

August 25th, 2010

MF Global Daily Report

COMMODITIES | ENERGIES

# Energy

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**\*I will be out of the office on Aug 25th & 26th.**

## Price Outlook

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

The oil market is expected to hold in a relatively sideways direction during the month of Sep. Prices should fall at least to the May 25th low in CLV0 at \$70.35, with the possibility of a decline to the 2010 continuation chart low at \$67.15. The focus of trade early in Sep will be on the likelihood that the Aug selloff continues. Pressure will come from worries about economic strength and the inability of the risk trade to recover after being decimated in May & June. The stock market only recovered about 58% of the 17.5% decline made between Apr 26th & Jul 6th before heading lower once again on concern that the Fed is anticipating a double-dip recession. Since the Aug 11th FOMC meeting, stocks have fallen 6.9% while crude oil declined 14.4%. Concern about the ability of the economy to recover and produce jobs will adversely impact driving and spending plans and thus reduce demand for energy. Further weakness may be applied by the relative lack of tropical activity in the Atlantic and Gulf of Mexico. This year was predicted to be the most active since 2005's Katrina, but only four storms have developed so far this year with two of them becoming hurricanes. Katrina was the 11th named storm that year, forming on Aug 13th and striking New Orleans on Aug 29th. The midpoint of the hurricane season is generally regarded to occur around Sep 10th, so doubling this year's four storm tally would suggest 8-9 by the end of the year, which is close to the 9.6 storm average since 1950. Despite these bearish developments, it's tough to get too negative on energies as they are very oversold. Demand for energy in the U.S. has lagged five-year averages much of this year, but is still above year-ago levels. Total energy demand sank counter-seasonally in Jun & Jul but has recovered in Aug to make back nearly the entire drop. Seasonal patterns are positive through mid-Oct for crude and heating oil, while recent COT data suggest that capitulation liquidation may have taken place in gasoline and heating oil. The net long in gasoline was cut in half in mid-Aug while it was nearly eliminated in heating oil.

**TRADE:** Buy \$67.15, target \$76.00, risk \$65.50

## EIA Oil Inventory Preview

EIA Inventories - w/e August 20th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		+0.2 MB	-1.0 MB	+0.8 MB	-0.8 MB	+2.6 MB	-1.8 MB	+5.9 MB
Gasoline		-0.4 MB	-1.0 MB	-3.4 MB	+1.1 MB	+2.9 MB	+0.7 MB	+2.0 MB
Distillates		+1.1 MB	+1.0 MB	+1.0 MB	-0.04 MB	-4.6 MB	+1.9 MB	+2.1 MB
Utilization		-0.4%	-0.5%	+0.3%	90.0%	-5.0%	85.0%	85.5%
Natural Gas		+35 bcf	+36 bcf	+59 bcf	+27 bcf			

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