

April 30th, 2010

MF Global Daily Report

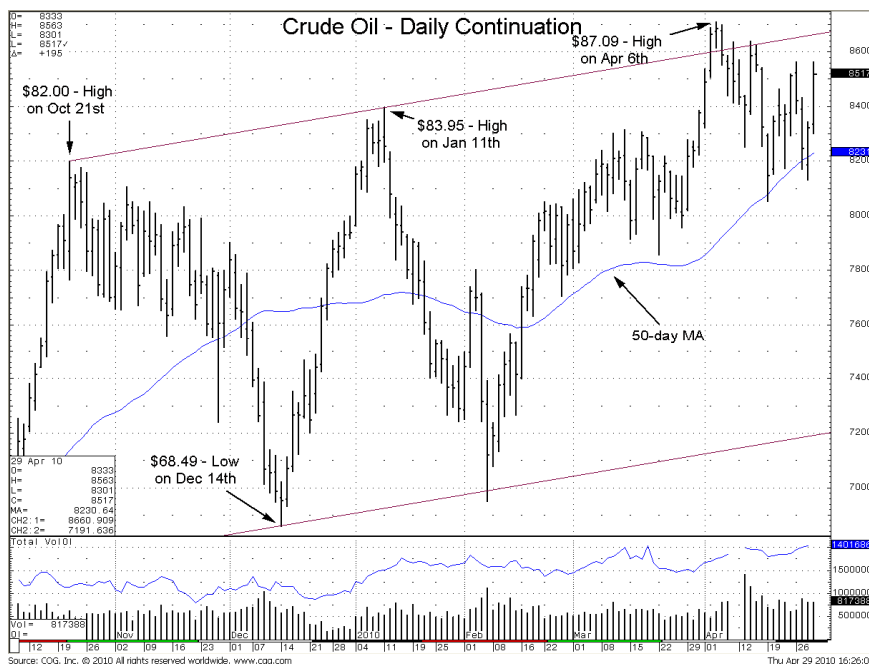
COMMODITIES | ENERGIES

Energy

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Price Outlook

Today's trade in energies will probably move higher again, but predicting direction is anything but easy. Crude oil faces resistance at \$85.63, which will likely be removed in order to test higher levels at \$86.20 & \$87.59. Support will come from momentum, comfort with the euro situation, and the GoM oil spill. Pressure will be applied by signs of weak demand and the wide contango. The recovery in the euro that's been seen in the past two days could easily reverse again today as uncertainty remains about potential developments this weekend. We favor trading energies as a trading affair today.



The oil market has created significant upside momentum in the past two trading days, and it appears that investors have used the decline earlier in the week to enter new long positions. Open interest has increased by 46,102 contracts between Apr 19th and Apr 28th while prices advanced only \$1.77. However, Apr 19th was an important day because it created a three week low that still stands to this day. When combined with last Friday's COT data which showed 8,111 new non-commercial net longs, it suggests that investors and large funds still favor accumulation over liquidation even though the non-commercial net long is near record levels. Support may also come from comfort over the situation in the Eurozone. The FT discussed on Tuesday that the €45B aid package offered by the EU/IMF could be expanded to €70B, while other media outlets have suggested that the number could rise above €100M. Comments from ECB's Weber and other European officials indicate that the plan will go through, although we're still uncertain about the German parliament and whether court cases attempting to prevent aid disbursement will be successful. There are several hurdles that will have to be jumped in the next three weeks, including a May 10th vote by EU members on aid approval and a maturing Greek bond due May 19th. Finally, support may come from the oil

slick in the Gulf of Mexico. The slick first began over a week ago with a fire on a rig that was in the process of completing a new well. There obviously was no production lost because the well wasn't completed, and initial reports suggested that only small amounts of oil had leaked. In the days that have followed, the incident has turned into an environmental disaster, all but assuring Congressional hearings, lawsuits, and months of cleanup. Hearings could result in new regulation, or even the shelving of plans to open up new areas of coastline from Alabama to Virginia to drilling. Sen Bill Nelson of Florida filed yesterday to block new drilling plans. Even shipping lanes and oil ports could be blocked and prevent new deliveries of crude. The long-term effects of the spill could be very bullish for crude oil as a result.

The oil market's ability to ignore any bad news whatsoever is somewhat puzzling. Wednesday's EIA report showed total U.S. oil demand -3.3% from its early-Feb peak. That compares to a normal decline of 2.6% in the five-year average, but it failed to offer pressure. Additionally, the EIA revised Feb demand 2.6% lower yesterday from its preliminary data. Wide levels in the WTI contango haven't mattered much, even though they would traditionally signal an incentive to store oil and pressure prices. In Brent crude, the contango widened over the past few weeks, but not to the degree that it did in WTI. Instead of signaling price weakness, Brent crude yesterday moved to within 10c/bbl of the highest prices since Oct '08. It's understandable that market bulls are putting their focus on rising demand from China and other emerging markets, however, the IEA said on Wednesday that EM demand will suffer as prices move above the \$85/bbl level. We think a similar consequence could take place in developed markets, but this is a market that doesn't seem to want to trade lower.

TRADE: Buy CLM0 at \$80.00, target \$87.00, risk \$78.00

Upcoming Energy Events

Fri - HOK0 & RBK0 Last Trade

Tue - API Weekly Stats 4:30 pm EST

Wed - Oil Inventories 9:30 am EST

Thu - Natural Gas Inventories 10:30 pm EST

Global Economic & Dollar News

The dollar fell in yesterday's trade, as more comfort was taken over forthcoming EU/IMF aid to Greece. Eurozone economic sentiment also improved as did Germany unemployment and added further support to the euro.

- » **China's Top Banking Regulator** said his agency will pay special attention to risks posed by loans made to the property sector and local government projects.
- » **Eurozone Economic Sentiment** was 100.6 vs. 99.4 expected and vs. 97.9 previously.
- » **German Unemployment** was -68K vs. -10K expected. It totaled 3.406M vs. 3.490M expected and vs. 3.568M previously.
- » **ECB's Weber** said that a Greek default on debt would have "incalculable" consequences on financial markets and other countries. He urged swift action to prevent contagion.
- » **The German FinMin** said that Greek insolvency is no option and that the crisis is mostly over in Germany and Europe. Said that the ECB & IMF agree that the cost of a Greek pullout from EMU will be higher than the risks. Said that the ECB & IMF have yet to see whether there will be a deal by Sunday, but that they must be successful in Greece to prevent a domino effect.
- » **Greek/German 10-year Spreads** were 775 bps yesterday vs. 856 bps on Wednesday.
- » **UK Nationwide House Prices** were +10.5% y/y vbs. +9.7% expected and vs. +9.0% previously.
- » **Brazil** unexpectedly raised rates 75 bps.
- » **Russia** expected cut its refinancing rate 25 bps to 8%. It also raised its 2010 GDP forecast to 4.0% from 3.1%.
- » **U.S. Initial Claims** were -11K to 448K vs. 445K expected and vs. 459K previously. Continuing claims were 4.645M vs. 4.663M previously.

Pres Obama nominated Janet Yellen as the Fed's Vice Chair, and Peter Diamond and Sarah Raskin as Fed members.

Energy News Stories

- » **The Gulf of Mexico** oil slick is growing and believed to be leaking 5,000 b/d instead of 1,000 b/d. It's likely that new regulations will result from this if and when it reaches shore. Yesterday afternoon, it was 23 miles from Louisiana.
- » **The Oil Spill** may impact tanker traffic into the oil delivery ports.
- » **Natural Gas Inventories** were +83 bcf vs. expectations for a 65 bcf build. Stocks are 89 bcf above year-ago levels and 307 bcf above the five-year average.
- » **The EIA** revised Feb oil use down 2.6% from preliminary data, but still +0.8% vs. year-ago levels to 18.86 mb/d.
- » **Oil Movements** said that OPEC exports would be -60 kb/d in the four weeks ending May 15th.
- » **Valero** said that it is considering a move into natural gas production to supply its refineries and as a hedge against future price increases.