

July 11th, 2011

MF Global Daily Report

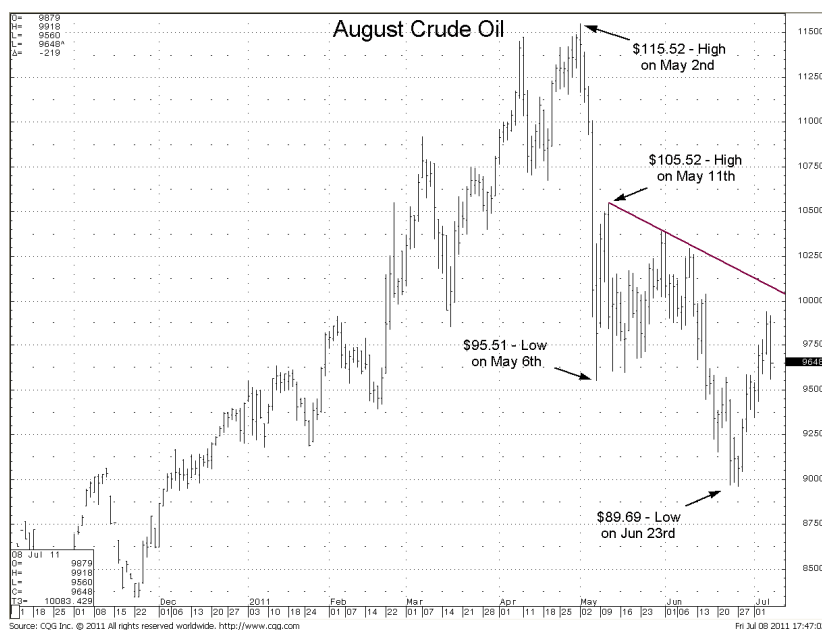
COMMODITIES | ENERGIES

Energy Weekly

MF Global
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Price Outlook

The oil market is expected to trade in a mixed-to-higher direction this week, with prices potentially reaching \$100/bbl either late this week or early next week. Support will be offered by improving supply/demand fundamentals, spotty improvement in economic data, expectations for better earnings numbers this week, and from a potential end to China's tightening cycle. Offsetting pressure could come from fear that the IEA will act again to release oil reserves onto the global market or if economic data like that seen in Friday's employment report becomes the new norm. We favor buying CLU1 at \$93.00 and targeting \$102.50.



WTI crude oil closed \$2.47/bbl lower on Friday while Brent managed to finish only 26c/bbl lower. Pressure was caused mainly by Friday's jobs number, which was much weaker than expected and much weaker than foretold by the ADP figure and recent ISM employment indexes. There were no bright spots to the report which included downward revisions to April & May, a higher unemployment rate, and a decline in average hourly earnings. The immediate reaction from commentators was that some form of stimulus and/or QE3 were now likely to be discussed by policymakers. We couldn't agree with that more and think that the pondering of these possibilities will highlight the fact that the economy continues to recover from recession at a sub-par pace. We don't believe stimulus or QE3 have the political momentum to be implemented, but we do believe that the Fed is likely to maintain the size of its balance sheet which could be positive for commodities. It may also signal that the Brent/WTI spread will continue to gain due to stronger demand outside of the U.S. WTI finished Friday with a 50c/bbl contango between the Aug/Sep contracts while Brent finished in a 66c/bbl backwardation. Despite weakness in Friday's payrolls, economic data has generally been improving in the last few weeks and could be reflected again in corporate earnings data this week.

Last week's EIA report on weekly inventories also had several bright spots to it in our opinion which could be bullish this week. There was less oil taken out of stocks last week due to a large surge in imports which we believe will not be sustainable. Demand for oil products improved, and inventories of crude oil, heating oil, and gasoline tightened to 23.15 MB above their collective five-year averages compared to 26.76 MB above it previously.

This week's trade will also focus on events at China's State Council meetings which will discuss the economy's performance and address policy priorities for the remainder of the year. Given recent remarks by Premier Wen Jaibao as well as his Jun 24th op-ed in the FT regarding the likelihood of inflation falling in 2H '11, we wouldn't be surprised to see comments that signal a near completion of monetary tightening. Speculation within the marketplace has also increased recently that China may face a hard landing as economic data has shown signs of slowing. Inflation was due on Saturday and expected to show an increase to 6.1% vs. 5.5% previously. However, that is also expected to represent a peak, as it could fall in the second half of the year due to lower fuel costs, tighter liquidity conditions, and modest readings in PPI and PMI input costs. If the PBoC begins standing aside on monetary policy, it could help imports of fuel going forward.

TRADE: Buy CLU1 at \$93.00, target \$102.50, risk \$91.50

Upcoming Energy Events

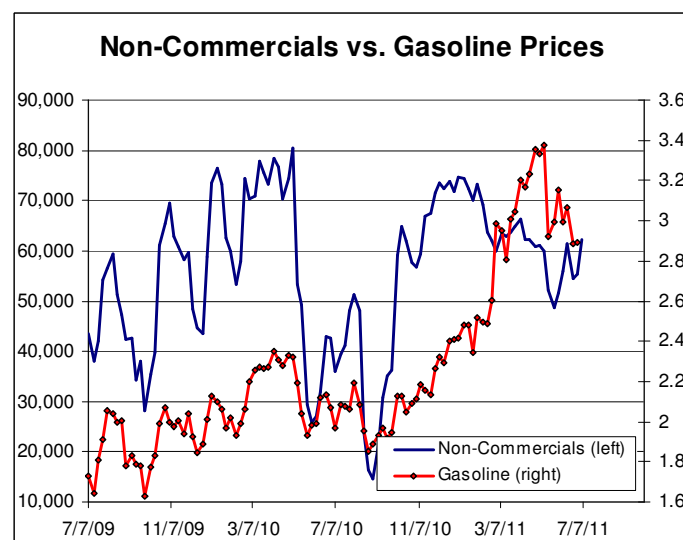
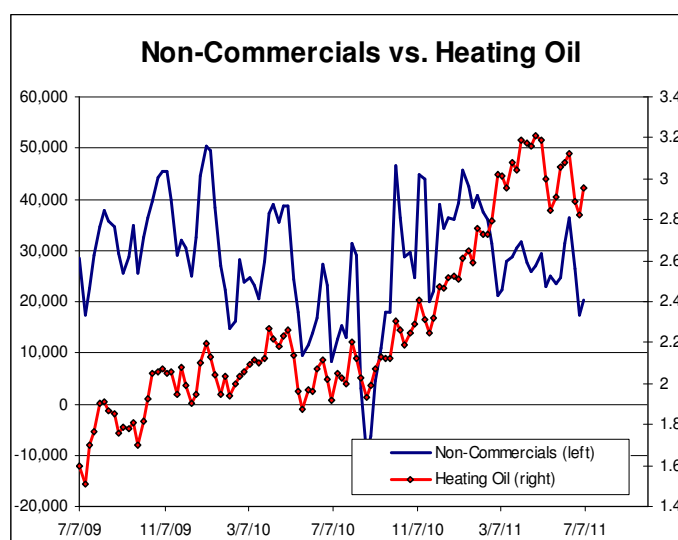
Tue - EIA Monthly Report

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



Commitment of Traders June 28th-July 5th

Net non-commercial (large funds) (Legacy Report)

	Net Position	Change	Price Change
Crude Oil	138,390	-1,922	+\$4.00
ICE WTI	45,983	+9,210	+\$4.00
Heating Oil	20,279	+2,907	+13.09c
Gasoline	62,385	+6,905	+8.78c

Natural Gas	-175,525	+3,873	+0.60c
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Global Economic & Dollar News

The dollar rose sharply overnight due to the temporary suspension of trade in Italy's Unicredit bank over the condition of its loan portfolio. The dollar fell back toward unchanged after the U.S. payroll report failed to live up to the positive expectations created by improved readings in ADP data and ISM employment components but later recovered again on safe-haven demand.

- » **Trade in Italy's Unicredit Bank** was suspended temporarily on Friday due to worries over its debts.
- » **UK June PPI** was +5.7% y/y vs. +5.6% expected and vs. +5.4% previously. It was the fastest rate since Oct '08.
- » **The FT** reported that hedge fund performance in June was poor due to market volatility and that funds were resultantly scaling back on risk and moving to cash.
- » **The Monster Employment Index** reached 146, which was its highest level since Oct '08.
- » **U.S. Non-farm Payrolls** were +18K vs. +125K expected. There were -44K in revisions. Private payrolls were +57K vs. +110K expected. There were -20K in private sector revisions. The unemployment rate was 9.2% vs. 9.1% expected. Average Hourly Earnings were -0.1% vs. +0.2% expected. Those unemployed 6 months or longer was 6.3M or 14.1% of the job force.

Energy News Stories

- » **North Sea BFOE Loadings** are scheduled to be 898,000 b/d in Aug vs. 970,000 b/d in July.
- » **Azeri Light Crude Exports** via Ceyhan will fall to 21.7 mln bbls in August from 22.8 mln bbls in July. They were 23.3 mb/d in June.
- » **The EIA** estimated that 23.9 bln bbls of oil are technically recoverable in shale oil resources in the lower 48 states.

ANALYSIS

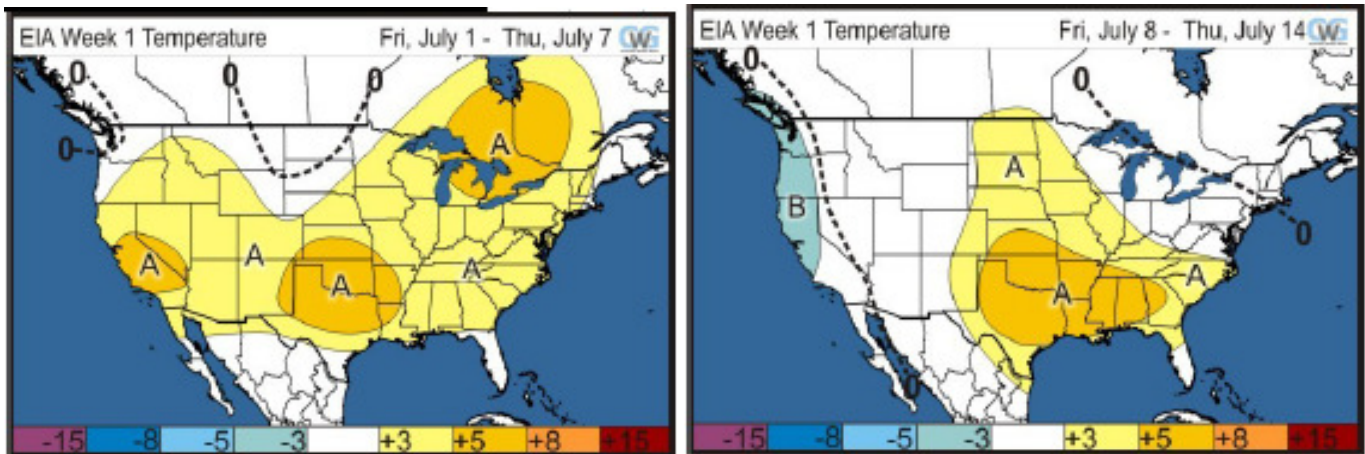
EIA Oil Inventory Preview

The EIA is expected to report another decline in oil stocks this week, with MFGR anticipating a drop of 3.0 MB. The five-year average shows a fall of 4.2 MB this week, but we care more about the smaller drops in the week before and after and average the three to get -2.22 MB. Our -3.0 MB forecast is therefore somewhat larger-than-normal and is based on a pullback in last week's 976 kb/d surge in imports which we viewed as unsustainable. We also expect pressure on oil stocks based on the relatively high level of refinery utilization of 88.3%. Utilization is currently 1.2% below the five-year average of 89.5% and given refiners' thirst for oil as indicated by their purchases from the SPR, a return to average levels would translate into another 212 kb/d in refinery inputs or about 1.5 mln bbls over the course of a week. We also expect the recovery trend in demand to continue, which could pressure product inventories relative to their normal seasonal gains. We expect a build in gasoline of 0.5 MB and in distillates of 0.8 MB.

Natural gas inventories are expected to build 50 bcf this week, as temperatures across the country were mostly above normal. The five-year average shows a build in stocks this week of 91 bcf. Our CDD forecast is 86.3 which compares to a 10-year norm of 69.6. The last report of a CDD number that large was July 16th 2010 when it was 86.7 and inventories built 51 bcf. Our model actually projects a build of 36 bcf, but we're biasing our estimate upward to +50 bcf because it has underestimated inventories by 10-15 bcf over the last three weeks. Looking to next week, temps cool a bit but and our CDD forecast is still relatively high at 84.9. That could translate into a build of around 55 bcf.

EIA Inventories - w/e July 8th						API Inventories		
	Actual	Market Estimate	MFGRE Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil			-3.0 MB	-4.2 MB	-0.9 MB			-3.2 MB
Gasoline			+0.5 MB	+1.0 MB	-0.6 MB			-1.9 MB
Distillates			+0.8 MB	+1.8 MB	-0.2 MB			-1.6 MB
Utilization			+0.3%	-0.3%	88.4%			86.3%
Natural Gas			+50 bcf	+91 bcf	+95 bcf			

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



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