

January 25th, 2011

MF Global Daily Report

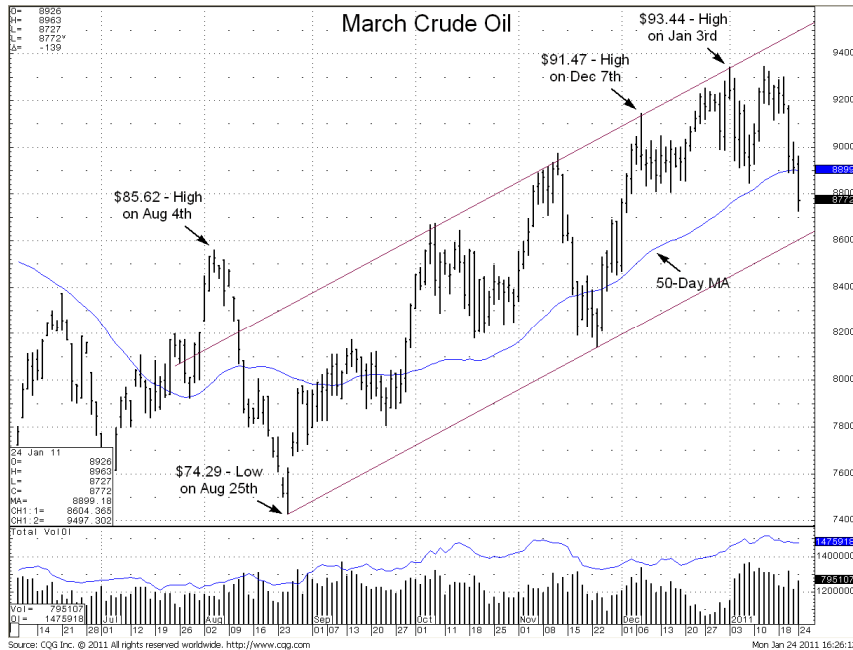
COMMODITIES | ENERGIES

Energy

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Price Outlook

The oil market should fall further in today's trade, with key support being offered at the \$86.00/bbl level. Pressure will come from the prospect of increased oil supplies, yesterday's break below the 50-day MA, and the likelihood that India's central bank raises rates. We were trying to sell a rally in CLH1 at \$91.00 with an objective at \$86.00, but now favor withdrawing the trade given that the objective has nearly been accomplished.



Oil prices fell \$1.24/bbl in yesterday's trade. Pressure was applied by a pledge from Saudi Arabia's oil minister to boost oil supplies this year as demand recovers. The statement affirmed the same statement made last week by the IEA, and suggests that Saudi Arabia is attempting to avoid a replay of the price surge of 2008 and the economic damage that followed. Saudi Arabia invested heavily in spare capacity following the 2008 price surge, and may be eager to see some of that investment recouped. Increases in production from Saudi Arabia will backstop pressure on the market applied by growth in U.S. inventories. MFRG looks for a gain of 3.0 MB in tomorrow's EIA number, which is on the high side of the range of market consensus. Our forecast is based on the seasonal tendency, a rebound from year-end tax issues, the restart of the Trans Alaska pipeline, and from the steepening contango (detailed below).

The market could also be pressured by the Indian central bank. The bank is expected to raise interest rates by 25 bps in today's meeting, which could reduce the growth rate of energy demand. The government already cut its oil demand growth forecast for FY11 yesterday, and could do so again if the bank goes ahead with the three rate cuts that are expected to be made this year. Pressure from these issues will be affirmed by technical factors, where yesterday's trade broke decisively below the 50-day MA. The break occurred as the Brent market eased, with Brent moving around \$1.20/bbl lower by late-afternoon. Brent finally kept up with declines in WTI likely because of trades

that were made in the physical Brent market. There's been discussion recently regarding a shortage of deliverable oil in the Brent pool, but the market appears to have opened up a bit yesterday. The next technical support in WTI is offered near \$86.00.

TRADE: None

Upcoming Energy Events

Tue - API Weekly Stats 4:30 pm EST
 Wed - Oil Inventories 10:30 am EST
 Thu - Gasoline & Heating Oil Rollover
 Thu - Natural Gas Inventories 10:30 am EST
 Feb 8th - EIA Monthly Report
 Feb 10th - IEA Monthly Report
 Mar 15 - IEA Monthly Report

Global Economic & Dollar News

The dollar traded higher at the NY open of commodity markets on worries over the ability of Ireland to retain its bailout financing in the wake of the resignation of PM Cowen. The dollar turned lower during the remainder of the session on reevaluation, with little in the way of fresh news.

- » **Eurozone Jan Composite PMI** was 56.3 vs. 55.2 expected and vs. 55.5 previously.
- » **Eurozone Nov Industrial Orders** were +19.9% y/y vs. +17.5% expected and vs. +14.8% previously.
- » **ECB's Trichet** said that he wouldn't allow sovereign debt problems in Greece or Ireland to delay a rate increase.
- » **Irish PM Cowen** resigned as party leader. Elections will have to be brought forward from the currently scheduled Mar 11th. EU/IMF funding is in jeopardy unless a finance bill is passed.
- » **The Fed** may push for a formal inflation target, according to the WSJ.

Energy News Stories

- » **India Cut its FY11 Oil Product Demand Forecast** to 4.7% y/y from 5.7% previously. Oil product imports were +91.9% y/y in Dec, while crude oil imports were -17.2%.
- » **Saudi Arabian Oil Minister al-Naimi** said that OPEC may boost oil supplies this year as demand recovers. He said that he's worried about speculation, but that he thinks prices will stabilize in 2011.
- » **French Oil Ports** were closed for 24 hours yesterday due to a port strike.
- » **Blackrock** said that AUM in ETFs and ETPs will increase by 20-30% annually over the next three years.

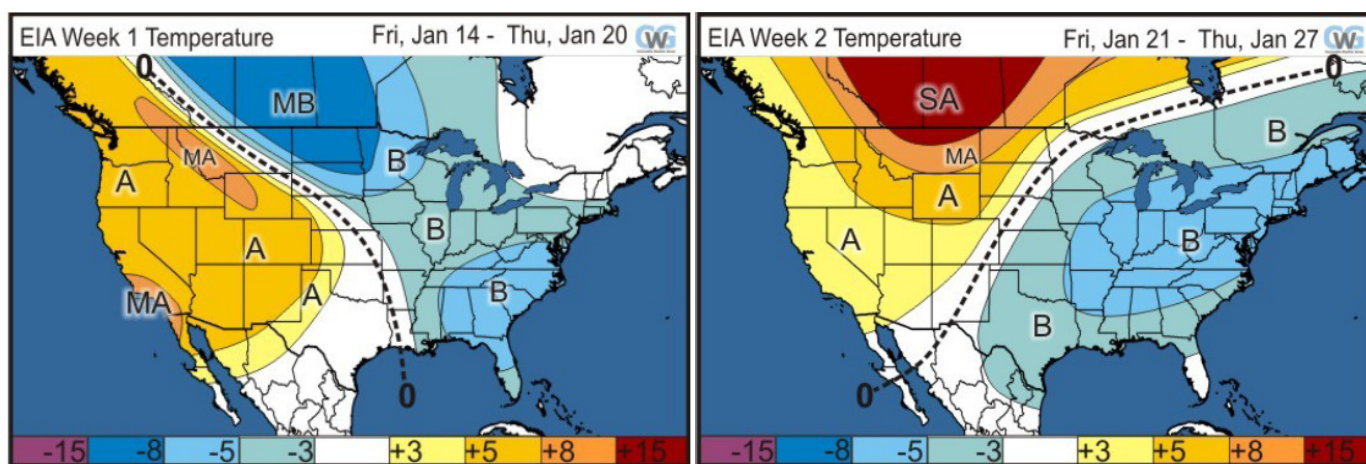
ANALYSIS

EIA Oil Inventory Preview

Weekly EIA inventories are expected to build 3.0 MB this week, as imports continue to firm. A boost may also come from last week's sharp decline in refinery utilization as well as a return to normal following the shutdown of the Trans Alaska pipeline. The five year average shows an increase of only 1.3 MB this week, but imports were less than normal in Dec and could recover at a faster pace over the next few weeks. Gasoline inventories should be reported below the +4.5 MB that is typical for this week, as last week's numbers didn't reflect the 3.4% drop in refinery utilization. Gasoline production increased 142 kb/d last week, and could easily fall in this week's data. Similarly, distillate stocks could actually fall this week because last week's gain was made amid a confluence of factors that should have led to a drawdown. Imports were lower, production was lower, and demand was higher. Distillate stocks should also be weighed by increased demand for heating fuels, as forecasts have temperatures remaining below normal during the survey week as well as into next week.

EIA Inventories - w/e January 21st						API Inventories		
	Actual	Market Estimate	MFGGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		+0.9 MB	+3.0 MB	+1.3 MB	+2.6 MB			+3.5 MB
Gasoline		+2.2 MB	+1.0 MB	+4.5 MB	+4.4 MB			+1.9 MB
Distillates		-0.2 MB	-1.0 MB	-0.2 MB	+1.0 MB			+0.9 MB
Utilization		+0.1%	Unch	-1.3%	83.0%			82.9%
Natural Gas			-155 bcf	-137 bcf	-243 bcf			

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



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