

June 29th, 2010

MF Global Daily Report

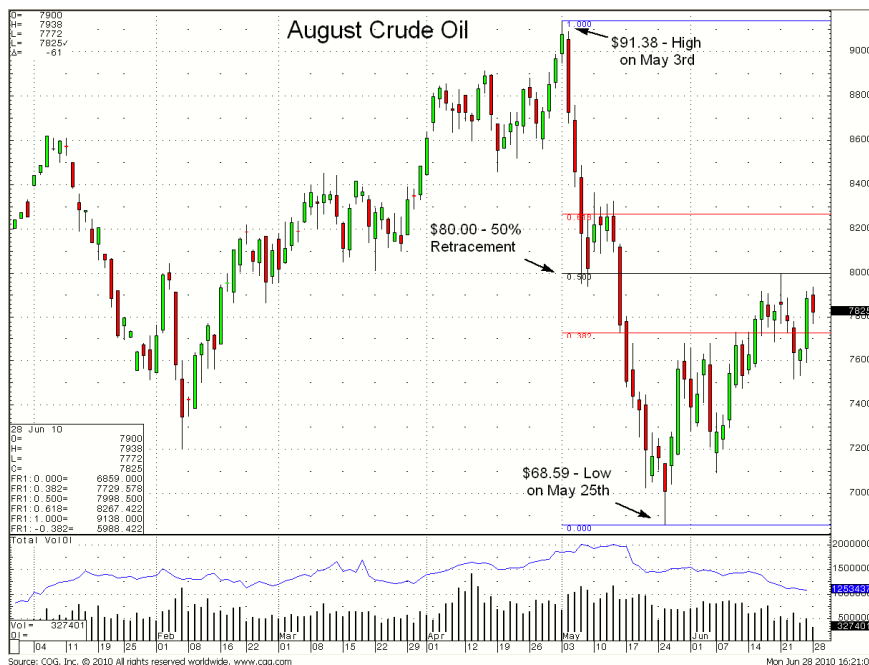
COMMODITIES | ENERGIES

Energy

MF Global
440 S. LaSalle
Chicago, IL 60605

Price Outlook

Crude oil prices are expected to trade in a mixed direction today. The market will find key support at \$76.57 while pressure will be found at \$80.00/bbl. Pressure will be applied mostly by technical factors and the inability of the stock market to manufacture gains amid positive news. Support will materialize in the form of improving fundamentals, hurricane worries, and from the BP oil spill. We favor holding our long position in CLQ0 established on Jun 23rd at \$76.00, with an \$81.30 objective and a \$75.00 risk.



Yesterday's trade moved lower prior to the U.S. open and remained there for most of the session. There wasn't much fresh news in the energy markets to explain the decline, except for predictions that TS Alex would move westward toward Mexico and miss the chief oil production areas. Still, Mexico's oil ports were closed yesterday due to bad weather, so there will still be some effect. Weakness in the stock market may be partly to blame for the poor performance of oil prices. The stock market failed to gain any rally based on a sigh of relief over the finalization of FinReg as well as its potential to not be passed due to Sen Byrd's passing away. Sens Brown and Snowe have wavered due to the inclusion of the \$19B tax on financial institutions. Stocks failed to rally yesterday afternoon as well, despite favorable earnings from 3M. Perhaps some pressure was offered by technical factors, as yesterday's trade moved within 62c/bbl of the 50% retracement of the May decline at \$80.00 before falling. Technical concern may also fall on the net decline in Friday's COT data of 5,535 contracts in the non-commercial net long position of the combined Nymex and ICE WTI futures. Similarly, open interest has fallen 229,736 contracts between its May 6th peak and Jun 25th (chart above). Since the price bottom on May 25th and Friday's close, OI has fallen 92,756

contracts while prices have advanced \$8.76/bbl. Falling open interest and rising prices typically signals short-covering rather than genuine buying.

We still lean toward the long side, however, and holding our long position recommendation. Support will materialize in the form of improving fundamentals, hurricane worries, and from the BP oil spill. Last Wednesday, the EIA reported that U.S. oil demand increased by 155 kb/d and partially reversed the 699 kb/d decline in demand that was seen in the preceding two weeks. We believe that the majority of that 699 kb/d decline was the result of the last stage of the stock market selloff in late-May. With consumer anxiety rising amid abrupt liquidation of stock portfolios, it's likely that consumers put off travel and shopping intentions amid efforts to prevent wealth destruction.

TRADE: Long CLQ0 at \$76.00, target \$81.30, risk \$75.00

Upcoming Energy Events

Tue - API Weekly Stats 4:30 pm EST

Wed - Oil Inventories 10:30 am EST

Thu - Natural Gas Inventories 10:30 pm EST

Oct 14th - Next Ordinary OPEC Meeting

Global Economic & Dollar News

The dollar strengthened in the U.S. session yesterday as slight fears of risk returned to the market.

- » **The G20** couldn't agree on a global bank tax. The thrust of the statement focused on cutting deficits, with an agreement to cut them by 50% by 2013.
- » **The G20** will negotiate capital rules at the next meeting in Nov in South Korea. There's a goal of full compliance with new rules by 2012.
- » **The BIS Warned** that crisis measures could become a threat to the recovery if they are not withdrawn in time.
- » **Eurozone M3 Growth** was -0.2% vs. +0.3% expected and vs. -0.1% previously.
- » **Italy Sold** €7B worth of debt. Demand was said to be weak, but the country sold the full amount.
- » **French FinMin Lagarde** said that the euro is a credible and solid currency.
- » **Goldman Sachs** said that its profits will be hit by 13% due to FinReg legislation.
- » **Fed Pres Bullard** said that he's concerned about Eurozone debt, which raises the risks to recovery. Recent U.S. data has been weak and inflation is low. Said that a discount rate move is unlikely.
- » **Fed's Lacker** said that the U.S. is entering a period when, every quarter, it is a legitimate question of whether to raise rates or not. Said that the Fed may soon be able to move on rates. Added that he is heartened by the G20 commitment to reduce deficits.
- » **Fed's Warsh** said that if financial market volatility persists at a high level, the recovery could falter. Said that the Fed is carefully considering aspects of its balance sheet policy, but that sales of assets will not take place in the near-term. Warsh said that the Fed must avoid the temptation that low rates can boost housing, and that a rebound in employment drive housing sales, and not low rates.

Energy News Stories

- » **BP Collected** 24,450 bbls of oil on Sunday. The company said that TS Alex is delaying additions to capture.
- » **The NHC** issued a hurricane watch TS Alex, and said that the storm will slowly intensify.
- » **Mexico's Export Terminals** were closed due to TS Alex.
- » **Non-essential Oil Platform Workers** were evacuated from the western Gulf of Mexico.
- » **Bank of America** said that oil prices could hit \$100/bbl in 2011 if the dollar does not surge against the euro as it did this year.

ANALYSIS

EIA Oil Inventories

EIA Inventories - w/e June 25th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		-1.1 MB			+2.0 MB			+3.7 MB
Gasoline		-0.4 MB			-0.8 MB			+0.8 MB
Distillates		+0.9 MB			+0.3 MB			+1.1 MB
Utilization		+0.2%			89.3%			+2.1%
Natural Gas		+55 bcf			+81 bcf			

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

Geopolitical Tensions/Developments

Iran: The G8 condemned North Korea for its attack on the South Korean ship, and called on Iran's leaders to respect the rule of law and freedom of expression.

CIA Chief Leon Panetta said that Iran has enough uranium to make two nuclear devices, and that it could be fully enriched within a year.

Iranian Pres Ahmadinejad said that Iran is prepared to resume nuclear talks with the West by late Aug. Said that it is a delay meant to punish the West.

Iran said that it will become self-sufficient in gasoline production by 2012. The comment was made after the U.S. Congress passed sanctions to penalize suppliers of fuel to Iran.

Somalia: A Singapore-registered petroleum/chemical tanker with 19 Chinese sailors on board was hijacked Monday in the Gulf of Aden. The ship was on its way from Saudi Arabia to India.