

August 30th, 2010

MF Global Daily Report

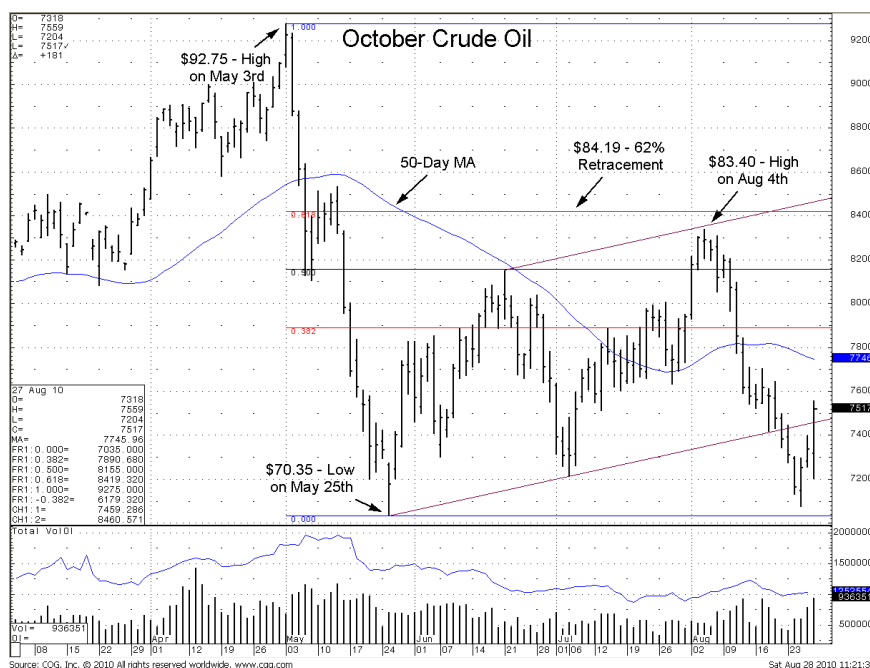
COMMODITIES | ENERGIES

Energy Weekly

MF Global
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Price Outlook

Energy markets are likely to trade higher in the first half of the week followed by a selloff in the second half, in our opinion. The oil market will find key resistance near the \$77.00/bbl level, where the 50-day moving average should be within a few days. Near-term support may come from end-of-month dynamics and from the appearance of short-term momentum buying. However, we still think that the downside will dominate the market over the next few weeks, and look for pressure from recently weaker sentiment on the economy by policymakers, from weak demand, and high levels of inventories. We favor selling CLV0 at \$77.00 and targeting a fall toward \$70.50 while risking \$78.50.



The oil market may garner near-term support from the tendencies for risk markets to strengthen near the end of the month. In crude oil's case, the market has rallied in 13 of the last 24 months through the final day of the month, which is Tuesday in this case. Such a recovery would play nicely into the buying momentum established in the past three sessions, as well as for a potential test of resistance at the 50-day MA near the \$77.00 level.

However, negatives still outweigh the positives in our opinion, and should provide a lower close on Friday than where Monday's trade begins. Weaker sentiment on the economy by policymakers last week gave more credence to the double-dip recession camp. In the past few weeks, markets have sat through disappointing economic data, the resignation of Christina Romer, and a soaring rally in treasuries. Data has almost been two sided, but the case for economic weakness has been stronger than the case for economic strength. Of course, Thursday's initial unemployment claims unwound a lot of the previous week's jump, and Friday's GDP was reported above expectations. But they were followed by Friday's comments from Fed's Bullard and Bernanke who both indicated that

the economy had taken a turn for the worse in the last three months. We also find it interesting that Fed Pres Hoenig said on Monday that it would be a mistake to view the U.S. housing market as an investment opportunity.

We also about the potential for a switch back to the de-risking trade and the negative effects it would offer on energies. Of course, the stock market has already fallen sharply since peaking in early-Aug. However, Friday's COT data on the euro showed the second consecutive week of increases in the non-commercial net short position. Such a switch after what was a nearly three-month continuous string of short-covering gains may indicate that the euro and global equities may be in for more negative activity in the near-term. It will be interesting to see what these markets do at the beginning of Sep, as end-of-month inflows may have bolstered them late last week. Worries over European sovereign debt has caused spreads to widen again, with the German-Greek spread moving to within 3 bps of the record high made in May. The German-Ireland spread moved to new record highs after last week's downgrade by S&P. Such developments will make gold attractive again from a safe-haven standpoint.

Adverse sentiment on the economy is backstopped by continued weak demand and high levels of inventories. Total U.S. demand for oil last week fell 85 kb/d in the EIA data and unwound the previous week's gain. With only one week left in the summer driving season, it appears as though there wasn't any surge of demand for fuel this year. That should help unwind the summer price premium in short order. Combined inventories of crude oil, gasoline, and heating oil last week increased by 8.14 MB while the three categories gained a combined 9.73 MB on the five-year average. Stocks at Cushing Oklahoma are still elevated and have caused WTI crude to lose out to Brent in recent days. High stocks and weak demand in the U.S. are dovetailed in China, where the market is still on guard for the potential that Jun's surge in imports will be de-stocked for the second month in Aug.

Finally, technicals will play a negative role in trade this week, as shown by Friday's COT data. There 12,880 contracts in heating oil that were liquidated last week, which pushed non-commercials to the largest net short since Jan 23rd '07. Similarly, gasoline saw a liquidation of 7,572 contracts, which put the non-commercial net long at the lowest level since Jan '07. We have also noticed periods in the past were moving averages work and other times when they don't work. The chart on the previous page shows several instances of both, but could result in pressure on oil prices near the \$77.00 level this week.

TRADE: Sell CLV0 at \$77.00, target \$70.50, risk \$78.50

Upcoming Energy Events

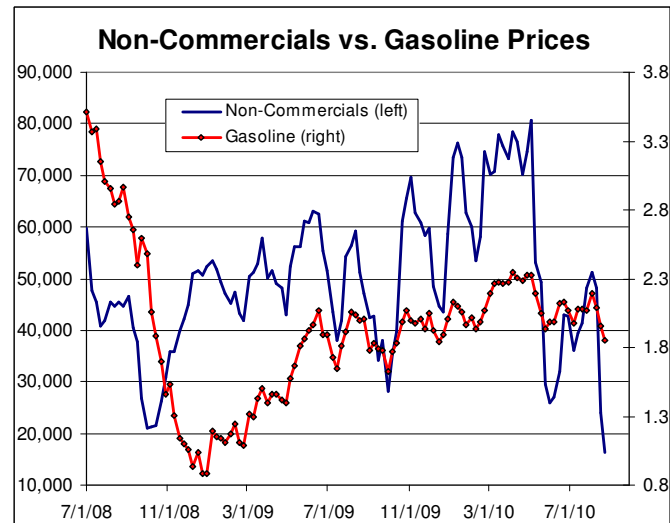
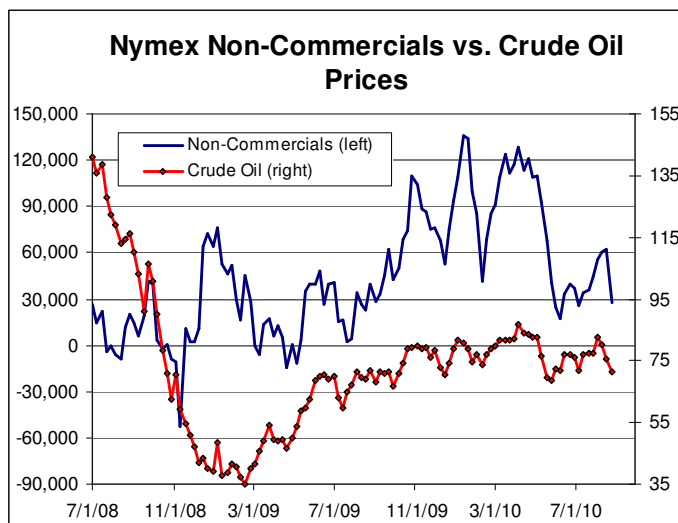
Tue - API Weekly Stats 4:30 pm EST

Wed - Oil Inventories 10:30 am EST

Thu - Natural Gas Inventories 10:30 pm EST

Oct 14th - Next Ordinary OPEC Meeting

Commitment of Traders Aug 17th-Aug 24th			
Net non-commercial (large funds) (Legacy Report)			
	Net Position	Change	Price Change
Crude Oil	27,323	-34,733	-\$4.14
ICE WTI	27,186	+9,879	-\$4.14
Heating Oil	-9,954	-12,880	-9.02c
Gasoline	16,342	-7,572	-10.38c
Natural Gas	-163,196	-2,484	-22.8c



Global Economic & Dollar News

The dollar rose slightly after Fed's Bernanke made dovish comments about the health of the U.S. economy, then turned lower once the stock market began to recover.

- » **Japanese FinMin Noda** said that the government will intervene to counter the strong yen if necessary.
- » **Japanese PM Kan** said the government will act on currencies when necessary.
- » **Japanese Unemployment** declined to 5.2% in Jul from 5.3% expected.
- » **Japanese Jul Core Nationwide CPI** was -1.1% vs. -1.1% expected. Aug Core Tokyo CPI was -1.1% vs. -1.2% expected.
- » **Japanese Household Spending** was +1.1% y/y vs. +1.3% expected and vs. +0.5% previously.
- » **Japanese PM Kan** urged "bold" action to halt the yen's gain. He also will be challenged by former Sec'y Gen'l Ozawa for party leadership.
- » **UK Q2 GDP** was revised up to +1.2% q/q and compared to +1.1% expected. The y/y rate was revised up to 1.7% compared to 1.6% expected.
- » **UK Opposition Politician Ed Balls** warned that an economic "hurricane" is heading toward Britain.
- » **U.S. Q2 GDP** was revised to +1.6% from +2.4% previously. It was slightly above expectations of +1.4%.
- » **Pimco's El-Erian** said in the Washington Post that the U.S. economic data are "alarming" and signal that the recovery is losing momentum.
- » **Fed's Bullard** said that the Fed is ready to move in conditions deteriorate further, adding that the economy looks softer than even 90 days ago. He said that a double dip does not appear very likely at this point and that growth will pick up in 2011.
- » **University of Michigan Aug Sentiment** was revised to 68.9 from 69.6 and compared to 69.6 expected.
- » **Fed Chairman Bernanke** said that the economic recovery has softened more than expected and that the Fed is ready to take further steps if needed to spur the stumbling recovery. He said that the Fed is prepared to provide additional stimulus if necessary and especially if the outlook weakens significantly. The Fed has not agreed on specific criteria or triggers at this time. Said that deflation is not a big risk, but that the Fed will resist downward pressures on price stability.
- » **ECB's Weber** said that Europe is bordering on a self-sustaining recovery. He added that the German labor market is improving and expects the jobless rate to be around 7%. He said that it's too early to say that the sovereign debt crisis has passed.
- » **Inflation Could Fall Much Further**, according to two professors speaking at Jackson Hole on Friday. The Harvard and Princeton professors suggested that inflation could fall to 0.7% by Q2 '11 from 1.5% currently due to slack in the labor market.

Energy News Stories

- » **India's local oil product sales** rose 2% y/y to 11.42 mln tonnes in July, while imports rose 3.8% in July.
- » **Hurricane Danielle** was upgraded to a category 4 storm on Friday and is expected to move east of Bermuda. Earl is still a tropical storm and may pass over Bermuda. The NHC is watching another system off the coast of Africa, which has a 70% chance of formation to a tropical storm.

ANALYSIS

Weather Summary/Changes

Current Hurricane Forecasts			
	Storms	Hurricanes	Major
NOAA	14-20	8-12	4-6
CSU	18	10	5
WSI	19	11	5
Accuweather	16-18	5	2-3
CWG	15	9	4
EarthSat	16	8	5
2007 Season	15	6	2
2008 Season	16	8	4
2009 Season	9	3	2
2010 Season	5	2	0
Average since 1950	9.6	5.9	2.3