

## The Bowers Gas Report

Week ending: 1/06/06

Gas storage for the week ending 1/06/06 was 2621Bcf which was a withdrawal of 20Bcf over the prior week. This compares to the year ago level of 2623Bcf and the five year average of 2345Bcf, a difference of -2Bcf and +276Bcf, respectively. With 12 weeks remaining in the withdrawal season, we need to withdraw less than 157Bcf per week to remain above the danger zone. Next week's report should show a withdrawal of about 50Bcf as winter continues its absence. The hedge funds continue their injections in the producing regions of the country.

I've recently seen energy information which supports my belief that global oil production and U.S. natural gas production has peaked. If this is truly the case, then in the market environment going forward, price level will be the sole factor in determining supply and demand of both products. As price level goes up, demand will be lost until the price level falls to match the available supply. In the case of U.S. natural gas, supply has been continually shrinking which suggests that prices will move up despite demand influences. I would further view any price weakness in natural gas after this winter's withdrawal season as extremely temporary. I think the market will incorrectly interpret higher than normal storage levels at the end of the season as a signal that gas supplies are plentiful when in fact they are not. As I've stated previously, a cold winter this year would have caused severe shortages, however, it now appears we will be getting the best possible result to insure adequate winter supplies, a mild winter event. Even though much of winter remains, we have had sufficient mild weather thus far that we will now be able to make it through whatever happens over the next twelve weeks and still have adequate gas supplies. This does not mean that prices will continue south for the remainder of 2006. There will be the matter of refilling storage for the next winter as well as meeting the needs for summer cooling purposes. Once again, it appears that the natural gas market has dodged another major bullet.

We saw an announcement this past week that projected that by the end of 2006 dollar reserves held in the form of U.S. debt by the Chinese government would be over one trillion dollars. If so, this would make the Chinese the largest holder of our debt, surpassing the former largest holder, the Japanese government. I mention this fact for the primary reason of helping you understand the future implications of this event. First of all, the level of U.S. interest rates will be greatly determined by whether the Chinese continue to add to their dollar based holdings. If they decide to reduce their exposure to our debt, then our debt rates will have to rise to compete in the global market for other investor's funds as our government attempted to sell additional bonds to finance spending. As long as the Chinese continue to buy our debt, they will help in subsidizing our high standard of living and keep our interest rates low. The second factor deals with currency effects of the U.S. dollar relative to other currencies. By buying our debt reserves, this has caused the U.S. dollar to remain stronger against other currencies than it normally would. We especially saw this happen in 2005 as the dollar strengthened against most currencies compared to the prior weakening trend of 2002 through 2004. If for whatever reason the Chinese reduced their U.S. debt purchases, the U.S. dollar would resume its path of weakness against other world currencies that was happening prior to 2005. As a rule, the cost of foreign goods to an economy with a weakening currency become more expensive to purchase and tends to lead to higher inflation than previously experienced. Commodities such as oil, LNG, and copper would cost even more as a result of U.S. currency weakness. I mention this issue to bring attention to the fact that the U.S. economy is increasingly at the mercy of foreign governments and the decisions they make in the global financial markets. Thus far, the U.S. has benefited from this symbiotic relationship with the Chinese government. Our government had the need to sell more debt; the Chinese had a need to invest the reserves they earned from selling massive quantities of goods to U.S. consumers and so bought our debt. By buying vast amounts of our debt, the Chinese helped the Federal Reserve keep our interest rates low in a rising inflationary market. Similarly, the Chinese need the U.S. consumer to keep buying vast quantities of their goods to help maintain the rapid growth and development of their industrialization transformation. It will keep working in this way until it doesn't anymore. Until this game of musical chairs stops, risk levels in all investment markets will continue to rise. The end result will likely be higher U.S. interest rates, a significantly weaker U.S. dollar, lower U.S. Stock and bond markets, and overall lower asset price levels around the world. For what its worth, the Chinese are highly motivated to make sure things remain unchanged through the end of 2008, commensurate with the Summer Olympics in Beijing, as they will be on the world stage and desiring very much to impress everyone with their economic prowess. I'd sure be on the watch for unsettling events in 2009 and beyond though.

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Danny J. Bowers, Jr. is currently President of Bowers Investment Group, LLC, a Houston based investment consulting firm offering services to institutional investors and high-net worth individuals. He has had over fifteen years of diversified investment and asset management experience. His interest in the energy market extends back to 1988 when he first became a working interest owner of properties in East Texas.

Mr. Bowers was previously the Chief Investment Officer for the Houston Firefighters' Relief and Retirement Fund, a public fund in Houston, Texas. Prior to his ten years with the Firefighters', Mr. Bowers also obtained ten years of broad experience in engineering, finance, and pension management with TXU Corporation, a public utility in Dallas, Texas.

Mr. Bowers received his Bachelor of Science degree in Engineering from Texas A&M University and his Master of Business Administration from Southern Methodist University.