

June 28th, 2011

MF Global Daily Report

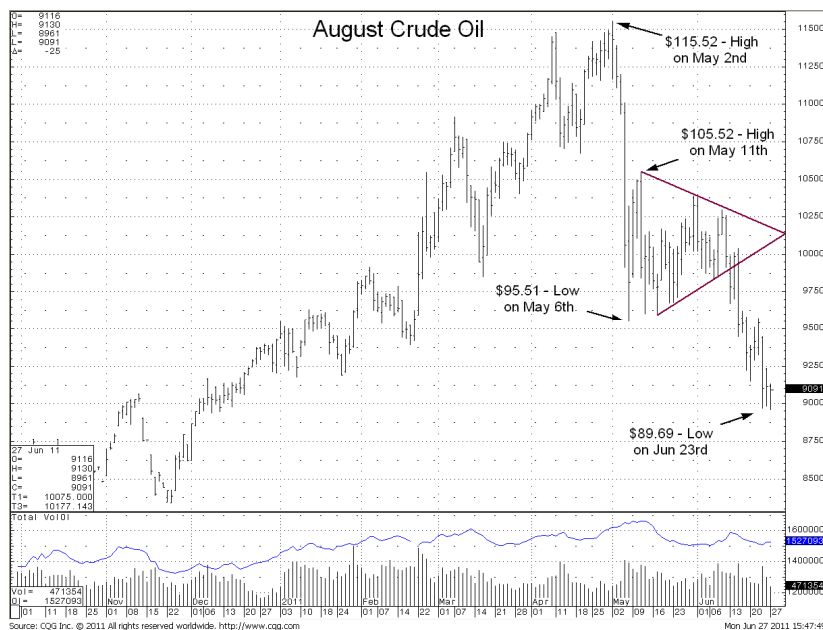
COMMODITIES | ENERGIES

Energy

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Price Outlook

Oil prices are expected to level off this week and potentially advance by the end of this week and into next week. The market will receive near-term pressure from the IEA's global sale of 60 mln bbls of crude oil, uncertainty surrounding European sovereign debt, any resulting strength in the dollar, readjustment of global growth expectations, and from an exit of investment. Later this week, however, we think that prices could recover with support offered by the end of the IEA's oil sale, a reduced likelihood of rate hikes in China, the likely passage of the Greek austerity package, and the alleviation of the U.S. inventory overhang. End-of-Month tendencies are also positive and are discussed in the Analysis section below. We favor trading the oil market as a neutral affair today but would consider turning bullish by the middle of this week.



The oil market closed 55c/bbl lower yesterday as trade continued to worry about the upcoming supply offering from the IEA and the Strategic Petroleum Reserve. Sovereign debt issues may have added weakness as well, even though some progress was made over the weekend on the issue and global equity markets traded higher. Despite the higher equity trade, oil markets fear that contagion from a default in Greece will cause a major readjustment in economic growth expectations. Investors have pulled out of energy markets as a result, with non-commercials liquidating 17,304 contracts from Nymex WTI and 10,706 contracts from ICE WTI. Some pressure could also come from a potential rate hike in China, after Premier Wen Jaibao said yesterday that China would have difficulty holding inflation below 5%. This is a two-sided issue, however, because he also said that inflation would slow in the back half of the year. In a June 24th op-ed, he said that efforts to cool consumer price growth were working. This has caused commodity markets to expect a "one and done" approach to the number of rate hikes.

We think that the SPR oil sale will be a short-term negative, but could turn into a positive factor later in the week. The overhang of 30 mln bbls is certainly a large amount of excess supply for the market to digest over the next 30 days. However, we believe that most refiners already have their allocations complete for the summer and therefore may not need most of that oil. If anything, there's a potential that China could be a buyer of the oil to deposit into its own SPR tanks. The auction for all 30 mln bbls will take place tomorrow at 1pm CDT. The base reference price is set at \$112.78/bbl which is about \$6/bbl higher than yesterday's close in Brent. It hasn't been stated how much the EIA will allow the oil to be discounted from the BRP, but instead uses its base reference price as an average of the preceding five days' trade in LLS. Following tomorrow's auction, it's unlikely that any additional oil will be made easily available unless prices were to advance say \$10 or \$20 above current levels, in our opinion. So the IEA's threat of additional oil may serve more as a cap for prices. Once the threat of additional oil is gone, we think that prices can recover.

TRADE: None

Upcoming Energy Events

Tue - API Weekly Stats 4:30 pm EST

Wed - Oil Inventories 10:30 am EST

Thu - Natural Gas Inventories 10:30 am EST

Dec 14-15 - OPEC Scheduled Meeting

EIA Oil Inventory Preview

EIA Inventories - w/e June 24th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		-0.6 MB	-1.5 MB	-0.6 MB	-1.7 MB			-0.08 MB
Gasoline		+1.1 MB	+0.5 MB	+0.2 MB	-0.5 MB			-1.5 MB
Distillates		+1.2 MB	+0.5 MB	+1.0 MB	+1.2 MB			-0.5 MB
Utilization		+0.1%	-0.5%	+0.8%	89.2%			86.5%
Natural Gas		+80 bcf	+66 bcf	+77 bcf	+98 bcf			

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

Global Economic & Dollar News

The dollar initially fell slightly on Monday, amid suggestions that progress was made in coaxing private banks to accept maturity extensions for their holdings of maturing Greek debt. The dollar recovered slightly near the U.S. equity market open, but then fell again as equities gained and risk appetite recovered.

- » **The BIS** two-day meeting over the weekend showed that big banks would face a 2.5% buffer while less important Sifis would be subject to 1%.
- » **The BIS** urged central banks to raise rates.
- » **China's Wen Jaibao** made supportive remarks about investing in Europe, saying that investments will continue.
- » **China's Wen Jaibao** said inflation would be kept within 5% and said that inflation will slow in the second half of the year. He added that there will be difficulties in reaching the full-year target of 4% but that it can be kept below 5% due to the efforts they have made.
- » **China's PBoC** may hike rates within one month and hike RRRs again this year, according to Xinhua.
- » **A German Bank Head** said that talks between the government and private creditors on Greek debt are proceeding constructively.
- » **French FinMin Lagarde** said that the gov't has a first draft for a deal with French banks on a Greek debt rollover. Banks would roll over 70% of maturing Greek bonds into new 30-year Greek paper and "high quality securities."

- » **Ex-BBK Weber** said that Europe needs to consider guaranteeing all of Greece's outstanding debt because Greece's only alternative is a costly default.
- » **Spanish Banks** may be hiding €50B in bad assets, according to the website Bbb.
- » **Pres Obama** will become involved in U.S. debt ceiling negotiations.
- » **American Trucking Association** said that its seasonally adjusted truck tonnage index was -2.3% in May vs. Apr.

Energy News Stories

- » **China Will Cut** import duties on diesel and jet fuel to zero in an effort to boost fuel imports to satisfy higher summer demand.
- » **Kuwait's Oil Minister** said that the oil market will be in strong need of supply in Q3.
- » **Iran's Oil Minister** said that he sees no need to add oil supplies to the market.
- » **OPEC Is Unlikely** to cut exports because of the IEA stock release, according to two OPEC delegates.
- » **OPEC Sec'y Gen'l al-Badri** called for an immediate halt to IEA stock releases, and said that there is no need for the extra oil.
- » **The IEA** said that it's prepared to release more crude oil from stockpiles. It added that Europe will comprise 19.2 MB of the liquidation of which 4.2 MB will be crude and 15 MB will be products. Asia will release 7.4 MB of crude and 3.96 MB of products, while the U.S. will release 30 MB of crude oil only.
- » **Pres Obama** wants a 56.2 mpg standard for cars and light trucks by 2025. The increase amounts to 5% annual improvement and auto makers say they can do only 2-3%. The higher standard will add \$2,375 to the cost of each vehicle.

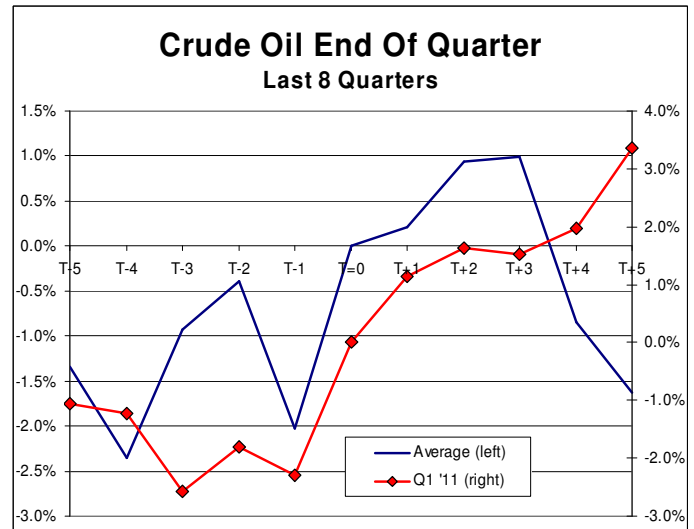
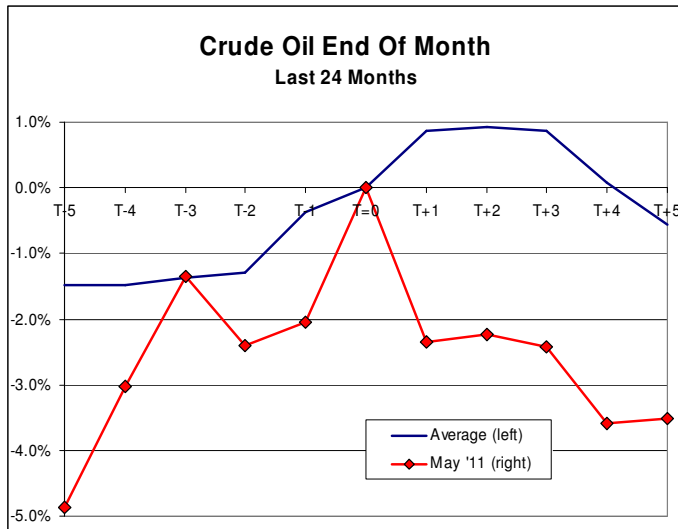
ANALYSIS

Month and Quarter End Approaching

The oil market has traded very poorly in the last three days, which is somewhat contrary to the pattern typically seen at the end of a month or quarter. Crude usually trades flat in the month-end and sideways-to-higher but volatile in the quarter-end patterns (charts below). Regardless of the last few days, both patterns point to a higher directional trade from four days prior to month-end until about three days after, or June 24th to July 5th. The trade has become more attractive during the bull markets of the last 12 years as fund managers attempt to show at least some oil positions on their books.

The last month-end seasonal in May showed an increase of 0.8% during the optimized period, or \$0.81/bbl. The market has moved higher in 16 of the last 24 months. The last quarter-end trade showed an increase of 2.8% in March '11 and compared to an average gain of 2.4% over the last eight quarters. It has been successful in five of the last eight quarters.

Our outlook for oil prices this week is basically positive because the market attained the downside objective of the bearish triangle continuation pattern last week at \$89.94. We're also encouraged by the catch-up drawdown in oil stocks after a late start to the seasonal decline that usually begins in early-May. We think that once the U.S. sells its 30 mln bbls of crude oil later this week that the market may begin to trade firmly once again as the fear of supply abates.



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