

November 5th, 2010

MF Global Daily Report

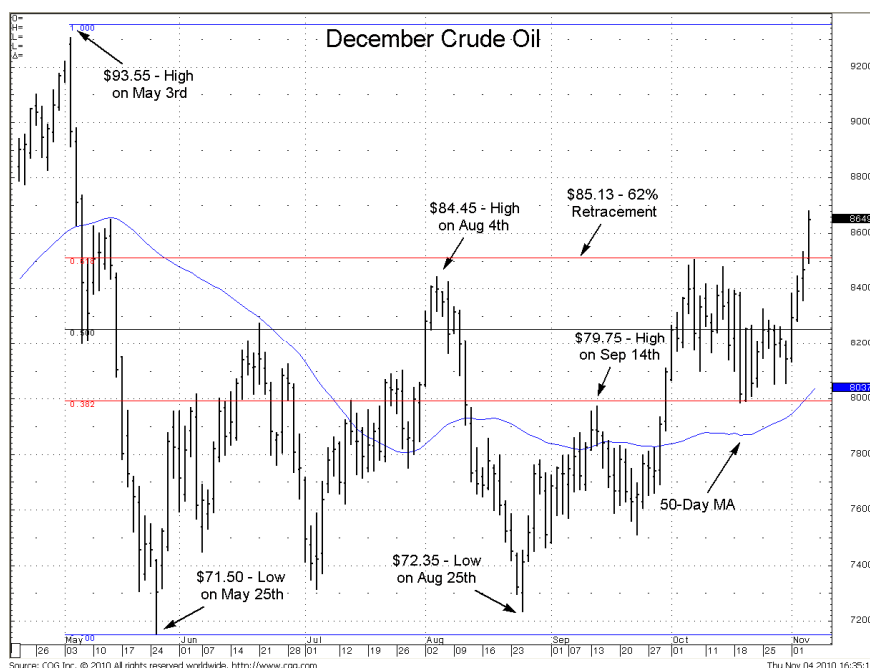
COMMODITIES | ENERGIES

Energy

MF Global
440 S. LaSalle
Chicago, IL 60605

Price Outlook

Oil prices are likely to maintain yesterday's breakout in today's trade, as the dust settles from the positive events of the last few days. Prices broke out above key resistance at \$85.13 yesterday and now appear poised to advance toward the May 3rd high at \$93.55. Offering support for such a move will be the improvement in product inventories, the potential targeting of asset prices by the Fed, the likelihood that tax cuts will be extended next year for all income earners, and the hike in the global demand view by OPEC yesterday. Opposing pressure will come from weakened demand, high levels of crude oil inventories, and continuation chart resistance at \$87.15, but momentum is on the side of the bulls now, and the upside is expected to win out. We favor holding our long Dec Brent-WTI spread.



The market broke out above key resistance yesterday from the Oct 7th high at \$85.08 and the 62% retracement at \$85.13. The breakout set in motion the possibility of an advance to the next resistance at \$93.55, which comes from the high made on May 3rd. One cautionary note comes from the May 3rd high at \$87.15 which could offer strong resistance. However, momentum seems to be building on the side of the bulls. That momentum was bolstered on Wednesday when the FOMC decided to engage in QE2, which will result in buying \$600B in treasury bonds. Perhaps even more supportive for oil prices was the op-ed piece written by Fed Chairman Bernanke yesterday in the Washington Post in which he said described a "virtuous cycle" that he's aiming for. He said that expectations of QE2 have already prompted favorable developments such as an increase in stock prices and a drop in long-term interest rates. He said that these easier financial conditions will promote economic growth by giving consumers more money to spend and making homes more affordable by lowering mortgage rates. In a virtuous circle, he said that these developments will further support economic expansion. Such statements by the Fed Chairman gave the impression

that he's targeting growth in asset prices. It's possible that until they begin showing recovery, the Fed will keep easing. Support for oil prices may also come from OPEC's long-term report yesterday, which raised its global GDP expectation to 3.9% and its oil demand view by 800,000 b/d through 2014. It predicted that non-OPEC supply would rise enough to meet this demand and that OPEC members' spare capacity would remain around 6-7 mb/d. However, the hike in demand shows that OPEC economists believe that the economy will continue to rebound, and thus boost oil prices.

TRADE: Maintain long Dec Brent-WTI at \$1.10, target \$3.50, risk \$0.25 (entered on Oct 25th)

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

Global Economic & Dollar News

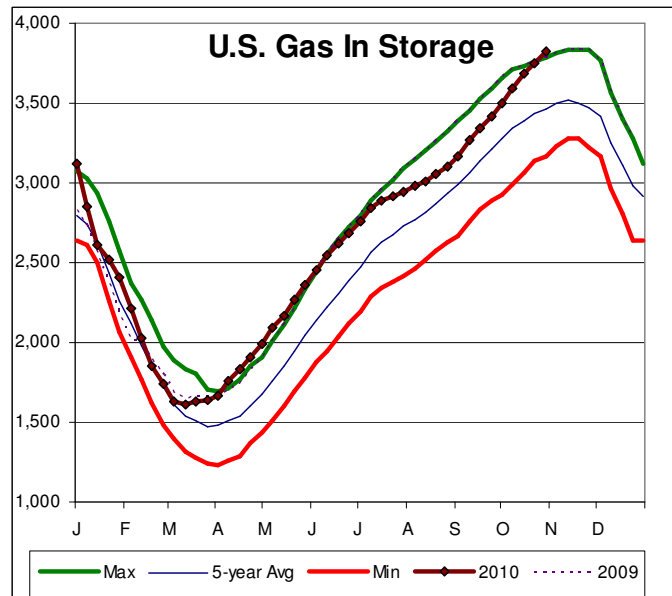
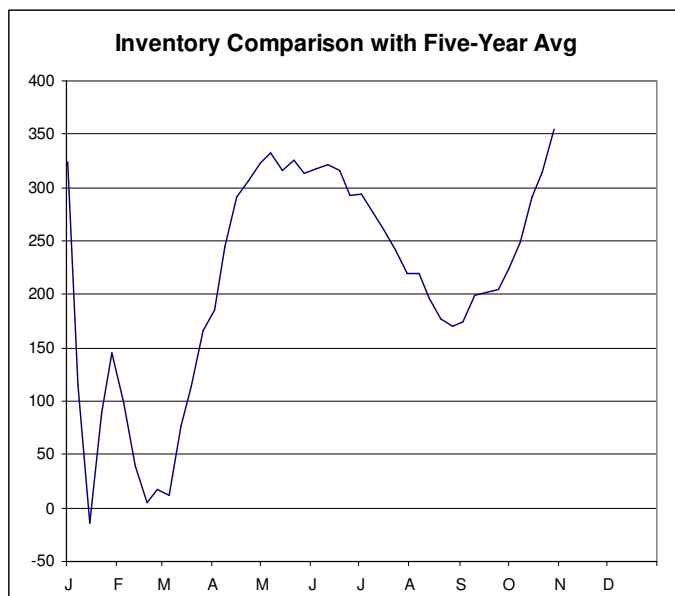
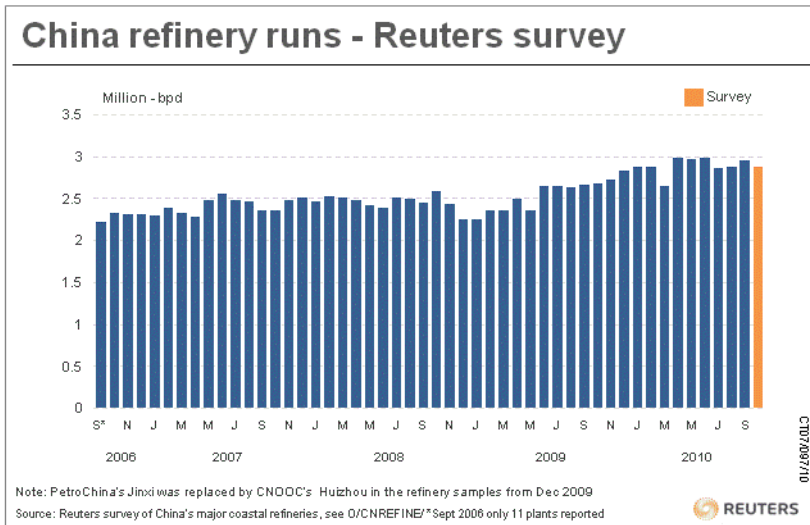
The dollar had a much more active day than the six tick spread between open and close would suggest. It seemed unaffected by the election results by trading range-bound in the overnight hours. It later gained support from the ADP and ISM reports, but swung wildly after the FOMC meeting. The dollar fell another 0.45 after the metals' close due to the higher-than-expected QE2 implemented by the Fed.

- » **House Republicans** are expected to gain about 65 seats when all votes are counted. The Senate's count is 52-46, with two more races still being counted.
- » **UK CIPS Services PMI** was 53.2 vs. 52.5 expected and vs. 52.8 previously.
- » **ADP Payrolls** were +43K in Oct vs. +20K expected. Last month was revised up to -2K from -39K originally.
- » **Challenger Layoffs** were 37,986 in Oct vs. 37,151 previously.
- » **The ISM Non-MFG PMI** was 54.3 vs. 53.5 expected and vs. 53.2 previously. The employment index was 50.9 vs. 50.2 previously, while prices were 68.3 vs. 60.1.
- » **The FOMC** announced a QE2 package of \$600B to be done on a monthly basis over the next eight months until the end of Q2 '11. The FOMC will also roll over \$250B-\$350B in MBS, creating total purchases of \$850B-\$900B (but only \$600B of it new). The FOMC will regularly review the pace of purchases and the overall size of the program, and adjust as necessary. The purchases will average \$110B per month, with \$75B being new purchases and \$35B being reinvestment. The average duration will be 5-6 years.
- » **The FOMC's Statement** dropped the phrase that bank lending continued to contract. Fed Pres Hoenig dissented again, saying that the risks of QE2 outweighed the benefits.
- » **U.S. Auto Sales** were 12.26M vs. 11.85M expected and vs. 11.71M previously.

Energy News Stories

- » **China's Refiners** are planning to process a record volume of crude oil in Nov of 2.98 mb/d vs. 2.94 mb/d in Oct. This despite the hike in fuel prices a few weeks ago, as domestic stocks are running low and diesel shortages are spreading.
- » **OPEC's 2010 World Oil Outlook** upgraded its global oil demand view by 800,000 b/d for 2014. Said that current investment in new supply is adequate and that it sees downside risks in demand for OPEC crude. Said it sees members holding stable spare oil production capacity of 6-7 mb/d through 2014. OPEC boosted its 2010 global growth forecast to 3.9% from 2.1% and as a result, its oil demand growth forecast as well.
- » **OPEC Sec'y Gen'I al-Badri** said that he doesn't think that oil prices will see \$100/bbl in 2011. He added that speculation is not as aggressive as in 2008, but that there is some in the market today.
- » **Natural Gas Inventories** were +67 bcf, which was as-expected. Inventories are at record highs for this time of year and are 355 bcf above the five-year average. That marks the highest divergence for the year, removing the 333 bcf divergence set on May 7th.
- » **Mexico Closed** two key oil exporting ports on the Gulf due to TS Tomas.

» **Oil Movements** said that OPEC sailings are expected to add 370,000 b/d in exports in the four weeks ending Nov 20th.



ANALYSIS

EIA Oil Inventories

	EIA Inventories - w/e October 29th					API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil	+2.0 MB	+1.4 MB	+2.0 MB	+0.4 MB	+5.0 MB	+1.4 MB	-4.1 MB	+6.4 MB
Gasoline	-2.7 MB	+0.1 MB	-1.5 MB	-0.07 MB	-4.4 MB	+4.8 MB	-3.2 MB	-1.8 MB

Distillates	-3.6 MB	-1.2 MB	-0.5 MB	-0.4 MB	-1.6 MB		-7.0 MB	-4.7 MB	+0.8 MB
Utilization	81.8%	+0.2%	+0.5%	+1.0%	83.7%		-2.5%	81.2%	81.6%
Natural Gas	+67 bcf	+67 bcf	+75 bcf	+27 bcf	+71 bcf				

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