

September 3rd, 2010

MF Global Daily Report

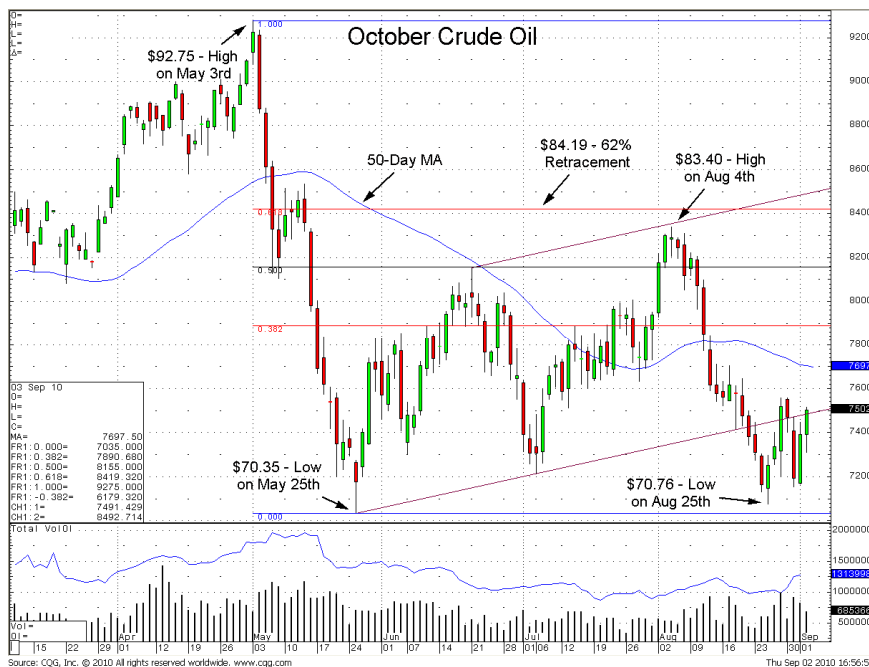
COMMODITIES | ENERGIES

Energy

MF Global
440 S. LaSalle
Chicago, IL 60605

Price Outlook

Energy prices are expected to trade in mixed directions today, considering the non-farm payroll number which will be released prior to the NY open. It's possible that given the upside trend in stocks in the past couple days that a lot of negativity has already been priced into the oil market. Such a relief rally could take prices up toward resistance at the 50-day MA near \$77.00. However, we also continue to believe that fundamentals are pointing to further losses in oil prices in the intermediate-term. Supply and demand figures, a lack of investment interest, and increased potential for offshore storage are some of the adverse factors. We believe the shrinkage that took place in the gasoline backwardation in the days leading up to Tuesday's expiration are another sign of demand weakness, and we take a look at it in the Analysis section below. We don't believe that there will be much impact from Hurricane Earl on the refineries on the eastern seaboard, but list the 1.28 mb/d in potentially affected facilities in the Analysis section below. We favor selling rallied in CLV0 at \$77.00 and targeting a fall toward \$70.50.



In the past few days, we've detailed our disappointment with U.S. supply and demand data. Total demand for oil in the U.S. has fallen 139 kb/d since the w/e June 4th, while the five-year average typically advances 476 kb/d during that period. Investment interest has been weak in crude oil, as open interest has been either steady or growing during periods of market weakness. The two-day selloff on Mon & Tue for instance resulted in a 66,003 contract gain in OI, while prices fell \$3.25/bbl. Lastly, Hurricane Earl shouldn't have much impact on energy infrastructure and neither should TS Fiona or TS Gaston. Earl is making its way up the Atlantic seaboard and should reach the U.S. Northeast by this evening. There is 1.28 mb/d in refining capacity in seven facilities in New Jersey and Pennsylvania, but all of the facilities so far have said they have no plans to stop operations. TS Fiona is likely to remain a tropical

storm and never make landfall. However, TS Gaston has a different projection, and should reach hurricane force winds by Sunday. The NHC hasn't provided much guidance on the storm's direction yet, but CWG thinks that Gaston will take a similar course as Earl, but will be weaker. Steering winds are likely to push the storm northeastward due to a low pressure system currently centered over the Great Lakes. Such a development would imply little impact on energy infrastructure.

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

Upcoming Energy Events

Thu - Natural Gas Inventories 10:30 pm EST

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

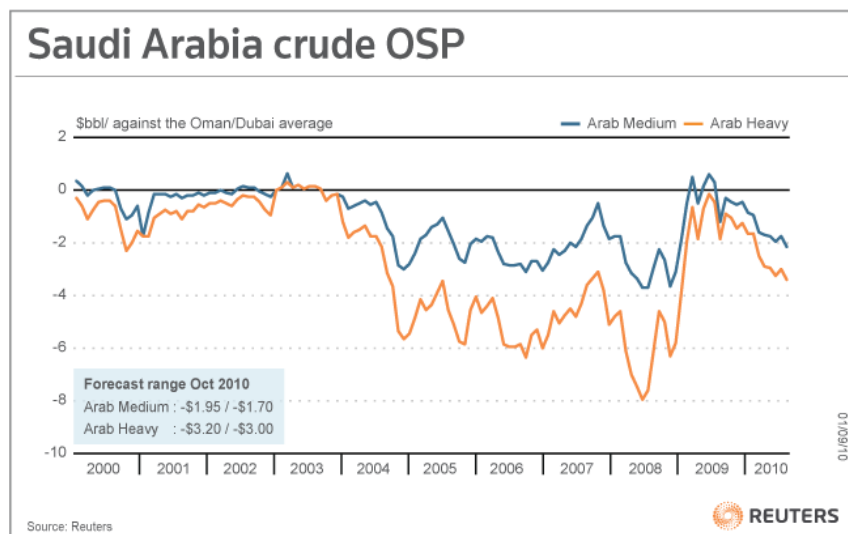
The dollar traded in a mixed but small direction yesterday, with some pressure coming from better Spanish and French bond auctions and from a recovery in global equity markets.

- » **Japan's Ichiro Ozawa** said that action is needed to stem rapid rises in the yen. Ozawa is challenging PM Naoto Kan for DPJ party leadership.
- » **Spanish & French Bond Auctions** were well received by investors yesterday.
- » **The ECB** left rates unchanged at 1.0% in yesterday's policy meeting.
- » **Outgoing Fed Vice-Chairman Kohn** said that the decision to reinvest maturing securities to keep the balance sheet steady is not an automatic precursor to further easing. He said that he expects stronger growth next year.
- » **U.S. Auto Sales** were 11.47M vs. 11.50M expected and vs. 11.52M previously. They were the weakest August since 1983. They fell 21% y/y due to poor comparisons with last year's cash for clunkers program.
- » **Initial Claims** were 472K vs. 478K previously (revised up from 473K). Continuing claims were 4.456M vs. 4.479M previously.
- » **Non-Farm Productivity** was revised to -1.8% vs. -0.9% in the preliminary report.
- » **Aug Same Store Sales** were slightly better than expected.
- » **U.S. Pending Home Sales** were +5.2% m/m in Jul vs. -2.8% in Jun.

Energy News Stories

- » **Hurricane Earl** was a category 4 storm yesterday centered 355 miles south of Cape Hatteras NC. It was expected to pass the outer banks yesterday evening and will be approaching the refinery areas in Pennsylvania and New Jersey Friday evening. MFGR has maps and affected refineries in table below.
- » **TS Fiona** is still a tropical storm and is not expected to become a hurricane. Its projected path was shifted eastward yesterday to one that passes over Bermuda.
- » **TS Gaston** formed late Wednesday from TD 9. The projected path takes Gaston westward into the Caribbean and potentially the Gulf of Mexico. It's expected to be upgraded to a hurricane by Sunday.
- » **CWG** thinks that Gaston will take a similar course as Earl, but will be weaker.
- » **Saudi Arabia** is expected to raise the prices of all of its crudes heading to Asia in Oct, as demand has recovered from recent weakness and refining margins continue to improve. Prices are usually released around the fifth of each month.
- » **Russian Oil Output** fell 0.8% from the all-time high made in July. Output was 10.06 mb/d vs. 10.14 mb/d in July.
- » **China Plans** to spend CNY 250-300B in a five-year development plan to boost offshore oil production.
- » **U.S. Natural Gas Inventories** were +54 bcf vs. +53 bcf expected.
- » **Cushing Oklahoma Oil Stocks** fell 777,561 bbls in the w/e Aug 31st, according to Genscape.
- » **Oil Movements** said that OPEC seaborne exports will fall 280,000 b/d in the four weeks ending Sep 18th. The number compares to -70,000 b/d the previous week.

» **An Oil Rig** owned by Mariner Energy exploded in the Gulf of Mexico. 13 workers were on board but escaped to the water and were accounted for. The rig was located 80 miles south of Vermillion Bay Louisiana. It was drilling natural gas and NGLs in a field with 33.2 bcf in proven reserves.

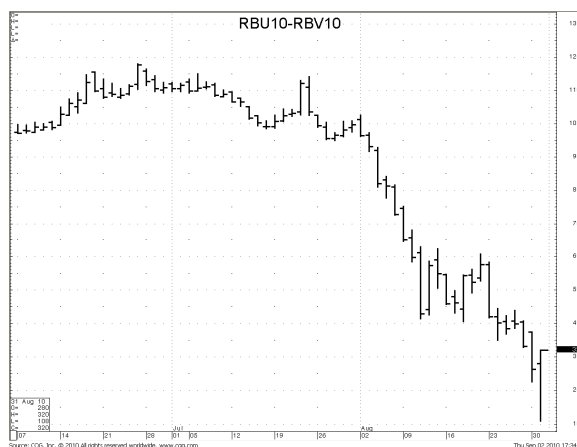


ANALYSIS

Energy Futures Price Curves

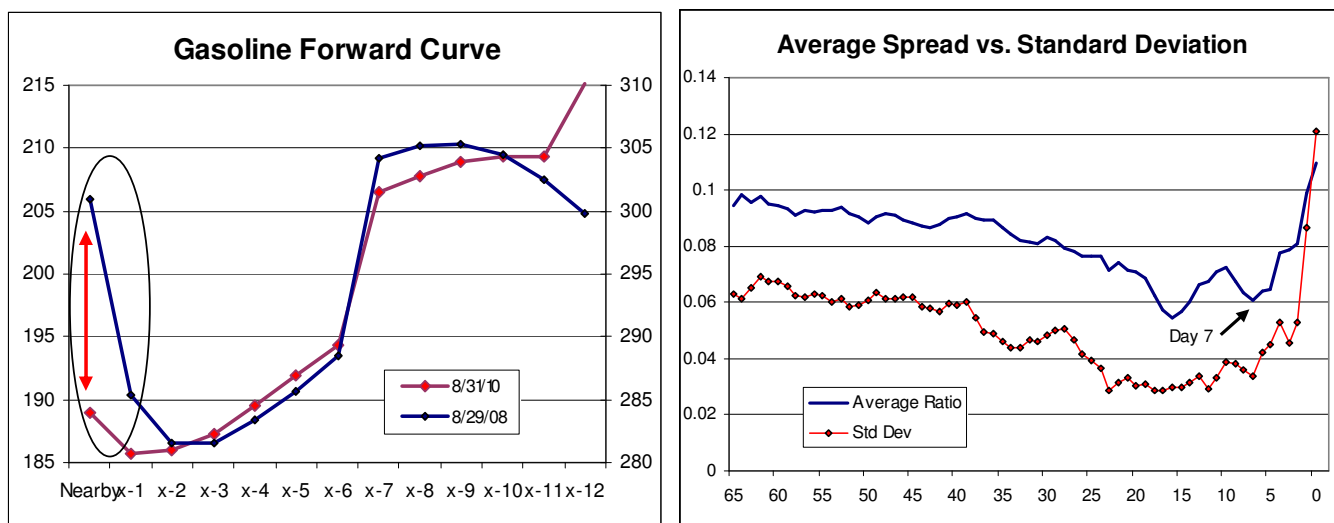
September gasoline futures expired on Tuesday with a sharp price decline. Most of the news was positive that day including a better-than-expected reading in Case-Schiller house prices, better consumer confidence, and a higher stock market. Trade also focused that day on the possibility that Hurricane Earl tracked up the east coast and caused refineries in the region to shut down. Heating oil and crude oil prices also closed sharply lower that day despite the encouraging data and news on the economic front.

We were surprised by the extent of the narrowing backwardation in gasoline during the month of August and wondered if it was confirmation of the weak demand being indicated in the EIA's weekly data. Usually when suppliers have excess product on hand, they can deliver against on a short futures contract to unload it. The EIA has been reporting poor demand for oil products since a peak in demand was made in the w/e June 4th. Total demand is 139 kb/d below that peak rather than 476 kb/d above it as the five-year average suggests it should be. Demand for gasoline has tracked the five-year average, but already peaked on Aug 13th. Distillate demand has been very volatile, showing counter-seasonal strength in May and excessive weakness in June & July.



Normally, the gasoline futures price curve shows a backwardation, as demand in August is much stronger than that in September. However, the liquidation in expiring Sep futures put the normal pattern at risk and caused the spread to narrow to 3.20 cents on expiration day. The first chart below shows the futures price curve in 2008 (dark blue line) against that of 2010 (red dotted line) (right & left scales are both 30 cents wide). In the second chart, we show the

average spread between Sep and Oct futures since 2000. The spread has averaged between 6 and 10 cents premium in Sep over Oct about until seven days before expiration. At that time, suppliers and consumers alike jockey for position depending on their individual needs. The spread has averaged an increase from 6.0 cents to nearly 11.0 cents in those last seven days. Volatility in the spread increases as well as shown by the standard deviation.



The following table shows each year individually, and allows us to draw conclusions about this year's trade. The average gain in Sep over Oct near expiration was bolstered by Hurricane Katrina in 2005, when the spread gained 31.85 cents per gallon. Excluding 2005, the average increase drops from 4.23 cents to 1.47 cents. Despite the less impressive numbers when 2005 is removed, there are still valuable conclusions to be drawn. In years where the spread narrowed like this year, the economy was fairly weak and demand was hampered. They include post-9/11 2001 and the soft-landing year of 2004. The spread narrowed sharply in 2006, but we think it was in response to Katrina, whereby refiners had produced extra amounts of gasoline in preparation for a repeat of 2005's storm season. When 2006 turned out to be quiet, refiners had to shed excess inventory. In years where the spread increased such as 2007, 2008, and 2009, the economy was either growing moderately or was in a recovery period. A year ago at this time for instance, the economy appeared to be reacting to the cash for clunkers program and signs that the credit crisis had passed.

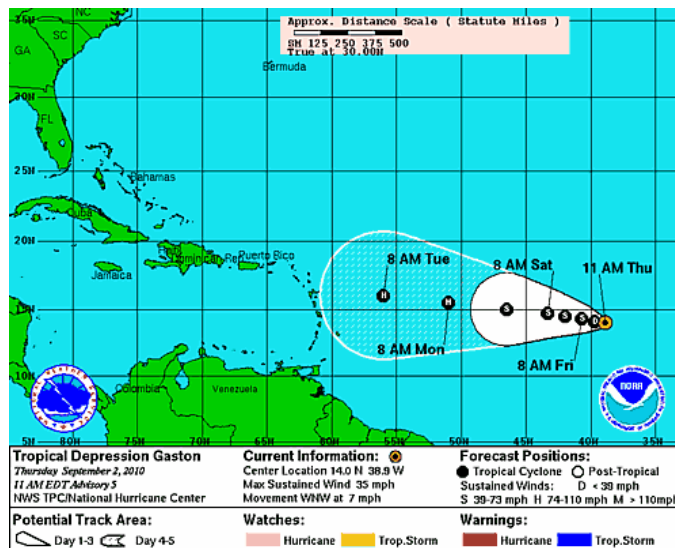
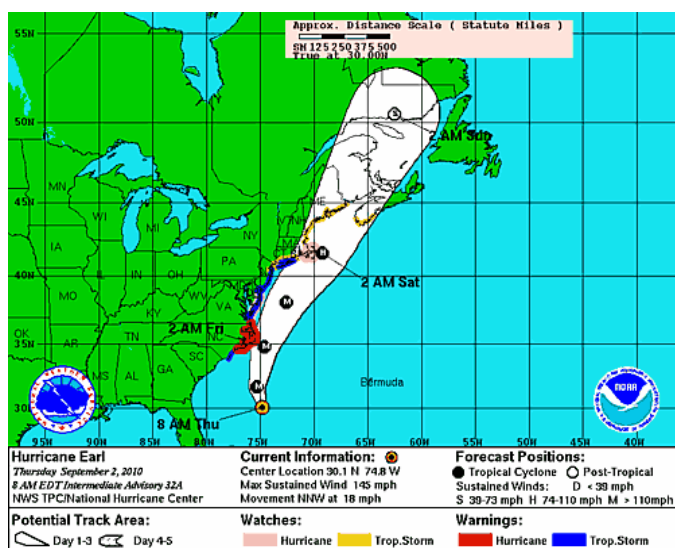
Changes in RBU-RBV Seven Days Before RBU Expiration			
2000	+0.5c	2007	+2.48c
2001	-2.2c	2008	+6.19c
2002	+0.61c	2009	+6.77c
2003	+7.33c	2010	-2.56c
2004	-1.11c	Average	+4.23c
2005	+31.85c	Average ex-2005	+1.47c
2006	-3.33c		

The bottom line for us is that we see the narrowing backwardation as confirmation that demand is weak, and another signal that energy prices will continue to face pressure in the near-term.

Potential Impact of Hurricane Earl

The EIA yesterday said that 1.1 mb/d in oil refining capacity equal to 7% of all U.S. capacity lies in the area to be affected by Hurricane Earl. Our calculations, however, put the number closer to 1.28 mb/d. In Philadelphia, three refineries totaling 698,000 b/d could be affected, while 583,000 b/d will impact refineries in the state of New Jersey. There is around 86,000 b/d in capacity in two refineries in Virginia & West Virginia, but they should be unaffected. There aren't any operations in the Carolinas, New York, Connecticut, Rhode Island, or Massachusetts. All of the refinery operators that have made comments regarding Earl have said that they will monitor the storm, but non have so far indicated that they will shut down their facilities. The names of the affected refineries and their operating capacity are listed in the table below.

Company	Location/Refinery Name	Capacity
ConocoPhillips	Trainer, PA	185,000 b/d
Sunoco	Marcus Hook, PA	178,000 b/d
Sunoco	Philadelphia, PA	335,000 b/d
ConocoPhillips	Linden, NJ	238,000 b/d
Valero	Paulsboro, NJ	195,000 b/d
Chevron	Perth Amboy, NJ	80,000 b/d
Hess	Port Reading, NJ	70,000 b/d
Totals		1,281,000 b/d



EIA Oil Inventories

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	+3.4 MB	+1.3 MB	-1.0 MB	-0.5 MB	+4.1 MB	+3.2 MB	+4.8 MB	-1.8 MB
Gasoline	-0.2 MB	-0.2 MB	+1.0 MB	-1.3 MB	+2.3 MB	+0.0 MB	-0.6 MB	+0.7 MB

Distillates	-0.7 MB	+1.1 MB	+1.5 MB	+1.2 MB	+1.8 MB		-8.2 MB	-1.9 MB	+1.9 MB
Utilization	87.0%	-0.2%	+1.0%	+0.8%	87.7%		-2.9%	84.8%	85.0%
Natural Gas	+54 bcf	+53 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