

July 29th, 2010

MF Global Daily Report

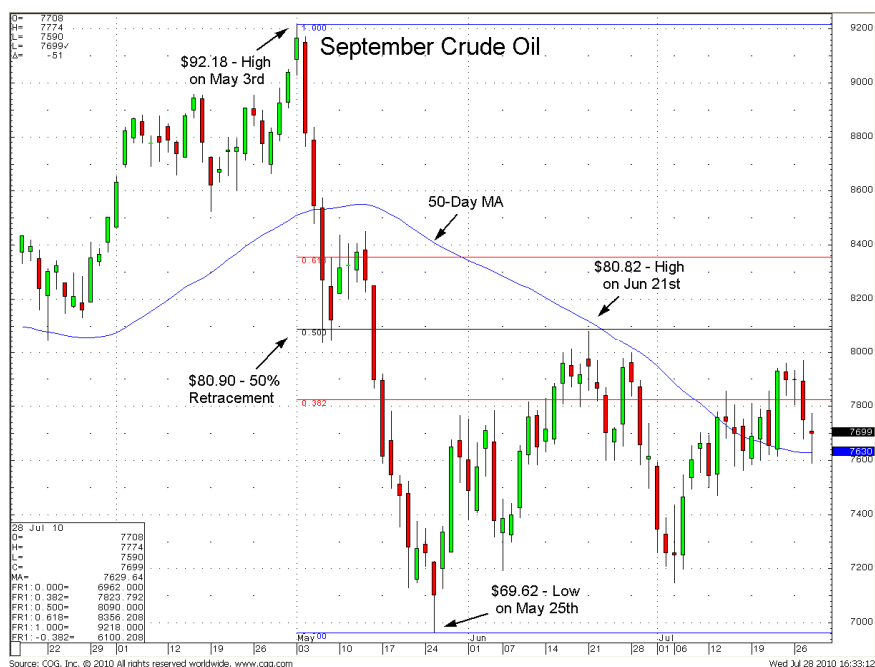
COMMODITIES | ENERGIES

Energy

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Price Outlook

Oil prices are expected to hold in a sideways-to-higher direction in today's trade. The market will receive support from technical factors, signs of improving energy demand, and from geopolitical events. Pressure will be offered by the potential that equities resume their short-term liquidation in today's session. We think that new longs entered at \$76.30 will be advantageous with low risk. We look for an objective between \$80-\$82.



The oil market should stabilize in today's trade and potential trade slightly higher. The main source of support will come from technical factors on the oil market's own chart, where yesterday's trade tested and held at key support from the 50-day MA at \$76.30. The market was able to bounce off that low and close only 51c/bbl lower after trading as much as \$1.60/bbl lower at the day's worst levels. The 50-day average offers support at \$76.35 in today's session. Technicals could also impact oil prices adversely today, with the S&Ps signaling that they may fall another 17.00 points from yesterday's close on the possibility that the market tests the neckline of a head & shoulders bottom pattern.

Improving oil demand may also be a positive factor today, as yesterday's EIA report showed that U.S. demand increased 438 kb/d last week. That helped the four-week average gain 215 kb/d as well as narrowing the gap with this year's 325 kb/d decline from the Jun 4th peak. Normally, demand should be 77 kb/d above the Jun 4th peak by this week. Finally, yesterday's news regarding a Japanese oil tanker carrying 2.3 MB of crude oil being attacked near the Strait of Hormuz received little attention. The news was minimized when secondary reports suggested that a rogue wave caused the explosion and when Iranian seismologists said that a 3.4 magnitude earthquake had struck

the area. However, the compilation of reports didn't seem to make sense. Given the new traction that sanctions seem to be getting, and the dovish tone by the Obama administration towards Iran yesterday, there could be something else taking place that's not being reported. Rogue waves typically don't cause unexplained explosions.

The negative argument for oil right now comes from short-term trends in equities. The S&P 500 created a bearish spinning top reversal pattern on the candlestick chart on Tuesday just below 1,120. Yesterday's trade fell 8.80 points on weaker-than-expected durable goods orders and on disappointment with the Beige Book. The report showed that manufacturing activity slowed or leveled off, while loan demand was characterized as "softening." Overall, it didn't set up for anything that had the potential to cause an upward reversal in equities. S&Ps have been nicely respecting a bullish head & shoulders bottom pattern after advancing above the pattern's neckline four days ago. Assuming that the market falls in the next few days to test the neckline as support, it would suggest a selloff 17.00 points below yesterday's close, or around 1,185.

TRADE: None

Upcoming Energy Events

Thu - Natural Gas Inventories 10:30 pm EST

Thu - RBQ0 & HOQ0 Rollover

Fri - RBQ0 & HOQ0 Last Trade

Tue - API Weekly Stats 4:30 pm EST

Wed - Oil Inventories 10:30 am EST

Oct 14th - Next Ordinary OPEC Meeting

Global Economic & Dollar News

The dollar held within a fairly narrow range yesterday, with mild pressure coming from less need for safe-haven after strong gains in Chinese and Japanese equities. There were also positive comments made with regard to sovereign debt by Greece and IMF's Lipsky.

- » **BOJ's Kamezaki** said that the economy is recovering, but not yet domestically led. Said that exports are strengthening.
- » **IMF's Lipsky** said that the global recovery is on track despite slowing momentum. Said that growth will be moderate with downside risks.
- » **Greek FinMin Papaconstantinou** said that Greece is on track to meet its fiscal targets.
- » **ECB's Bank Lending Survey** showed less tightening in bank lending standards than feared.
- » **Several BOE Policymakers** defended loose monetary policy, suggesting that they don't see building inflation.
- » **Durable Goods Orders** were -1.0% vs. +1.0% expected. Non-defense cap goods orders ex-aircraft were +0.6% vs. unchanged expected.
- » **The Fed's Beige Book** said that economic activity continued to increase in most districts, although increases are modest. It said that manufacturing activity in several districts has slowed or leveled off. Most districts report reported declines in auto sales and sluggish home sales. Credit standards remain tight, while some districts reported softening loan demand. Consumer prices are steady, while wage demands are contained.
- » **Fed Pres Williams** said that the recently soft economic data are bumps in the road and not a swerve into a ditch. He said that the recovery will be modest, and several notches above a double dip.

Energy News Stories

- » **India's Refinery Output** growth slowed to 2.9% in Jun from 7.7% in May due to planned maintenance shutdowns.
- » **Nigeria Will Export** 2.10 mb/d of crude oil in Sep, which is up from 2.08 mb/d in Aug.

ANALYSIS

EIA Oil Inventory Review

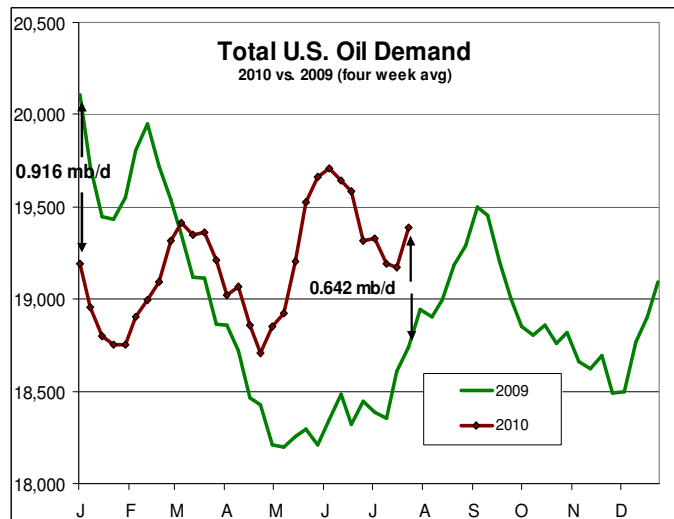
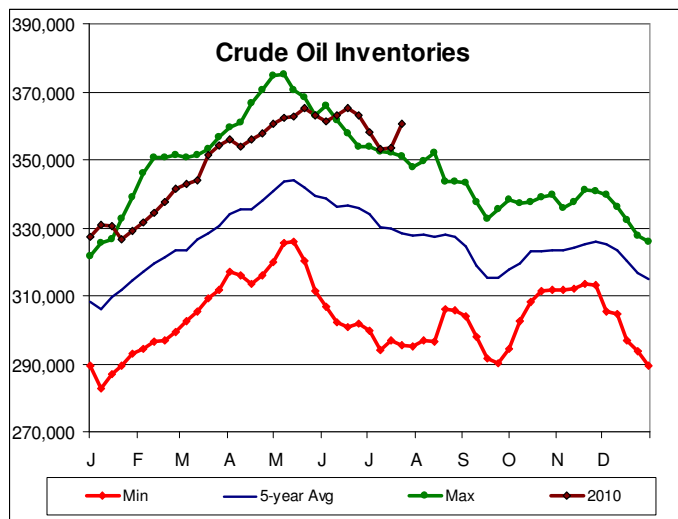
The EIA reported oil inventories yesterday that caused crude oil futures to fall 87c/bbl in the first two minutes of the report's release, but that selloff set the low for the day and the market gradually recovered. Within an hour, crude oil was trading back at levels that existed prior to the inventories' release. The numbers were bearish on the surface because crude oil stocks were reported much above expectations. However, there were also two positive takeaways including improvements in demand and the surge in imports. The import surge may indicate that next week's inventories could fall rather sharply. Overall, we view the numbers as having the potential of offering support to energy prices over the next few days. The data and our analysis follow below.

EIA Inventories - w/e July 23rd						API Inventories		
	Actual	Market Estimate	MFR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil	+7.3 MB	-1.8 MB	-0.5 MB	-1.3 MB	+0.4 MB	+2.9 MB	+3.1 MB	-0.2 MB
Gasoline	+0.1 MB	+0.6 MB	-0.2 MB	-0.2 MB	+1.1 MB	+0.1 MB	+0.9 MB	-0.4 MB
Distillates	+0.9 MB	+1.6 MB	+0.5 MB	+1.8 MB	+3.9 MB	-4.3 MB	+0.4 MB	+1.0 MB
Utilization	90.6%	-0.6%	-1.0%	-0.7%	91.5%	-4.0%	87.4%	88.7%
Natural Gas		+35 bcf	+30 bcf	+48 bcf	+51 bcf			

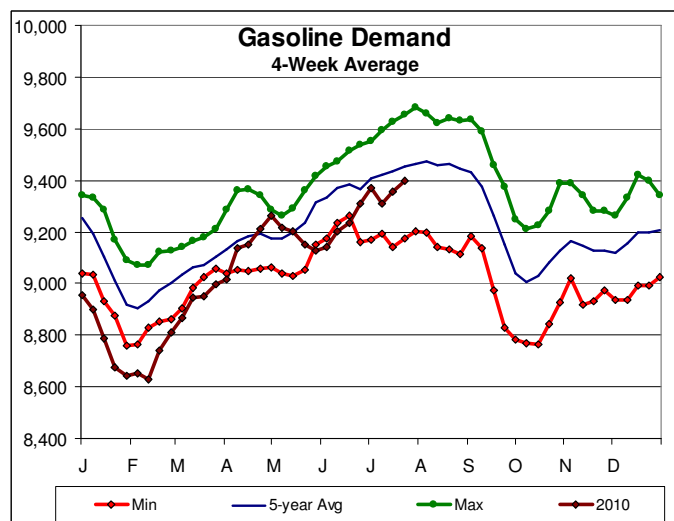
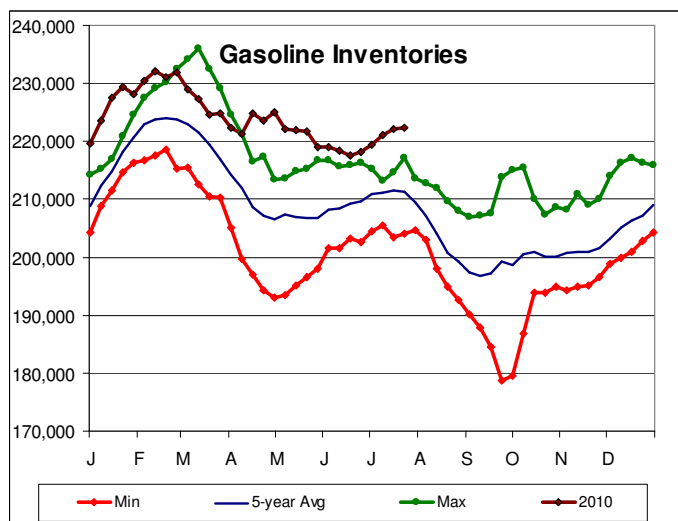
*The API convergence figures are the amounts that EIA data need to change in order to match the previous day's API figures

Crude oil stocks increased 7.3 MB, which compared to estimates of a fall of 1.8 MB. Stocks were boosted by a huge 1.18 mb/d increase in imports, which essentially added 8.26 MB to stocks over the course of the week. Imports reached 11.15 mb/d, which was their highest level since the week of Aug 25th 2006. The import figure may turn into a positive factor for next week's inventories, as it's unlikely that they will remain at such elevated levels. Oil stocks were also bolstered by a 148 kb/d reduction in refinery inputs. Oil stocks are now 32.29 MB above the five-year average compared to 23.65 MB above it the previous week.

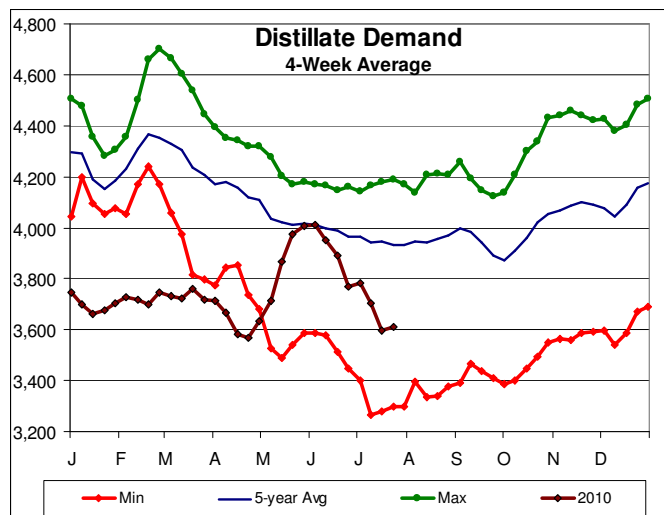
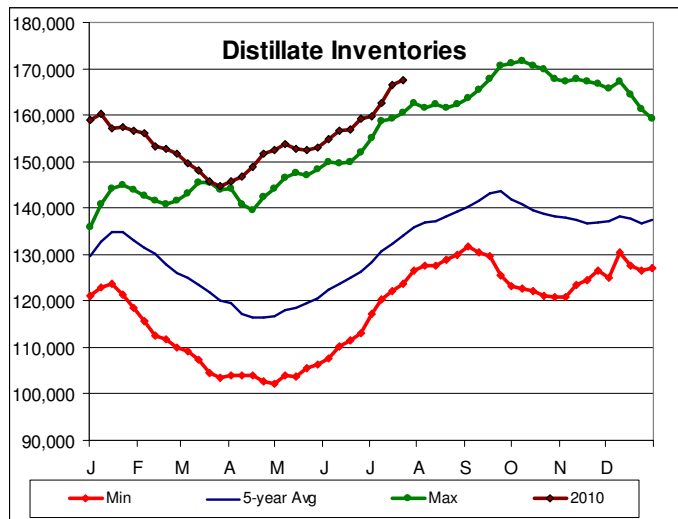
The other positive aspect of the report was the reported increase in demand. Total oil demand increased 438 kb/d, while the four-week average rose by 215 kb/d. Since peaking in the w/e Jun 4th, the four week average is now -325 kb/d, which compares to the -540 kb/d last week. Last week's fall was the largest since the peak, as shown in the second chart below. Between Jun 4th and this week, demand typically rises 77 kb/d, implying that this year's demand is still running 402 kb/d below the gains seen in the four-week average since Jun 4th. This year's demand weakness is still suggestive of a slow economic recovery, but it improved from last week.



Gasoline stocks were +0.1 MB vs. +0.6 MB expected. The build was supported by a 333 kb/d increase in production, but was pressured by a 93 kb/d fall in imports and a 197 kb/d rise in demand. The four-week average of demand was 9.399 kb/d, which is 56 kb/d below the five-year average. Total gasoline inventories are 10.88 MB above the five-year average compared to 10.62 MB above it last week.



Distillate stocks were +0.9 MB vs. +1.6 MB expected. Stocks were able to show a build despite several negative inputs. Stocks were hurt by a 162 kb/d reduction in refinery output and a 25 kb/d decline in imports. Pressure also came from a 241 kb/d increase in demand, while exports of distillate were unchanged at 763 kb/d. Despite the increase in demand, the figure is still lingering near the lows that were set in mid-Apr, as shown in the chart below. Inventories of low-sulfur transportation fuels hit another new record, and have gained over 16 MB since mid-Apr when demand was last at the current level. Such high levels of transport fuels maintains concern over the health of the economic recovery. Regardless of gains in low-sulfur products, total distillate stocks are 33.52 MB above the five-year average compared to 34.38 MB above it last week.



Geopolitical Tensions/Developments

Middle East: The U.S. Navy Investigated the report of an attack against a Japanese tanker near the Strait of Hormuz carrying 2.3 MB of crude destined for Japan. It eventually turned out to be a rogue wave that rocked the ship. The possibility of an attack arose from a crewmember who saw a light on the horizon just before an explosion. But Iranian seismologists report a 3.4 magnitude quake in the area. The U.S. countered and said that the last quake in the region that they've recorded was a 4.8 magnitude event on Saturday.

Iran: The U.S. said that it is fully prepared to follow up on last year's fuel swap proposal for Iran's research reactor, and that it would welcome a senior level meeting among Iranian and major powers to discuss the nuclear program.