

August 31st, 2010

MF Global Daily Report

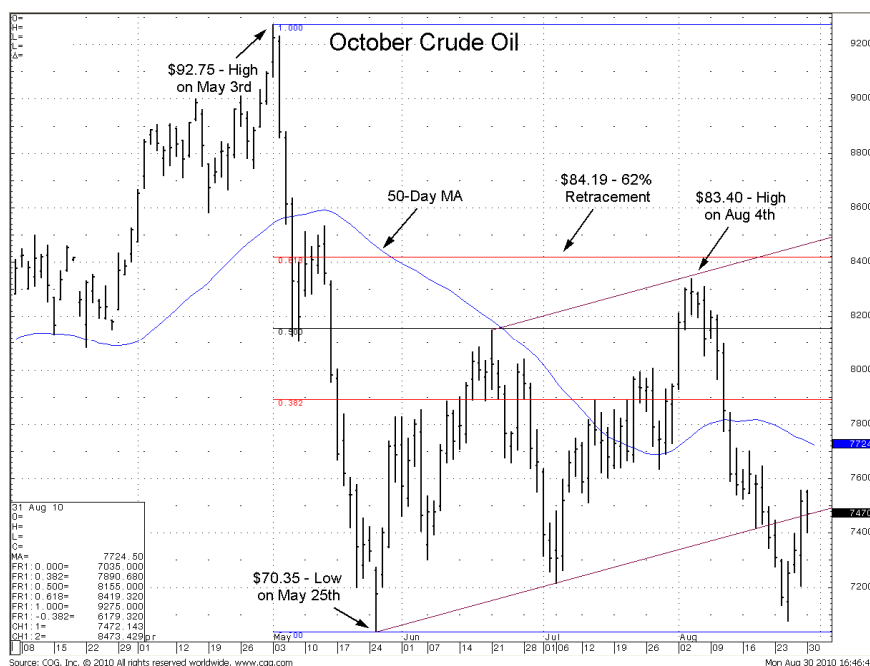
COMMODITIES | ENERGIES

# Energy

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## Price Outlook

Crude oil prices may trade in a mixed direction today, but we still maintain our near-term negative bias. Support in today's session could come from end-of-month tendencies and potential for follow-through from last week's rally. Beyond the next day or two, however, we anticipate prices falling at least toward the \$70.35 support level and possibly toward \$67.15. Pressure will come from the removal of the end-of-month support, continued signs of weak demand, and from adverse technical conditions. We favor selling CLV0 at \$77.00 and targeting a fall toward \$70.50 while risking \$78.50.



The oil market has a tendency to rally near the end of any given month. At times the seasonal gains or loses effectiveness, but generally shows that between four days prior to month's end and the very last day of the month, prices advance by an average of 2.5%. We further analyze the subject in the Analysis section below, and see the potential that today's trade rebounds in order to maintain the seasonal tendency.

Any rebound should only be short-term in nature as traders look beyond the supportive influence of month-end tendencies. Demand figures in the U.S. are still weak, and there's concern that the pace of Chinese imports will slow again when they are reported in about two weeks. Weak demand is translating through to wider Brent-WTI spreads which are at the highest levels since May '10. Technical conditions aren't supportive for oil either, with Friday's COT data showing a 34,733 contract liquidation in Nymex oil futures. Given that open interest still has not confirmed the uptrend seen last week, we have low expectations that any rebound in prices will be maintained 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

### EIA Oil Inventory Preview

EIA oil stocks are expected to fall 1.0 MB in this week's report. Steady imports and strong U.S. oil production should keep inventories boosted while high levels of refinery utilization will continue to draw down oil stocks in keeping with seasonal patterns. Weak demand and high refinery utilization rates should keep product inventories buoyant.

EIA Inventories - w/e August 27th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		+1.3 MB	-1.0 MB	-0.5 MB	+4.1 MB			-1.8 MB
Gasoline		-0.2 MB	+1.0 MB	-1.3 MB	+2.3 MB			+0.7 MB
Distillates		+1.1 MB	+1.5 MB	+1.2 MB	+1.8 MB			+1.9 MB
Utilization		-0.2%	+1.0%	+0.8%	87.7%			85.0%
Natural Gas		+52 bcf	+54 bcf	+61 bcf	+40 bcf			

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

### Global Economic & Dollar News

The dollar rose during yesterday's session as the stock market fell. Some additional support came from a weaker euro, which fell due to a downward revision to Eurozone economic sentiment and due to increasing worries about the potential reemergence of the Eurozone's sovereign debt crisis.

- » **The BOJ Emergency Meeting** ended with no change in the o/n rate of 0.10% and no new indication regarding intervention to pressure the yen. They added ¥10T (\$118B) in liquidity injections (QE), bringing the facility up to ¥30T.
- » **Japanese FinMin Noda** told the Chinese that Tokyo wants further efforts to make the CNY more flexible.
- » **Eurozone Economic Sentiment** was 101.8 vs. 101.7 expected and vs. 101.1 previously (revised down from 101.3).
- » **ECB's Trichet** said that he backs extended emergency support for banks.
- » **Fed' Officials** at Jackson Hole signaled that further intervention may be warranted to prevent the U.S. economy from slipping into another recession, echoing comments made by Fed Chairman Bernanke on Friday.
- » **Fed Pres Hoenig** somewhat disagreed and said that the U.S. will slog its way out of recession.
- » **An NABE Survey of Economists** showed that most favored extending the Bush tax cuts.

### Energy News Stories

- » **The NHC** said that Hurricane Earl is a category 3 storm centered about 25 miles northeast of St. Martin. Path projections show that there is a chance that it grazes the U.S. east coast.
- » **The NHC** is also watching a low pressure system in the middle of the Atlantic which it suggests has a 90% chance of becoming TD 8. The storm is moving westward at 20 mph.
- » **Iran** may become self-sufficient in fuel by Mar 2012.

- » **The Kirkuk-Ceyhan Pipeline** was halted due to an electrical problem on a part of the pipeline inside Turkey.
- » **The EIA's Revised June Oil Use** was -0.25%, or 48,000 b/d from preliminary figures.

## ANALYSIS

### End-of-Month Seasonals

In our weekly report yesterday, we mentioned our favored trade of selling CLV0 at \$77.00 and targeting a fall toward \$70.50 while risking \$78.50. While our negative opinion was based on both fundamental and technical criteria, the expectation that we would even get a rally to \$77.00 to sell at was based on end-of-month tendencies. In the past 24 months, the oil market has strengthened between the close four days prior to month's end and the close on the last day of the month in 13 of those times. The 13-11 up-down record isn't impressive, but the average gain during the period has been 2.5%. Through yesterday's close, the trade is +3.0% so far. While yesterday's late selloff in the equity market may make it difficult for crude oil to rise toward \$77.00, we believe that beginning Sep 1st, the oil market will lose one of its key fundamental underpinnings and resume the mid-Aug decline.

