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MF Global Daily Report

COMMODITIES | ENERGIES

# Energy

MF Global  
440 S. LaSalle  
Chicago, IL 60605

## Price Outlook

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

Energies are expected to firm slightly in August, with crude oil ranging from \$76-\$82/bbl. Products should firm slightly as well, with gasoline likely to outperform heating oil due to tighter inventories and weak diesel demand. Energies will be torn between internal fundamentals which are mixed-to-negative and external fundamentals which are mixed-to-positive. Internally, the most recent weekly EIA figures show U.S. demand that's 325 kb/d below a peak made in early-Jun, whereas the five-year average rises 77 kb/d during the same period. Chinese demand is forecast to grow 570 kb/d in 2010, but the EIA still projects a supply/ demand surplus of 70 kb/d, with declines in demand and increases in supply offsetting higher Chinese demand. Additionally, U.S. inventories of crude oil, gasoline, and distillates are a combined 76.7 mln bbls above their five-year average, which is the highest divergence since Oct '09. Adding on to U.S. stocks are high levels of OPEC spare capacity and poor compliance with existing quotas. Spare capacity is around 5.6 mb/d, which is below the 6.8 mb/d level that it peaked at in Mar '09, but significantly above the 2.0 mb/d that lingered from 2005-2008. OPEC compliance with its quotas is forecast to fall near the 50% level in July from 55% in June. External fundamentals paint a slightly bullish picture though, with forward indications given by the advance in the stock market on decreasing sovereign debt concerns, discussions on Bush tax cut extensions, a softening of energy legislation, approaching mid-term elections, and strength in copper. Even though recent rhetoric from Fed members and recent GDP data indicate the likelihood of growth remaining under 3.0%, fear of a double-dip recession lessened by late-July. These conditions suggest to us that the market will advance in August, although at a similar sub-par pace at which the economic recovery will continue. We also like natural gas due to the closure of the gap between current inventories and the five-year average to 242 bcf in late-July from 333 bcf in early-May.

**TRADE:** Buy: CLU0 at \$77.00, target \$81.00, risk \$75.75

Buy: NGV0 at \$4.65, target \$5.30, risk \$4.50

## EIA Oil Inventory Preview

The EIA is expected to report oil inventories this week that unwind a significant portion of last week's gain. A build of 7.3 MB was reported last week, due mainly to a 1.18 mb/d surge in imports. We believe that the import jump may have caused a larger increase than was justified, since the API reported a 1.67 mb/d increase in imports but only a 3.1 MB build in crude stocks. API data suggest that EIA oil stocks are 4.4 MB too high, presenting another downside risk. Refinery utilization is likely to decline, as demand isn't strong enough to justify operating rates that are 0.5% above the five-year average. Gasoline demand typically increases sharply in Aug before falling precipitously in Sep. Such opposing influences on utilization and demand should lead to a decline in gasoline stocks of 1.5 MB and a below-normal rise in distillates of 1.0 MB. Another downside risk for distillates comes from the API, which suggests that EIA distillate supplies are 5.2 MB too high.

EIA Inventories - w/e July 30th						API Inventories		
	Actual	Market Estimate	MFR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil			-4.0 MB	-0.6 MB	+7.3 MB	+2.9 MB	+3.1 MB	-0.2 MB
Gasoline			-1.5 MB	-1.9 MB	+0.1 MB	+0.1 MB	+0.9 MB	-0.4 MB
Distillates			+1.0 MB	+1.9 MB	+0.9 MB	-4.3 MB	+0.4 MB	+1.0 MB
Utilization			-0.5%	+0.3%	90.6%	-4.0%	87.4%	88.7%
Natural Gas			+34 bcf	+51 bcf	+28 bcf			

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