Global Macro Research | US

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MF Global Daily Report

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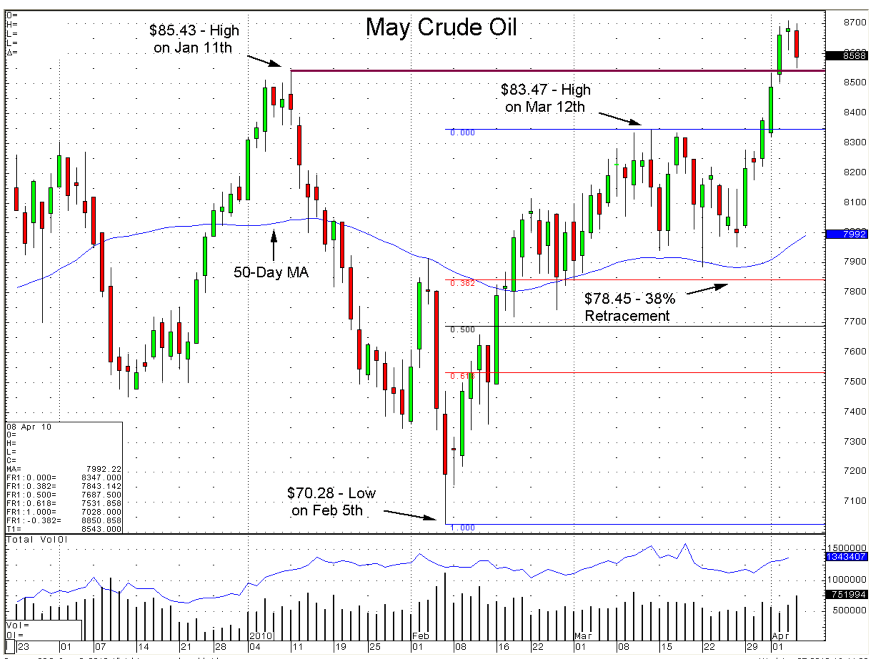
COMMODITIES | ENERGIES

Energy

Price Outlook

Crude oil prices are expected to trade in a range today, and maintain a close above the Jan 11th high at $85.43. Support will come from technical momentum and investment, yesterday's slight rise in hurricane numbers at CSU, and the lack of OPEC response to high prices. Pressure will be applied by yesterday's oil inventory figures, EOG Resources' oil discovery, and the Saudi Arabia's statements regarding electricity production. Natural gas may continue to be pressured by Tuesday's hike in known gas reserves by the AGA. We favor trading energies as a neutral affair again today.



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The positive side of the market will be dominated by technical momentum. Oil prices broke out above the Jan 11th high at $85.43 in Monday's trade, and above the Mar 12th high at $83.47 on Mar 31st. The latter breakout set in motion the Fibonacci pattern drawn off the Feb 5th-Mar 12th uptrend and its objective at the 138% extension at $88.50. Support may also come from the long-term Fibonacci pattern drawn off the Jul 11th '08-Dec 19th '08 downtrend, which projects an upside objective at the 50% retracement at $90.00. Technical momentum has brought in investment buying, where open interest gained 39,073 contracts between Mar 25th and Apr 5th. Prices advanced $6.09 during that time. The upside momentum may be bolstered by what appeared to be an upward revision to CSU's hurricane forecast. The noted storm watcher now predicts 15 named storms, 8 hurricanes and 4 major hurricanes. On Dec 9th, it predicted 11-16 storms, 6-8 hurricanes, and 3-5 majors, which when using the midpoint, appears to be a hike. Lastly, yesterday's trade closed at $85.88, which is decisively above OPEC's $70-$80 target range. So far, there's been little indication from the cartel that they intend to hike production to meet this supposed increase in demand.

The negative side of the market will focus on yesterday's EIA inventory figures for at least a few days. The numbers showed a 187 kb/d reduction in the four-week average demand figure. The sharp decline is more reminiscent of the severe weakness seen last year than what takes place in the five-year average. Potentially poor global demand was signaled yesterday by Saudi Arabia, when it said it would increase the amount of crude oil that it uses in power generation. It cited the need to produce from newly commissioned oilfields as the reason for the switch. Supply concerns took a hit yesterday, as EOG Resources announced the largest oilfield discovery to take place in Texas in 40 years. Lastly, although the Energy Dept said on Monday that it overstated production estimates in the U.S., Tuesday's hike in proven gas reserves by the AGA have pushed natural gas prices back to the downside.

TRADE: None

Upcoming Energy Events

Thu - Natural Gas Inventories 10:30 pm EST
Tue - API Weekly Stats 4:30 pm EST
Wed - Oil Inventories 9:30 am EST

Global Economic & Dollar News

The dollar traded higher overnight based on continued worries over Greek debt and from disappointing Eurozone GDP and UK Services PMI. The Eurozone services PMI beat expectations but mattered little. Focus later turned to strength in the dollar despite a lower stock market. Stocks fell amid conflicting banter between a dovish Bernanke and a hawkish Hoenig.

- **The BOJ** left policy unchanged at its meeting. It said that the economy continues to pick up and business sentiment is improving. It added that it's still important to pull Japan out of deflation.
- **Treasury's Geithner** will hold talks in Beijing today to discuss currency reform. The Chinese NDRC has signaled that it will monitor risks to exporters of changes in exchange rates, while another NDRC economist said that China should move to a more flexible yuan. The gov't has kept the peg nearly unchanged since mid-2008, but raised the mid-point of the yuan peg to the highest in 10 months yesterday.
- **The OECD** said that it's confident that Greece can deal with its debt crisis.
- **Greek Banks** have asked the gov't for more financial support. Risk premiums of Greek bonds to German bunds rose to the highest ever at 409 basis points.
- **Eurozone Q4 GDP** was revised down to unchanged q/q from +0.1% originally.
- **Eurozone March Services PMI** was 54.1 vs. 53.7 expected and vs. 51.8 previously.
- **German Industrial Orders** were unchanged vs. -0.7% expected and vs. +5.1% previously.
- **UK Services PMI** was 56.5 vs. 58.0 expected and vs. 57.4 previously.
- **White House Advisor Volcker** said that taxes will be hiked if needed to solve the deficit and entitlement problems. Said that the administration is also looking at carbon and energy taxes. He said that while the additional taxes were unpopular ideas, they would be required to get entitlement costs under control.
- **Former Fed Greenspan** said that the financial crisis did not stem from higher subprime mortgage issuance but from complicated securitization of those assets. He repeated that low long-term rates and not overnight fed rates helped inflate housing prices.
- **Fed's Dudley** said that the Fed must learn to blunt asset bubbles and that asset market bubbles are challenging to spot. He added that the Fed should not directly target asset prices. On policy, he said that the government needs a credible plan to reduce deficits and that a Fed exit from current policy is not near at hand.
- **Fed's Bernanke** said that he has yet to see evidence of a sustained recovery in the housing market, as foreclosures in both prime and sub-prime segments continue to rise. Said that the U.S. needs to regain its fiscal sustainability. He added that the economy continues to operate well below its potential.
- **Fed's Hoenig**said that the "extended period" language is no longer warranted and that a 1% Fed Funds rate would still be accommodative.

Energy News Stories

- **Saudi Arabia** plans to increase use of crude for generating power. It plans to increase use to 2.5 mln bbls of oil equivalent (BOE) from 1.5 mln BOE last year. The kingdom has been increasing use of crude recently in order to keep new oilfields pumping.
- **Russia's Lukoil** said it will stop supplying gasoline to Iran ahead of any possible sanction, but ship brokers said that they only sell occasional shipments to Iran.
- **China** may raise retail fuel prices by 3-4% after oil prices reached a trigger for adjustment, according to a state economist.
- **EOG Resources** announced a large discovery at its Eagle Ford shale deposit. It said that the discovery is one of the largest in the last 40 years.
- **Colorado State University** said that the 2010 Atlantic hurricane season would be above average. It firmed up its expectations from Dec 9th to 15 named storms, 8 hurricanes and 4 majors. On Dec 9th, it predicted 11-16 storms, 6-8 hurricanes, and 3-5 majors.

ANALYSIS

EIA Oil Inventory Review

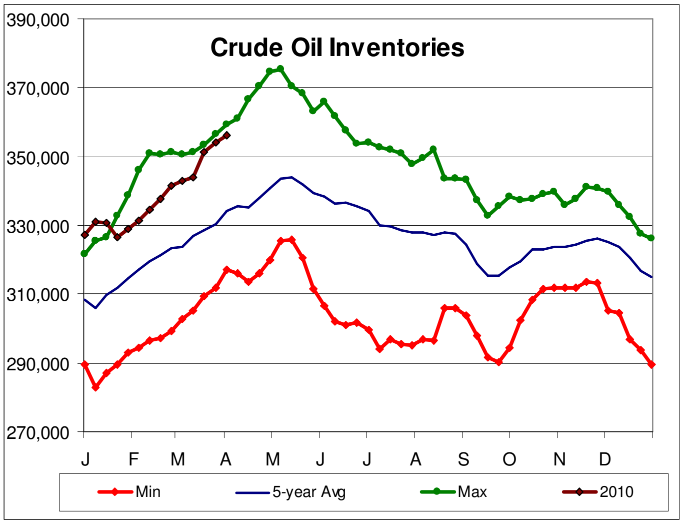
The EIA reported oil inventories that pressured energy prices yesterday. On the surface, the numbers were positive for gasoline, negative for distillates, and neutral for crude oil. They were in-line with the API data from Tuesday, but were bearish compared to the API-EIA convergence figures. Oil prices fell about 80c/bbl in the immediate aftermath, but were able to make their way back toward the day's high later in the session based on strength in the stock market and the oil market's test and hold at key support from the Jan 11th high at $85.43.

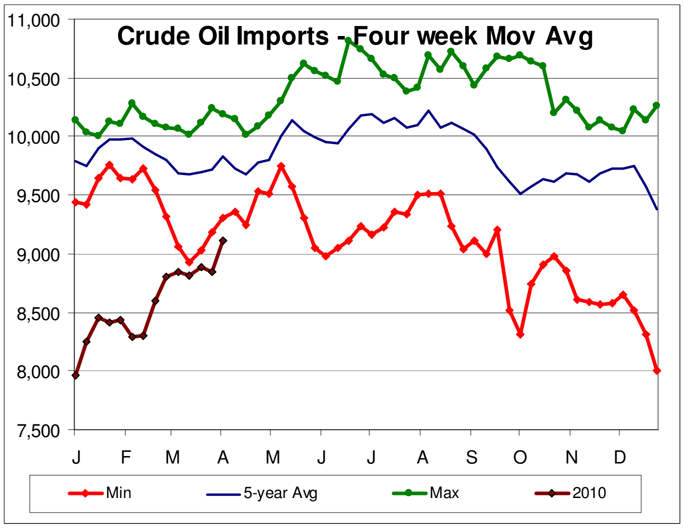
Upon further analysis, the details of the report confirmed the bearish aspects of the headline numbers. Refinery inputs rose sharply, which is normally a bullish event. However, they will eventually translate into higher product stocks considering the weak demand figures. Total demand fell to levels more reminiscent with weak levels seen during the slow year of 2009. Imports made up the bulk of the gain in crude stocks, which could keep the inventory numbers buoyant in the weeks to come. We came away with a negative view of the market after the inventory number, and think that it may suggest that prices could consolidate over the next few days. The numbers and our analysis follow below.

	EIA Inventories - w/e Apr 2nd						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week		Converge with EIA	Actual	Previous
Crude Oil	+2.0 MB	+1.7 MB	+4.0 MB	+3.8 MB	+2.9 MB		-1.2 MB	+1.1 MB	+0.4 MB
Gasoline	-2.5 MB	-1.4 MB	-1.0 MB	-2.8 MB	+0.3 MB		-4.7 MB	-3.0 MB	-1.0 MB
Distillates	+1.1 MB	-1.4 MB	-0.7 MB	-0.7 MB	-1.1 MB		+3.7 MB	+0.7 MB	-1.0 MB
Utilization	84.5%	+0.2%	+0.5%	+0.3%	82.6%		+2.1%	84.7%	82.1%
Natural Gas		+29 bcf	+29 bcf	+13 bcf	+12 bcf				

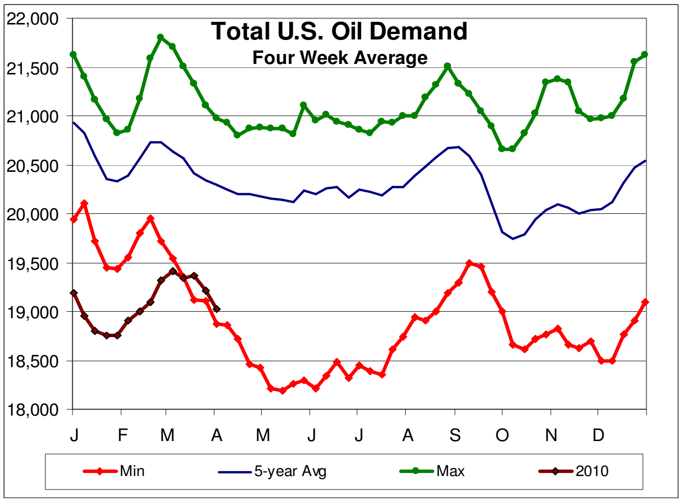
*The API convergence figures are the amounts that EIA data need to change in order to match the previous day's API figures

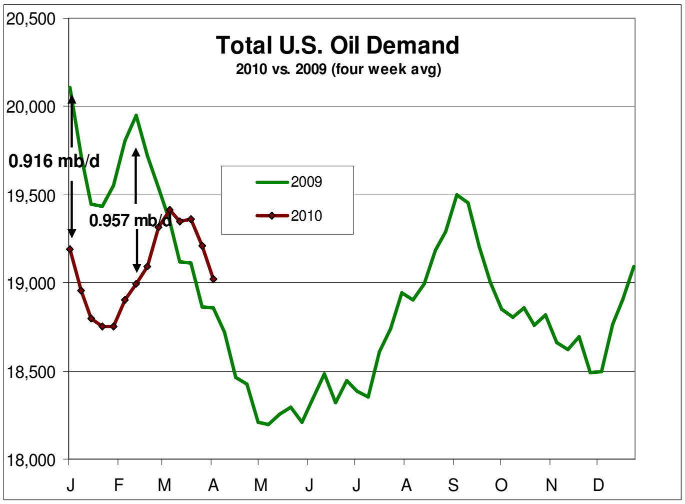
Total oil stocks were +2.0 MB vs. +1.7 million barrels expected. The number was boosted by a 501 kb/d increase in imports. The four-week average of imports is now 619 kb/d below the five year normal versus 870 kb/d below the norm last week. Considering that oil producers have generally wrapped up spring platform maintenance, we think that the level of imports doesn't appear likely to fall anymore in the weeks to come. As a result, inventories will remain at relatively high levels for the foreseeable future. Oil stocks are now 21.94 MB above their five-year average compared to 23.75 MB above it last week.



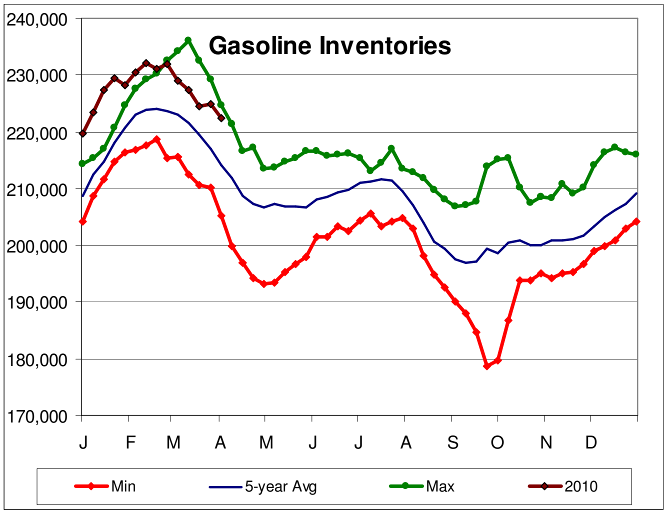


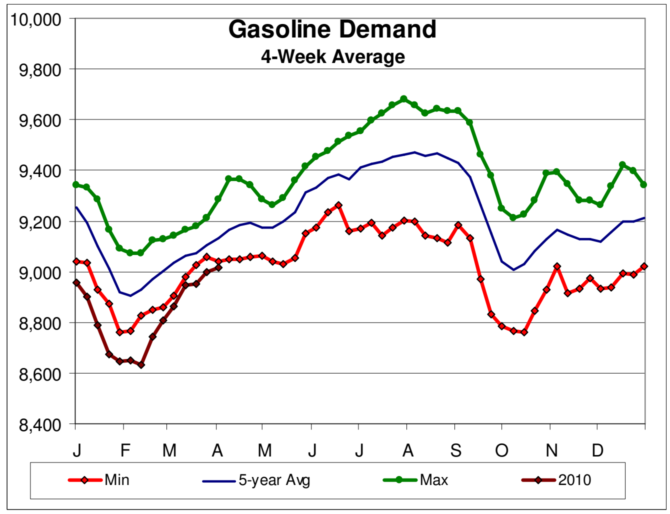
Total oil demand fell 114 kb/d outright and 187 kb/d in the four-week average. The drop is closer to the size of drops seen in 2009 rather than those in the five-year average. Granted some of the drop recently may be due to higher levels of conservation, but gasoline demand actually increased in yesterday's numbers. The decline was seen more in kerosene and propane demand, and the "other oils" category wasn't able to cushion the fall as it has in prior weeks. Strength in other oils had been an indication that the economy was recovering, as the category includes economic growth ingredients such as petrochemicals and asphalt.





Gasoline inventories were -2.5 MB vs. -1.4 MB expected. The number wasn't helped by higher refinery utilization, as the majority of last week's output gains went to distillates. Higher gasoline demand also helped pull away some inventory, as it increased by 16 kb/d in the w/w figure. Gasoline inventories now sit 8.23 MB above the five-year average compared to 7.95 MB above it last week.





Distillate inventories were +1.1 MB vs. -1.4 MB expected. The increase made up for the 1.1 MB decline in the previous week, and was helped higher by a 467 kb/d increase in distillate production. It was also helped slightly by a 9 kb/d decline in distillate demand.