Global Macro Research | US
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MF Global Daily Report

COMMODITIES | ENERGIES

Energy

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Price Outlook

The following is the energy contribution to the Monthly Market Memo:

Energy markets are expected to trade in a mixed direction in April, with influential forces in equal opposition. June oil prices should range between $78.80 and $83.80, while products outperform crude oil and maintain support for the crack spread. The oil market should receive support this month from signs of improving U.S. and global oil demand. The EIA currently projects 1.47 mb/d in global demand growth in 2010 and 1.55 mb/d growth in 2011, mainly due to strong GDP predictions of 3.4% & 3.5% respectively. Global demand is currently 1.73 mb/d below its Feb '08 peak, so the EIA's prediction would be bullish to say the least. Most of the demand growth is still coming from non-OECD countries, but the U.S. is showing moderate improvement. U.S. gasoline demand is 105 kb/d below year-ago levels, but inventories of diesel fuel are falling and growth in demand for petrochemical feedstocks suggests moderate economic improvement. That being said, we don't have the same confidence in the EIA's growth forecasts. Indications of U.S. growth from statistics like employment, housing, and vehicle sales still point toward a sub-par economic recovery compared to prior recessions. Pressure on energies could also come from recent indications given by OPEC, which has signaled that development projects that were idled amid lower prices in early-2009 were resumed once prices advanced to acceptable levels. Similarly, BP's CEO indicated that projects will be continued as long as prices are above the $60-$70/bbl range. Potentially higher supply from E&D will be bolstered by the placement of spare capacity within OPEC, which is currently around 5.7 mb/d (down from Mar '09 high at 6.84 mb/d). MFGR believes that OPEC is fearful that high oil prices were at least partially responsible for the global recession, which would explain the lack of attention to quota compliance, currently near 55%. We're maintaining our year-end oil objective at $85/bbl.

TRADE: Buy CLM0 at $78.80, target $83.80, risk $77.80
Roll over Long RBJ0-HOJ0 at 13.00 cents using Mar 29th close of 13.22 cents in Apr & 13.41 cents in May. We now consider ourselves long RBK0-HOK0 from 13.19 cents. Target is 30.00 cents and risk is 9.00 (Trade entered on Mar 1st)

EIA Oil Inventory Preview

MFGR anticipates the EIA to report a 3.0 MB increase in crude oil stocks this week, with higher imports again being the leading contributor. Oil Movements data suggest that OPEC seaborne shipments improved by either 470 kb/d or 150 kb/d this week depending on whether a lag works or not. That should add on to 969 kb/d gain in imports in the EIA data. Changes to refinery inputs shouldn't play much of a role this week, as refineries historically see an unchanged reading in utilization this week. Several facilities are wrapping up spring maintenance to prepare for upcoming increases in driving demand. Gasoline stocks should fall by 3.0 MB this week as refiners' switchover to summer blends is exacerbated by recent steady improvements in consumer demand. The same two factors can be used to explain an expected fall in distillate stocks this week of 2.0 MB. We predict a small increase in utilization of 0.2%. Demand will end up being the final determinant of whether the numbers are positive or negative. We expect them to be positive for energy prices, as demand has been showing counter-seasonal increases in the past several weeks.

Natural gas stocks are expected to increase by 11 bcf. Temperatures in the survey week showed an HDD number of 112.3, which is below the 126.1 ten-year normal. That should result in a build of around 11 bcf compared to the five-year average draw of 41 bcf. The early read on next week's data shows a return to normal in key natural gas heating areas, but with a dome of much above normal temps making its way across the northern plains states. Early expectations on inventories then will be a build of 18 bcf compared to a 13 bcf build in the five-year average.

EIA Inventories - w/e Mar 26th							API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week		Converge with EIA	Actual	Previous
Crude Oil		+2.6 MB	+3.0 MB	+2.0 MB	+7.3 MB		+0.7 MB	+0.4 MB	+7.5 MB
Gasoline		-1.7 MB	-3.0 MB	-2.6 MB	-2.7 MB		-1.4 MB	-1.0 MB	-0.08 MB
Distillates		-1.4 MB	-2.0 MB	-1.6 MB	-2.4 MB		+1.9 MB	-1.0 MB	-2.5 MB
Utilization		+0.2%	+0.2%	Unch	+0.5%		+1.0%	82.1%	80.8%
Natural Gas		+15 bcf	+11 bcf	-41 bcf	+11 bcf				

*The API convergence figures are the amounts that EIA data need to change in order to match the previous day's API figures