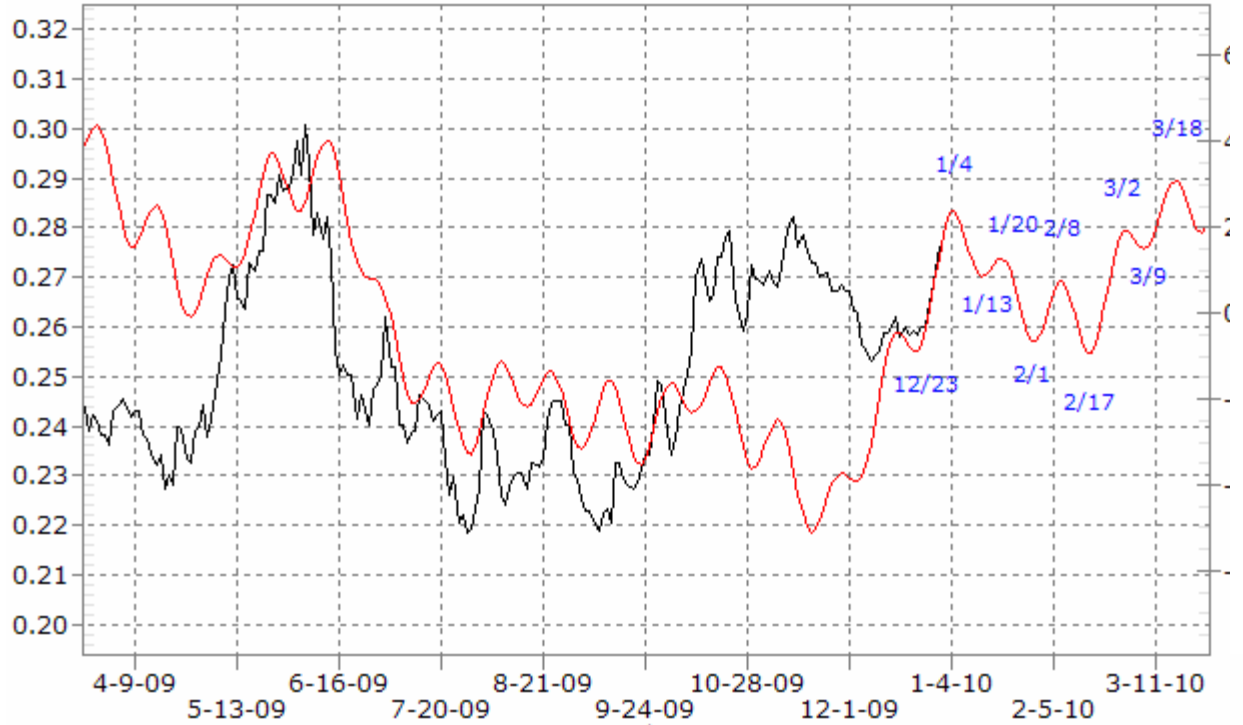
Weekly Natural Gas

Natural Gas NY (Pit) NG
Weekly



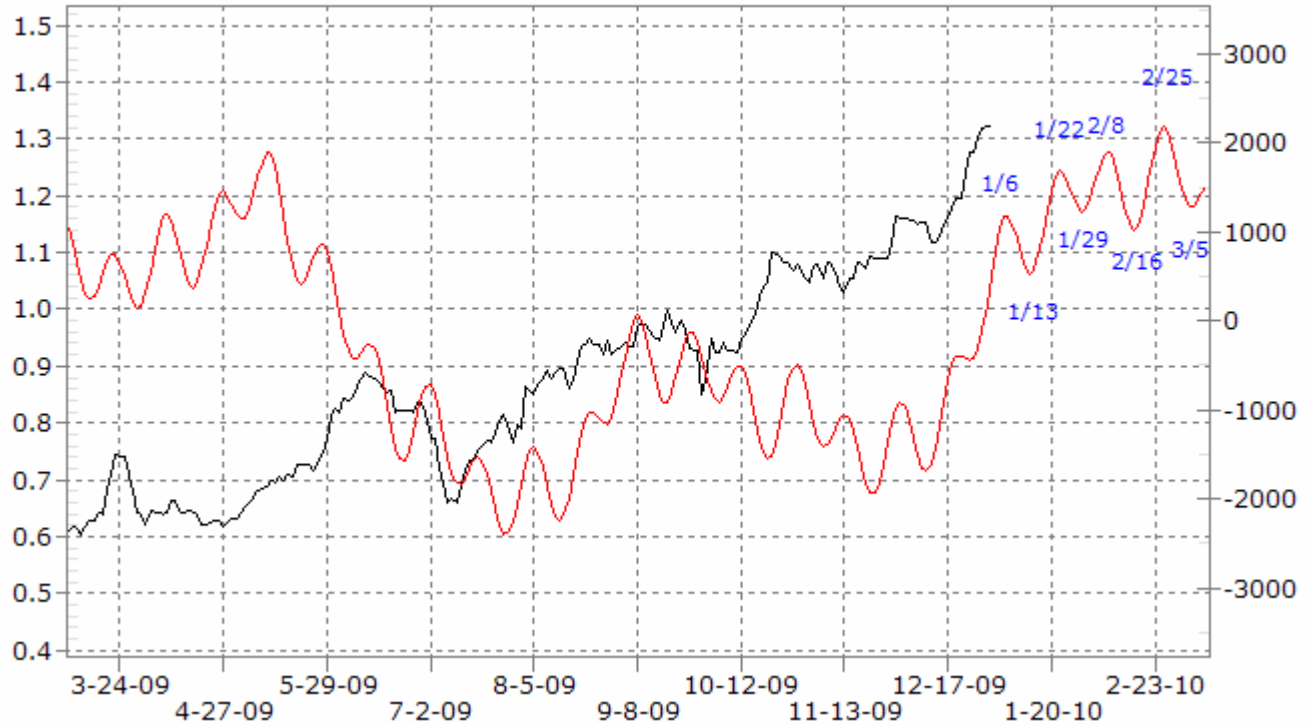
Daily RBOB Gasoline

RBOB Gasoline (PIT) RB
Daily

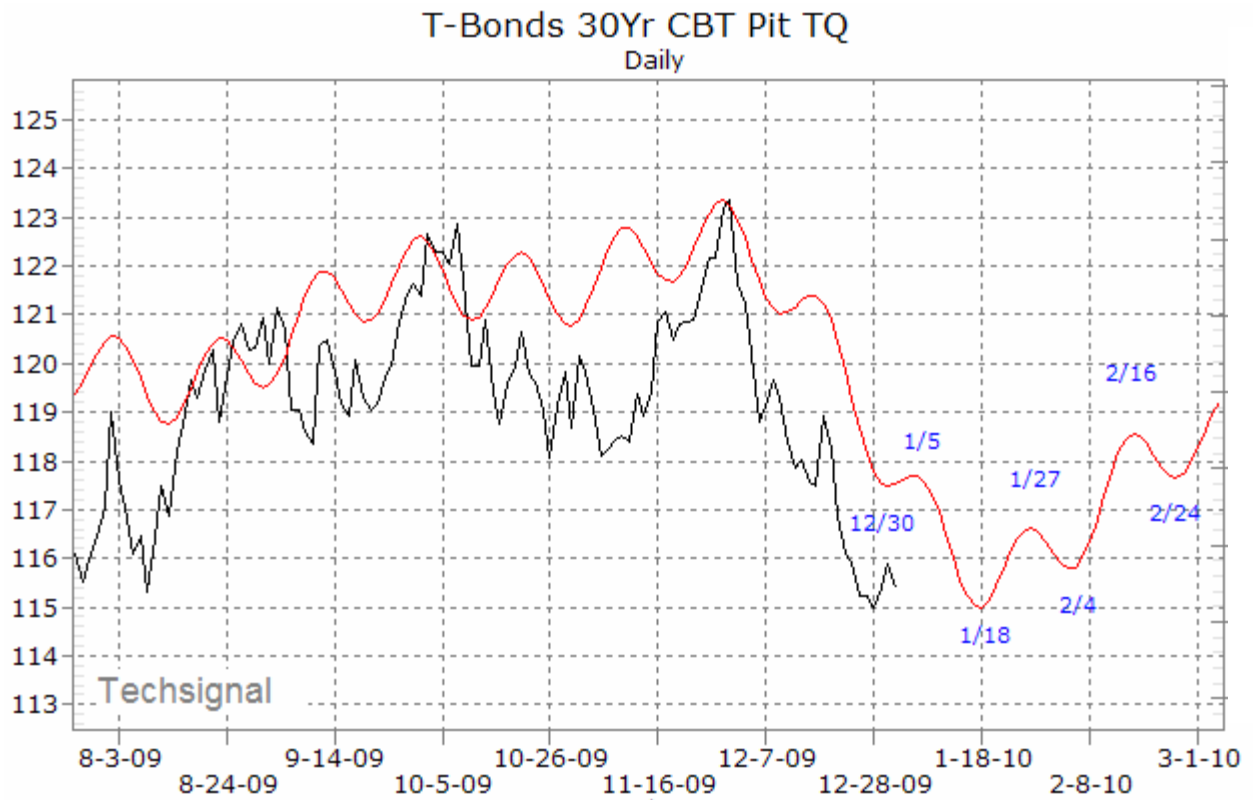


Daily Propane Gas

Propane Gas NY (Pit) PN
Daily



Daily T-Bonds 30 yr



Daily CRB Index

