Global Macro Research | US

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April 18th, 2011

MF Global Daily Report

COMMODITIES | ENERGIES

Energy Weekly

MF Global
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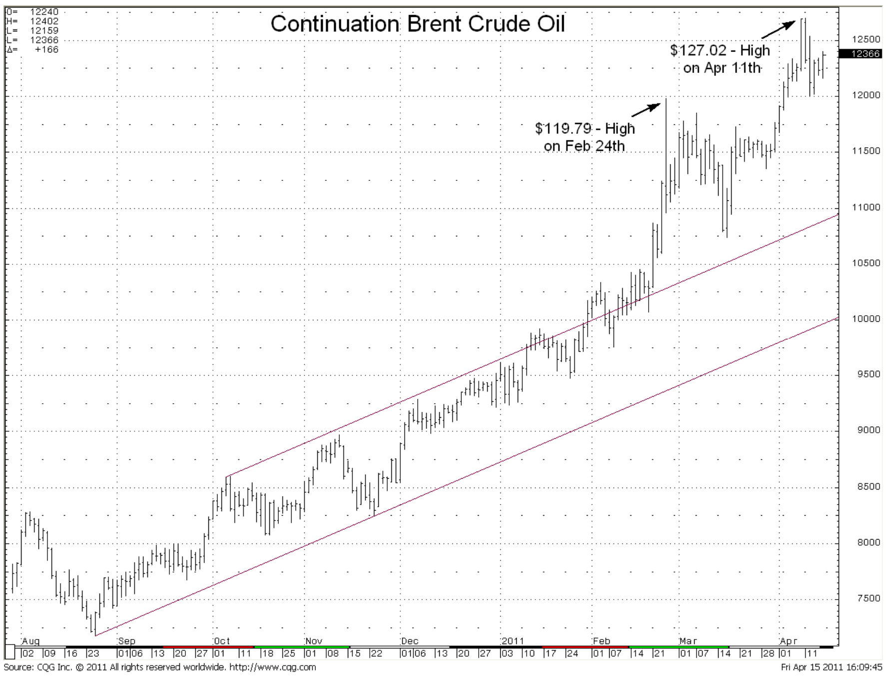
Price Outlook

Energy prices are expected to maintain their upward trends in this week's trade, as the losses that were seen early in the week are recouped. Support will be given by signs of excess government spending, accommodative monetary policy, and tensions in the Middle East. Technical factors may also boost the market, as Brent recently held at support from its Feb 24th high and WTI bounced after approaching support from a rising trendline. We favor maintaining our position in the RBM1-HOM1 spread from -5.00 cents as well as buying breaks in WTI.



The market received support last week from excess government spending and accommodative monetary policy. The week began with Congress agreeing to cut $38.5B in spending during the current fiscal year, but the CBO said on Wednesday that actual cuts were only $352M. That was the first or second of three budget negotiations this year with the greatest potential to cut spending and it was very disappointing. The agreement could weigh on the dollar in coming weeks, which could cause a migration toward hard assets. The week also began with President Obama expected to propose a program of cuts totaling $1 trln-$4trln, but his speech turned out to burn bridges with Republicans and create an environment hostile to further cuts. He also signaled his intention to raise taxes by $1 trln, which will bring back the economic uncertainty that was averted last December. Increased uncertainy should weigh on the economy and force the Fed to maintain accommodative monetary policy.

The Middle East will also be a positive factor this week, as we received news that the U.S. was still involved in air missions over Libya despite being told different by the Sec'y of Defense. On Friday, the U.S. stood with France and the UK in calling for the air campaign to continue until Gaddafi is out of power. That raised the question of whether the mission has changed from humanitarian to regime change and how much longer it will last. Rebels in the eastern part of the country were able to sell an oil cargo, which will boost their funding for arms. However, Gaddafi's side in the west has also reported fewer fuel shortages, which suggests that they have regrouped as well. The conflict entered a stalemate a couple weeks ago and is likely to remain in one for the foreseeable future.

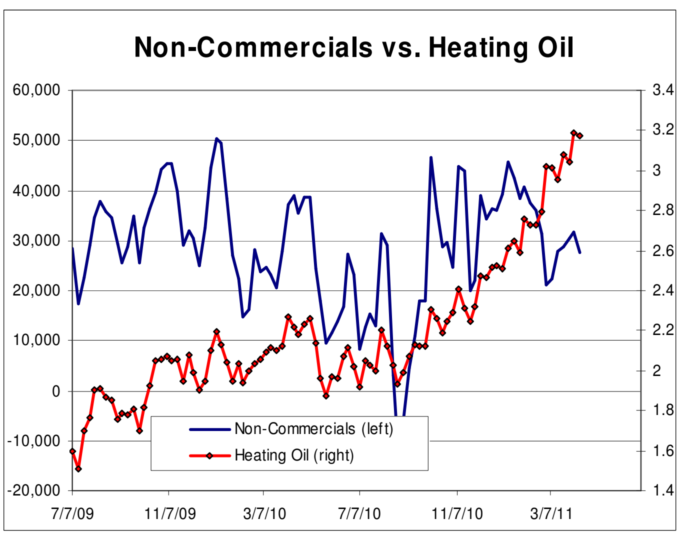
TRADE: Buy CLM1 at $104.00, target $115.00, risk $102.50
Maintain long RBM1-HOM1 at -5.00 cents, target +15.00 cents, risk -10.00 cents (entered Apr 7th)

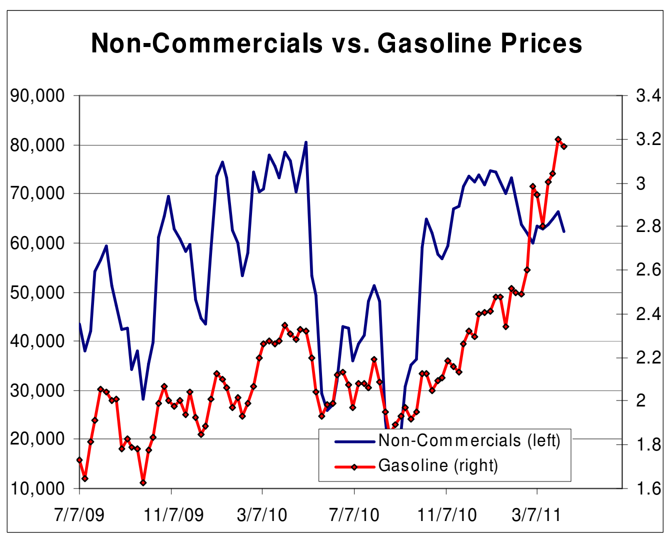
Upcoming Energy Events

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

Commitment of Traders Apr 5th-Apr 12th
Net non-commercial (large funds) (Legacy Report)

	Net Position	Change	Price Change
Crude Oil	243,261	-8,890	-$2.09
ICE WTI	34,513	-1,126	-$2.09
Heating Oil	27,590	-4,215	-1.24c
Gasoline	62,378	-3,824	-3.72c
Natural Gas	210,449	-10,079	-13.3c





Global Economic & Dollar News

The dollar moved slightly higher on Friday with support coming from a higher reading in the Empire State index and industrial production.

- » **Libya Summary:** Gaddafi's forces launched around 120 rockets into Misrata today, killing 8. The UK, France, and U.S. said that the campaign will continue until Gaddafi is out of power. Bahrain's gov't said that it would dissolve the country's main Shiite opposition group in order to crack down on dissidents leading the uprising.
- » **Chinese Q1 GDP** was +9.7% vs. +9.5% expected and vs. +9.8% previously.
- » **Chinese Mar M2** was +16.6% y/y vs. +15.5% expected and +15.7% previously.
- » **Chinese Mar CPI** was +5.4% y/y vs. +5.2% expected and vs. +4.9% previously.
- » **Chinese Mar Retail Sales** were +17.4% vs. +16.5% expected and vs. +15.8% previously.
- » **Chinese Mar Industrial Output** was +14.8% vs. +14.0% expected and vs. +14.1% previously.
- » **Eurozone Mar CPI** was +1.4% in March vs. +1.3% expected and vs. +0.4% previously. The y/y rate was 2.7%, up from 2.4% previously.
- » **Ireland's Sovereign Rating** was downgraded by Moody's to Baa3. Said that restructuring Irish debt is not a plausible scenario.
- » **ECB's Orphanides** said that the Greek government should be commended for progress and that he's confident that Greece will get its house in order. Said that debt restructuring is unnecessary and undesirable.
- » **U.S. Mar CPI** was +0.5% which was as expected and unchanged from previous. CPI was +2.7% y/y vs. +2.1% previously.
- » **The Apr Empire State Index** was 21.7 vs. 16.9 expected and vs. 17.5 previously.
- » **U.S. Mar Industrial Production** was +0.8% vs. +0.5% expected and vs. +0.1% in Feb.

Energy News Stories

- » **Iran's Oil Minister** said that $120/bbl oil is logical and good for them.
- » **Goldman Sachs** recommended going underweight commodities over a 3-6 month horizon, and echoed its call from Monday. It added that oil prices are higher than justified by current supply and demand.
- » **Toyota** cut its output in Japan by 50% through June 3rd.

ANALYSIS

EIA Oil Inventory Preview

The EIA figures will be tough to predict this week, after last week showed a surprise 3.0% drop in refinery utilization. The sharp change wasn't out of the ordinary, as there had been five other occasions in the past year where utilization rose or fell by 3.0% or more. In four of those five times, operating rates continued in the same direction but made a smaller percentage change. The change in gasoline inventories didn't always correspond to the change in utilization, making it less certain that there will be another sharp drop in gasoline stocks this week. What also makes this week's prediction difficult is that it's tough to look for another decline in an environment of elevated profit margins. The profit-motive is there for refiners, but they are not taking advantage. The WTI crack is $27.50/bbl while the Brent is $13.50. One theory behind the lack of processing centers on the possibility that high prices will soon create a sharp drop in demand, and quickly push refiners back to an oversupply situation. Refiners point to weaker demand being signaled by Saudi Arabia's cut in production last week of 500,000 b/d. There's a question, however, as to whether the production cut was caused by genuinely weak demand or by Europe's inability to refine sour grades of Saudi oil. We therefore look for crude oil stocks to gain 1.0 MB, gasoline to fall 2.0 MB, and distillates to rise 0.5 MB.

Natural gas inventories are expected to show an increase of 48 bcf this week, as the much above-normal temperature mass migrated to the Northeast U.S. consumption areas. The warmer temperatures produced an HDD reading of 74.5, which compares to the 10-year normal of 86.4. The gain in the five-year average is +31 bcf. A similar HDD reading a year ago produced a build of 83 bcf, but we biased our number down a bit because the five-year average has fallen. Looking to next week, the country becomes split with cold temps in the northern half and warm temps in the southern half. The early prediction on the HDD reading is 74.2 and a build in inventories of 58 bcf, which could rebound from the current week due to less cooling demand in the south. The five-year average gain is 56 bcf.

	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			+1.0 MB	-0.1 MB	+1.6 MB			+1.2 MB
Gasoline			-2.0 MB	-3.1 MB	-7.0 MB			-4.6 MB
Distillates			+0.5 MB	-0.7 MB	-2.7 MB			-3.7 MB
Utilization			-0.2%	+0.1%	81.4%			78.9%
Natural Gas			+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