

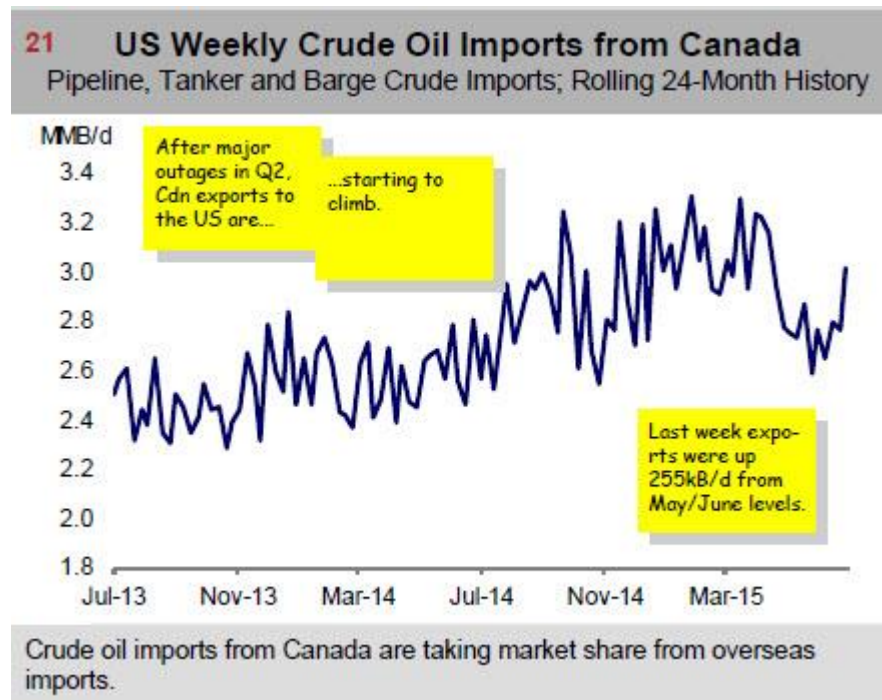
OGIB INTERIM BULLETIN #416 - July 22nd, 2015

PARTIAL PORTFOLIO SALES

PAREX WHITECAP CANAMAX ENERGY PACIFIC ETHANOL

Oil showed a surprise inventory increase this week (surprise to most but not me) of 2.5 million barrels—causing oil to drop \$1/barrel on Brent and \$1.60/barrel on WTI.

Canadian exports to the US are a big reason for this build--they are now up 255,000 bopd from May/June levels--says ARC Energy charts—or about 1.785 million barrels a week.



I see this trend continuing—there is still more Canadian oil to come into the US. To me it means the oil price will have a very difficult time rebounding without a fast and meaningful drop in LTO—*Light Tight Oil* production in North America.

And as you saw from the EIA charts I presented to you last week—showing rig

productivity increasing 50% as rig counts declined—I don't see that as very likely.

I don't know how long these dark days with the oil price will last. I do not believe the world is oversupplied by 2-2.5 million barrels a day; I believe the global oil market is much tighter than the Market gives it credit for right now—but right now that doesn't mean anything.

It's difficult for me to look at rig productivity improvements and what that means for US production (no big downward production slowing...) and the wall of Canadian production coming back and the Iranian oil storage offshore about to come back....and be bullish on oil.

I can see these inventory builds continuing for another couple months.

The good news (for me and my refinery stocks) is that demand is high—so high that refineries are running at a four week average of 95.5%--I think that's the first time in history for four weeks over 95%--*and there was still an inventory build.* However, this is a VERY bearish statistic for oil.

What happens when demand drops off and refinery throughput drops—like it does every shoulder season (spring and fall)? Again, unless North American LTO production falls dramatically and quickly, inventory builds could get much higher than The Street thinks.

You can always make money in energy, you just have to be flexible and adaptable--hence my bigger positions in Crius and refinery stocks.

So for now I'm stepping aside on a few of my remaining oil producer positions (some, like **Stonehaven (SE-TSXv)** I just can't sell as there are no bids), and I'm getting stopped out on my **PEIX** trade, which makes me really sad. (More on that below.)

Here are the trades:

I sold 11,000 Pacific Ethanol (PEIX-NASD) at US\$7.94 for a roughly \$2/share loss or 22% on 10,000 and a 50% loss on 1000 shares. I hold none now.

I sold 1,000 Whitecap Resources (WCP-TSX) at \$10.86 for a 30 cent loss or 3%. I hold none now.

I sold 2,000 Parex Resources (PXT-TSX) at \$9.04 for a 17 cent loss or 2%.

I sold 20,000 Canamax Energy (CAC-TSX) at \$0.56 for a gain of 26 cents or 87%.

I still own a lot and I will update the portfolio on the weekend when I am home.

With PEIX—west coast ethanol margins (the crush spread) are now negative 15 cents a

gallon, and Midwest is positive 15 cents a gallon—so essentially zero for PEIX right now (they are 60% Midwest now). While gasoline is outperforming oil right now, ethanol margins are obviously squeezed with lower prices.

And corn is trading about \$3.60/bushel (you will see over \$4/bushel on the NASDAQ site but local basis (the discount to that price) is 40 cents right now)—which is still 40 cents higher than I thought it would be at this time of year.

And there's a bunch of PEIX that was Aventine stock that's about to be free trading...whatever the cost base was for these people, their mental cost base is likely close to zero as it was off the board for four years. There is no doubt that's going to weigh on the stock (and I've mentioned that a couple times before).

So between oil trading lower than I thought it would 2 months ago and corn trading higher than I thought it would 2 months ago (crazy wet weather in southern half of corn belt, reducing yield estimates)—this trade has gone against me when I thought it was one of my better trades of 2014. And God knows, for a more patient investor, maybe it still will be.

While ethanol inventories are down slightly, they're not down enough and the Market has a surplus of RINs right now which generally means ethanol production has to come down. The industry is not showing much discipline right now on that.

Fortunately, my two largest dollar cost positions--Crius and Valero--are up for the year.

-Keith