

Weak economic data has been bullish for commodities over the last few years because of a lack of alternative investments. The U.S. stock market usually performs poorly amid a stagnant economy while the dollar typically declines. A weaker dollar makes commodities cheaper for non-dollar based consumers, which helps commodity prices and emerging market economies. We think that yesterday's economic data will eventually result in a weaker dollar after the safe-haven component moves away. It will also put pressure on the Fed to maintain accommodative monetary policy which will keep investment focused on assets that are considered to be stores of value such as commodities.

TRADE: None

Upcoming Energy Events

Wed - API Weekly Stats 4:30 pm EST

Thu - Natural Gas Inventories 10:30 am EST

Thu - Oil Inventories 11:00 am EST

Jun 8th - OPEC Meeting

Global Economic & Dollar News

The dollar traded lower again yesterday on expectations that European leaders would agree to extend bailout money to Greece. It fell further after ADP payroll growth was disappointing and after the ISM was reported below expectations.

- » **Violence in Yemen** continued yesterday as government troops shot at protestors in Taiz.
- » **Chinese NBS PMI** was 52.0 vs. 51.6 expected and vs. 52.9 previously.
- » **Xinhua** reported that China's PBoC will likely raise rates in June.
- » **FT Deutschland** reported that Eurozone central banks are softening their demands to extend Greek debt maturities.
- » **The EU/IMF** is close to agreeing on a new package for Greek debt that would bridge funding gaps in 2012 and 2013.
- » **Greece's Central Bank Chief** dismissed any suggestion that Greece might ditch the euro as "improbable and ridiculous."
- » **Eurozone MFG PMI** was 54.6 vs. 54.8 expected and vs. 58.0 previously.
- » **Challenger Layoffs** were 37,135 in May vs. 36,500 in April.
- » **ADP Payrolls** were +38K vs. +190K expected. The previous month was revised -2K to +177K.
- » **U.S. Apr Construction Spending** was +0.4% vs. +0.3% expected. March spending was revised down to +0.1% from +1.4% previously.
- » **ISM MFG PMI** was 53.5 vs. 57.7 expected and vs. 60.4 previously. Prices paid were 76.5 vs. 85.5 previously, while employment was 58.2 vs. 62.7.
- » **Fed's Pinalto** said that the U.S. has "a long way to go" before the labor market is healthy but April's job growth was encouraging. Said she expects subdued inflation even with easy Fed policy.
- » **GM's VP** said that the sales dip in autos is temporary, but could last 2-3 months. Said that Cleveland Fed research suggests that the dip in employment is cyclical.
- » **Republican Leaders met with Pres Obama** on the debt ceiling and described the discussions as productive. Paul Ryan explained how his Medicare program worked so that the president wouldn't mischaracterize it in the future.
- » **Greece's Debt Rating** was downgraded to Caa1 by B1 by Moody's and the outlook was left at negative.

Energy News Stories

- » **TransCanada's Pipeline Fitting** was repaired late on Tuesday, but the company said yesterday that it will take several days to reopen the 591,000 b/d line. The line runs from Alberta Canada to Cushing Oklahoma and was operating at a rate of 480,000 b/d.

- » **The NHC** said that there is a 30% chance that a low pressure system will become a tropical storm. The system is 200 miles east of Jacksonville Florida and is forecast to cross Florida and strike in Louisiana.
- » **Colorado State University** affirmed its Atlantic hurricane forecast, suggesting that there would be 16 storms, 9 hurricanes, and 5 major hurricanes.
- » **Libya's Ghanem** reportedly left the Gaddafi regime due to daily bloodshed. He apparently will join the Libyan youth fighting for a constitutional state but did not say whether he would join the rebel movement. He said that Libyan production is near a halt because of the embargo. Ghanem reportedly defected from the country on May 17th but was later described as being on an official overseas trip. On May 24th, the gov't in Tripoli said that he would represent Libya at the Jun 8th meeting.

ANALYSIS

EIA Oil Inventory Preview

Crude oil stocks are expected to fall 2.5 mln bbls this week as the market begins to conform to seasonal tendencies. Inventory levels typically make their peak for the year in the w/e May 6th, so a decline this week would cause this year's peak to be marked with last week's data, or two weeks late. Pressure on inventories will come from last week's 3.1% jump in refinery utilization, which took an additional 538 kb/d off the market through increased refinery inputs. Pressure could also come from a possible decline in imports from last week's relatively high level. Imports last week reached 9.23 mb/d, which matched the peak reading a month earlier, but hasn't been consistently reported since October of last year. Oil Movements suggested that OPEC seaborne exports would rise 160,000 b/d in the four weeks ending May 28th which compares to an increase of 100,000 b/d the week before. However, U.S. imports don't always correlate very strongly to OM data. Lastly, the five-year average has fallen 2.0 MB from its peak by now which may create a need for oil stocks to play "catch up." The four-week average of demand should rise sharply but only because a 1.3 mb/d decline will drop off. Gasoline stocks are expected to gain 0.5 MB as strong refinery utilization produces an excess. Distillates are expected near unchanged as strong production offsets high levels of demand.

Natural gas inventories have been difficult to predict in the last couple weeks due to the switchover of natural gas usage for heating demand and that for cooling demand. Our model overestimated the actual build two weeks ago and underestimated it last week. It projects a build of around 105 bcf this week, however, we're biasing that down a bit to go with something close to the five-year average change of +97 bcf. The CDD forecast this week is 36.9 which compares to a ten-year average of 30.1. Temps were generally above normal in the eastern half of the country in both the survey week and in this week's forecast. The early CDD forecast for next week is 55.1 which compares to a ten-year norm of 37.3. Such a reading could result in a build of around 78 bcf which would compare to the five-year average of +102 bcf.

EIA Inventories - w/e May 27th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		-1.3 MB	-2.5 MB	-2.4 MB	+0.6 MB	+1.3 MB	+3.5 MB	-0.9 MB
Gasoline		+0.8 MB	+0.5 MB	-0.4 MB	+3.8 MB	+6.8 MB	+1.5 MB	+2.4 MB
Distillates		-0.3 MB	Unchanged	+0.9 MB	-2.0 MB	-0.8 MB	-1.4 MB	-0.8 MB
Utilization		+0.5%	-0.2%	+1.0%	86.3%	+0.8%	84.0%	83.5%
Natural Gas		+95 bcf	+97 bcf	+97 bcf	+105 bcf			

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

