

February 9th, 2011

MF Global Daily Report

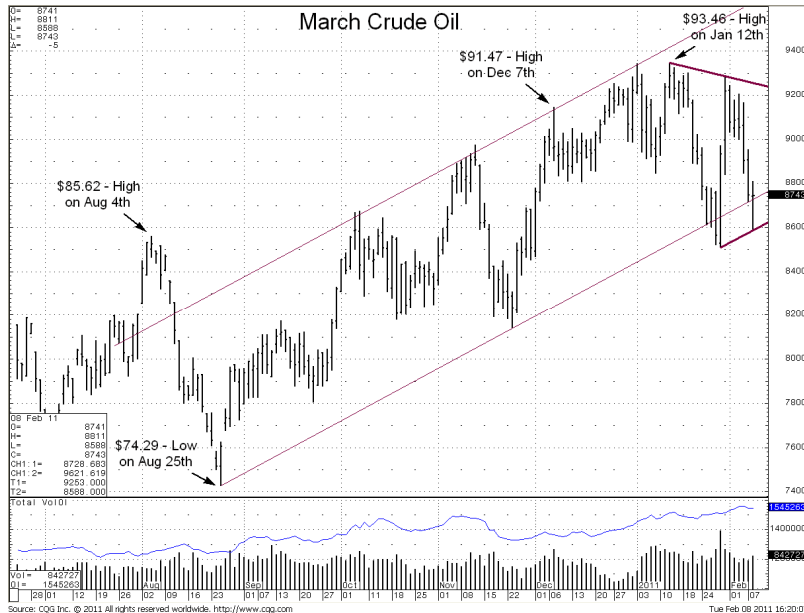
COMMODITIES | ENERGIES

Energy

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Price Outlook

The oil market is expected to trade in a mixed direction in today's session. The market will be supported by yesterday's API data, a developing bullish triangle pattern, and from the EIA's expectation that OECD inventories will begin to diminish. Opposing pressure will come from the Chinese rate hike and from hawkish comments made yesterday by Fed Presidents Lacker and Fisher. We favor maintaining our trading affair bias in today's session.



Yesterday's market was volatile, as pressure early in the session gave way to an upside rebound throughout the morning hours. Slight weakness in the afternoon added pressure late in the session. The hold above the Jan 28th low at \$85.11 allowed for the creation of a bullish triangle continuation pattern, which could end up boosting the market in the near-term (chart above). Support will also come from the API data yesterday, where crude oil inventories actually dropped 0.6 MB. The drop was surprising given that this is a time of year when inventories build substantially, although it does not imply that a drawdown is a certainty today. The convergence figure today is still +2.8 MB, which is close to market consensus.

The negative side will focus on the Chinese rate hike announced yesterday, although this is somewhat of a stretch. The PBoC raised rates for the third time of this cycle and the third time since October. Commodities initially traded lower on the news based on expected reductions in demand. However, energy prices rallied strongly during the NY session on a potential "sell the rumor buy the fact" trade. We doubt that the rate hikes will have a large effect on the market at this point, as it seems as though any extra supply that would have been taken up by China may now be taken by improving economies in Europe and the U.S. During the series of rate hikes from 3/17/07 to 12/20/07, prices went from \$57.11 to \$91.06, so the rate hikes failed to derail the market's uptrend. Even this year, liquidity is still abundant, so we don't anticipate the uptrend being derailed.

TRADE: None

Upcoming Energy Events

Wed - Oil Inventories 10:30 am EST
 Thu - IEA Monthly Report
 Thu - Natural Gas Inventories 10:30 am EST
 Tue - API Weekly Stats 4:30 pm EST
 Feb 22nd - Possible OPEC Meeting in Riyadh
 Mar 15 - IEA Monthly Report

Global Economic & Dollar News

The dollar traded lower yesterday in spike of a large loss reported by Anglo Irish Bank. Instead, the euro was boosted by a successful six-month bill auction in Greece and from positive comments made on European banks by Goldman Sachs.

- » **China's PBoC** raised one-year deposit rates by 25 bps to 3.0% and the one-year lending rate hiked by 25 bps to 6.06%. Gold went from \$1,382.60 after the last hike on Dec 25th to \$1,348.20 at Monday's close, or -\$34.40. It was the third hike in the cycle which began in Oct. The move pressured oil and copper, but boosted gold and silver.
- » **Egypt Summary:** VP Suleiman promised no reprisals against the protestors for their two-week campaign. Most reports suggest that protests have died down after a peak late last week. Egyptian protestors are making a new push for Mubarak to leave office. Protestors said they would not give up until the current "half revolution" was complete.
- » **German Industrial Output** was -1.5% m/m vs. +0.3% expected and vs. -0.6% previously.
- » **Anglo Irish Bank** announced a loss of €17.6 bln in 2010.
- » **Greece** had a successful six-month bill auction today, with a 4.54 bid-cover.
- » **Goldman Sachs** made positive comments regarding European banks.
- » **The UK** will add an extra £800M (\$1.3B) tax on banks to bring it to £2.5B this year and in line with next year's £2.5B.
- » **Fed Pres Lacker** said that there's "distinct improvement" in the economy since the launch of QE2, and suggests that the Fed should take reevaluation of the program quite seriously. Said that an array of indicators point to continued labor market improvement despite weak payroll growth. Added that 2011's expected growth rate should result in continued gains in employment and further reductions in the jobless rate.
- » **Fed's Lacker Later Moderated His Tone** and said that underlying inflation is currently below the level that he defines as price stability and that the rise of individual prices does not signal incipient inflation. Said that the labor market recovery is lagging the broader economy.
- » **Fed Pres Fisher** said that given the current economic and financial conditions, he would dissent against further Fed monetary easing. He added that barring an unexpected shock, the Fed is pushing the envelope with the current round of bond buying. He said that tax and regulatory policy are constraining job creation, and not the Fed.
- » **The White House** may propose in its budget that companies could pay unemployment taxes on \$15K in income compared to the \$7K currently. The move would be aimed at helping states recoup unemployment benefit funds.
- » **VP Biden** unveiled a \$53B plan to upgrade and build intercity passenger rail networks in the U.S. over the next six years.

Energy News Stories

- » **Pirates Hijacked** an Italian Aframax oil tanker in the Indian Ocean carrying around 700,000 bbls of oil. The attack 500 miles off India and 800 miles off Somalia.
- » **North Sea Oseberg** crude oil loadings are set to be around 135,000 b/d in March compared to 150,000 b/d in February.

- » **The EIA** cut its forecast for 2011 global oil demand growth by 10,000 b/d in yesterday's monthly report. It also expects OECD inventories to fall 115 mln bbls in 2011-2012 and return to five-year average levels. At current demand levels, that would take inventory coverage down about 2.5 days to 57.2 days.

ANALYSIS

EIA Oil Inventory Preview

The EIA is expected to report another large build in oil stocks, as imports continue to ramp up in the New Year. The number should be close to the five-year average gain of 3.2 MB and may not be bearish for prices based on the oil figure. However, product stocks are expected to be bearish due to elevated levels of refinery utilization, which gained 2.7% last week. The ramp-up in production last week resulted in only a 12 kb/d increase in gasoline output and an 89 kb/d decrease in distillate production. We think there is likely a lag that affects these figures, and that product stocks will be boosted by last week's jump in utilization. While distillate production will likely increase this week, elevated levels of demand sparked by cold weather and exports will act as a drag on inventories.

Natural gas inventories are expected to fall 175 bcf in Thursday's report, which would compare to a five-year average drop of 162 bcf. The larger-than-normal decline will be brought about due to colder-than-normal temps in the upper Midwest and in the Northeast. The HDD forecast is 229.4 which compares to a 10-year normal of 210.9, resulting in a colder-than-normal departure of 18.5. Looking to next week, temperatures in the Midwest down through the Gulf Coast will be adversely impacted by a cold snap that descended from Canada on Feb 3rd. The early HDD forecast is 242.0, which would be 32.9 above the 10-year norm of 209.1. That could result in a draw of 195 bcf, which would compare to a five-year average of -139 bcf.

EIA Inventories - w/e February 4th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		+2.5 MB	+3.2 MB	+3.2 MB	+2.6 MB	+2.8 MB	-0.6 MB	+3.8 MB
Gasoline		+2.9 MB	+3.0 MB	+1.9 MB	+6.2 MB	+3.5 MB	+3.2 MB	+3.9 MB
Distillates		-1.0 MB	Unchanged	-1.2 MB	-1.6 MB	-3.3 MB	-0.5 MB	-1.1 MB
Utilization		-0.2%	+0.3%	-0.3%	84.5%	-1.2%	83.3%	83.2%
Natural Gas		-230 bcf	-175 bcf	-162 bcf	-189 bcf			

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

