Global Macro Research | US

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MF Global Daily Report

COMMODITIES | ENERGIES

Energy

MF Global
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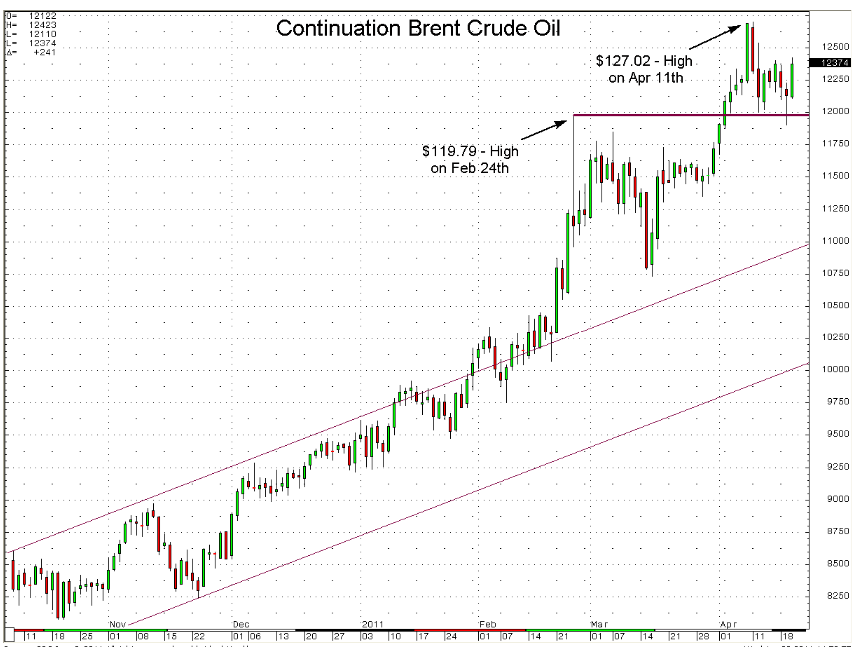
Price Outlook

Oil prices should maintain their bullish trend, as the market advances back toward the upper end of the recent trading range at $114/bbl. Support will come from yesterday's EIA report, signs of improving demand, supply issues in Libya and Nigeria, a weaker dollar, and from positive technical action. Pressure could be applied by OPEC's new awareness of the adverse effects of price spikes on future oil demand. We've been unable on our buy rec in June crude at $104, so we favor trading the market as a positive affair in the near-term. We also favor maintaining our position in the RBM1-HOM1 spread from -5.00 cents.



Yesterday's trade in WTI advanced $3.17/bbl, with about half of the gain coming after the morning's EIA inventory data. The data showed a 2.3 MB decline in oil stocks, which narrowed the inventory cushion to the lowest comparison with the five-year average since Feb 2010. It will take a decline of only about 100,000 bbls more relative to the five-year average to push it to the tightest comparison since late-2008 when prices were on the backside of the 2008 super-spike. Meanwhile, Brent is generally maintaining its spread to WTI based on worries about supply shortages of sweet crude oil from Libya. Countries that could make up for the shortfall include Algeria and Nigeria, but political problems in Nigeria suggest that some of its production will remain at risk.

Even though oil prices rallied significantly yesterday, stocks were able to maintain their gains. Strength in equities amid equal strength in energies has been reasoned to be a sign that oil prices aren't high enough yet to slow the economy. Indeed, yesterday's figures from the transportation department on miles driven in Feb showed a 0.9% y/y increase despite a gain in gasoline prices of 57c/gal from a year-ago. We would interpret that to be a mixed bag, as spikes in energy prices tend to offer a negative economic impact on a lagging basis of around four months. The bulls will also focus on favorable technical patterns as well as new 17 month lows in the dollar. Technicals will be bolstered by Tuesday's bullish reversal pattern in Brent and its hold at key support from the Feb 24th high (chart on preceding page). Additionally, WTI futures tested and held at key support near $106/bbl on Tuesday.

The potential for pressure will be seen from recent statements from OPEC members regarding high prices. On Monday, OPEC ministers voiced caution on the ability of the economy to accommodate crude oil at $110/bbl, and added that spending on oil imports represents a significant economic burden for many import dependent countries. Ecuador added to the discussion yesterday by saying that OPEC considers $80-$90/bbl as an "adequate" price for crude oil. He acknowledged that OPEC doesn't want prices "shooting up" because economies would suffer. The statements were a reversal from OPEC policy in place earlier this year which overtly suggested that they had no control over rising prices and that "fair prices" were over $100/bbl.

TRADE: Buy CLM1 at $104.00, target $115.00, risk $102.50
Maintain long RBM1-HOM1 at -5.00 cents, target +15.00 cents, risk -10.00 cents (entered Apr 7th)

Upcoming Energy Events

Thu - Natural Gas Inventories 10:30 am EST
Tue - API Weekly Stats 4:30 pm EST
Wed - Oil Inventories 10:30 am EST
Apr 28th - May Gasoline & Heating Oil Rollover
Jun 8th - OPEC Meeting

Global Economic & Dollar News

The dollar fell yesterday after Spain attracted decent demand for its auctions of 10- and 13-year debt. There was still concern over the Greek and Portuguese bailouts, but they took a back seat to Spain's auction. Risk appetite may also have played a role in keeping the dollar under pressure as the day progressed.

» **Libyan Rebel Chief Mustafa Abdel Jalil** met with French President Sarkozy in Paris yesterday and was expected to ask NATO to increase air strikes. Sarkozy's office said the talks would focus on how to bring about a democratic transition. The Libyan government was said to be circumventing sanctions by importing fuel via ship-to-ship transfers at a Tunisia port. France and Italy said they would send military officers to help rebels in Libya.
» **China is Making New Efforts** to make its currency more of a reserve currency. A senior Hong Kong monetary official told the WSJ that China's central bank is "actively considering" new rules that would make it easier to bring yuan funds raised offshore back onto the Chinese mainland.
» **Spain Attracted Solid Demand** at bond auctions yesterday. It sold €3.37B of 10- and 13-year debt at the top end of its €2.5B-3.5B target, but paid only 31 bps more than its March auction. The yield spread to German bunds fell to 220 bps from 222 bps before the auction.
» **U.S. Highway Travel** was +0.9% y/y in Feb and is +0.6% so far in 2011.
» **Existing Home Sales** were +3.7% to 5.10M vs. 5.00M expected and vs. 4.92M previously.

Energy News Stories

» **The IEA** said that high oil prices have hurt demand in top consumers China and the U.S. and OPEC needs to raise output around June in order to stem further price increases.
» **Japanese Oil Imports** fell 6.6% y/y, which was the fastest pace of decline in a year in March, as three refineries are still shut following the quake. It was the biggest drop since 18.4% in Oct '09. In Feb, they were -5.6%.
» **Japanese LNG Imports** were -0.6% while thermal coal was +18.5%. Several utilities have given Tokyo Electric Power their shipments of LNG to make up for shortfalls.
» **Nigeria** reported post-election riots which could signal the likelihood of further bloodshed and growing radicalism. The fight is between the less affluent Muslim north and the oil-rich Christian south. President Goodluck Jonathan is a Christian that was reelected and defeated Muslim candidate Muhammadu Buhari.

- **Ecuador's Oil Minister** said that OPEC considers $80-$90/bbl as an "adequate" price for crude oil. Said that OPEC doesn't want prices "shooting up" because economies would suffer.
- **Pres Obama** blamed speculators for driving gasoline prices higher and straining American consumers, saying that there was enough oil in world markets to meet demand.
- **NRG** said that it would drop plans to build two nuclear reactors in Texas.

ANALYSIS

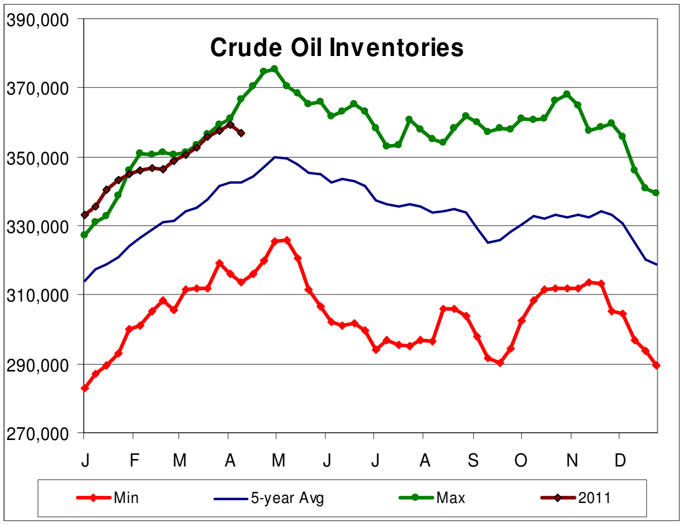
EIA Oil Inventory Review

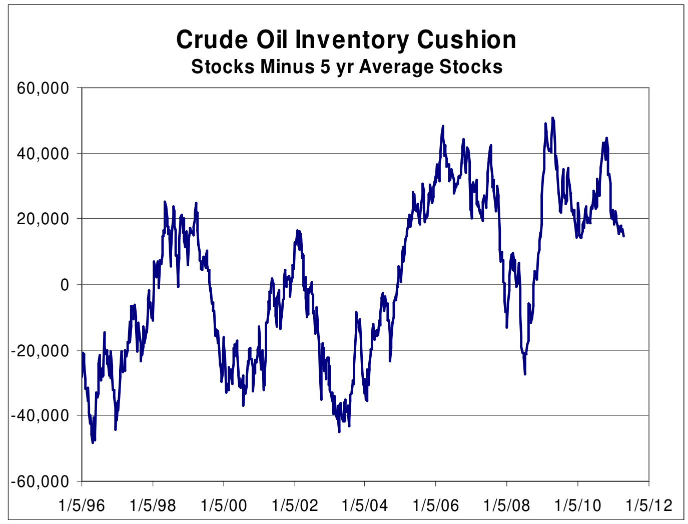
The EIA inventory figures were bullish for crude oil and heating oil, but slightly bearish for gasoline. They were generally in-line with what the API data suggested would be the case when their numbers were released on Tuesday afternoon. Inventories of crude oil fell to the lowest level relative to the five-year average since the w/e Feb 5th '10. Inventories at the Cushing delivery point also fell by 770,000 bbls, although that makes it only one week removed from an all-time high. Inventories of crude oil, gasoline, and distillates combined to fall to 35.5 MB above their collective five-year average, which is the tightest comparison since the w/e Dec 26th '08. Demand was also bullish, in our opinion, as the four-week average has been fairly stable after the seasonal decline in the month of March. Overall, we believe the data supports the IEA's statement yesterday that OPEC will have to raise production by June if it hopes to stem further price increases. These data are supportive of further price gains and should keep the oil market on an upward path in the near-term. The data and our analysis follow below.

	EIA Inventories - w/e Apr 15th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week		Converge with EIA	Actual	Previous
Crude Oil	-2.3 MB	+1.1 MB	+1.0 MB	-0.1 MB	+1.6 MB		-3.2 MB	+0.7 MB	+1.2 MB
Gasoline	-1.6 MB	-1.5 MB	-2.0 MB	-3.1 MB	-7.0 MB		+3.0 MB	-1.8 MB	-4.6 MB
Distillates	-2.5 MB	Unch	+0.5 MB	-0.7 MB	-2.7 MB		-4.0 MB	-3.4 MB	-3.7 MB
Utilization	82.5%	+0.8%	-0.2%	+0.1%	81.4%		-0.1%	81.3%	78.9%
Natural Gas		+53 bcf	+48 bcf	+31 bcf	+28 bcf				

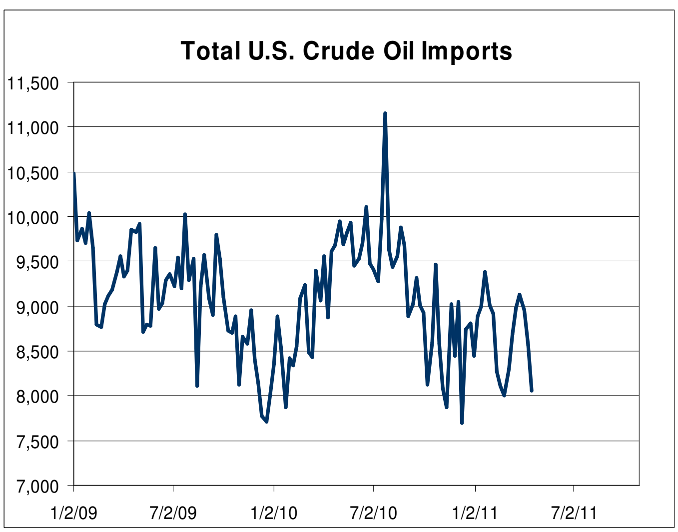
*The API convergence figures are the amounts that EIA data need to change in order to match the previous day's API figures

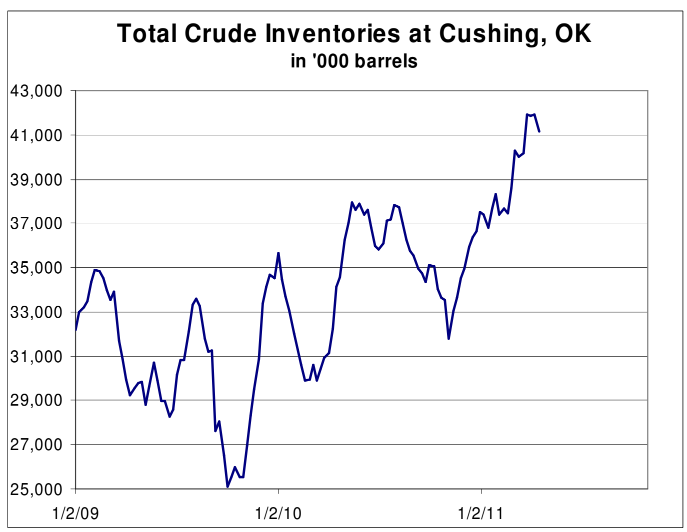
Crude oil inventories were -2.3 MB vs. +1.1 MB expected. The decline occurred at a time of seasonal inventory builds and caused inventories to fall to 14.58 MB above their five-year average vs. 16.76 MB above it in the week before. The comparison to the five-year average, or the inventory cushion, is now at the lowest level since the w/e Feb 5th '10 and can be seen in the inventory cushion chart below (chart 2). It would only take another 100,000 bbls or so to take the cushion down to the lowest levels since late-2008. Inventories were drawn down by a 1.1% recovery in refinery utilization. The gain in utilization caused refinery inputs to take away an additional 189 kb/d in supply.



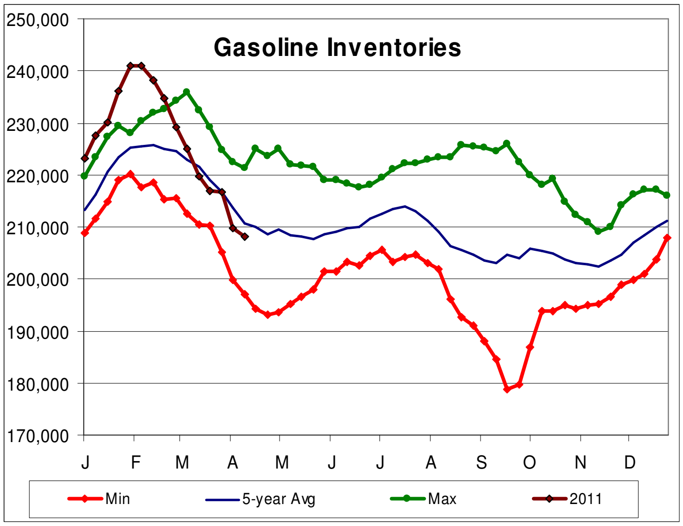


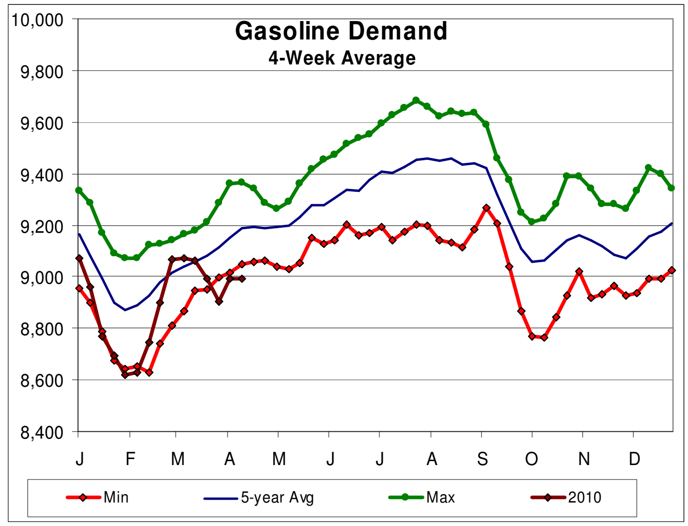
Inventories were also pulled down by a 518 kb/d reduction in imports, which fell to 8.05 mb/d. That was the lowest reading since the w/e Feb 25th when imports spiked lower, and since mid-Dec when imports lingered at low levels due to year-end tax issues. Inventories at the Cushing delivery point fell 770,000 bbls, but remain at high levels.





Gasoline inventories were -1.6 MB vs. -1.5 MB expected. The number didn't reflect the underlying components, which showed a 198 kb/d increase in production and a 119 kb/d reduction in demand. However, those factors may have kept inventories from matching their five-year average reading of -3.1 MB. Overall inventories of gasoline are now 2.52 MB below the five-year average which compares to 4.07 MB below it the week before.





Distillate inventories were -2.5 MB vs. an unchanged reading expected. The inventory figure saw opposing inputs, wherein inventories were pressured by a 312 kb/d reduction in demand and boosted by gains in refinery output and imports totaling 107 kb/d and 192 kb/d respectively. Distillate inventories are 23.46 MB above the five-year average compared to 5.24 MB above it the week before.