

September 27th, 2011

MF Global Daily Report

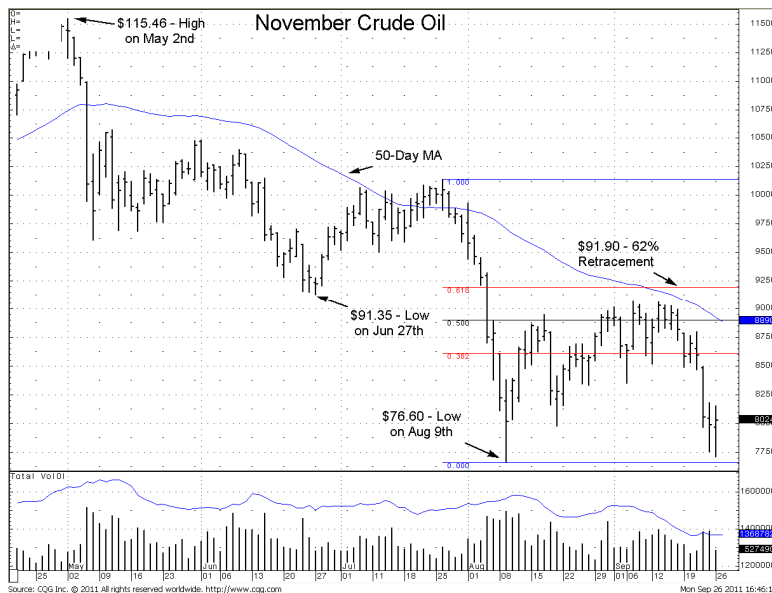
COMMODITIES | ENERGIES

# Energy

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## Price Outlook

We look for oil prices to firm over the next few days and recover toward the \$85.00/bbl level. The market will be supported by technical factors, stabilization in equity markets, and inventory growth below normal rates this week amid declining refinery utilization levels approaching the Fall maintenance season. There's also the possibility that growing support for European governments from the Eurozone could create an increase in risk appetite. We favor maintaining our Brent-WTI spread from \$24.50 and treating CLX1 as a positive affair.



Crude oil closed +\$0.39 yesterday while Brent finished -\$0.03. Prices traded alongside other risk markets, which saw weakness in overnight trading until around 2:30 EDT when most global equities recovered. The recovery was sparked by a report that European leaders were discussing the possibility of allowing Greece to default while simultaneously raising the size of the EFSF in order to backstop the peripheral countries that were too big to bail. The recovery that took place on the news was enough to help oil prices open near higher levels on the day and the market remained that way for the rest of the session. The stabilization in equity markets in the last two days suggests that they have found a new equilibrium.

We think that the market is set up to rally in the near-term based on technical factors. Trade on both Friday and yesterday created bullish spinning top reversal patterns after approaching key support from the Aug 9th low at \$76.60. Open interest has essentially been flat since last Tuesday despite a liquidation in prices, which we believe indicates that most of the shorts have been wrung out of the market. We were also encouraged by the continued recovery in the afternoon electronic session, which took oil prices another dollar higher.

**TRADE:** Short Nov Brent-WTI at \$24.50, target \$10.00, risk \$26.00 (entered on Aug 25th)

## 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

Sep 29th - October Products Rollover

Dec 14-15 - OPEC Scheduled Meeting

## Global Economic & Dollar News

The dollar oscillated between higher and lower levels on the day yesterday. It was supported overnight from continued risk-aversion in light of uncertainty surrounding Greece and its potential for default. Around 2:30am EDT, the dollar began falling as most stocks and commodities recovered on a report that European leaders were discussing the possibility of allowing Greece to default while simultaneously raising the size of the EFSF in order to backstop the peripheral countries that were too big to bail.

- » **European Leaders** are working on a plan to restore confidence in the euro that would involve a “massive” bank recapitalization and give the bailout fund several trillion euros of firepower and a possible Greek default. The EFSF votes this week and the G20-meeting on Nov 4th may present some timelines.
- » **ECB’s Trichet** said that risks to the financial system have risen considerably and urged authorities to take decisive action.
- » **The IMF** said that the global economy is entering a dangerous new phase but didn’t give any hints of extra support.
- » **S&P** said that a larger bailout fund could weigh on ratings.
- » **German IFO Business Confidence** fell to a 15-month low at 107.5 in Sep vs. 106.5 expected and from 108.7 in Aug.
- » **U.S. New Home Sales** were -2.3% in Aug to 295K which matched expectations and fell from 302K previously.
- » **Fed Gov Raskin** said that additional policy accommodation is warranted under present circumstances. Said that the effect of Fed tools is being undercut by housing oversupply and impaired access to credit for households and small firms.
- » **Fed’s Bullard** said that the real estate bubble legacy is affecting the pace of the U.S. recovery. Said that zero rates are the best way to becoming Japan. Said that Europe has committed to backstopping banks. Europe has the resources but will be hurt by a slow political process. Said that European woes are not as gloomy as markets think.
- » **Apple** cut orders for parts to supply chain vendors for its iPad.

## Energy News Stories

- » **South Korea’s KNOG** said that it will import a combined 11.3 MB of crude oil from Azerbaijan and the UAE this year in order to boost its emergency stockpiles.
- » **Total** raised its medium-term oil and gas production growth target to 3% per year from 2% previously. Said that acquisitions, start-ups, and new discoveries will boost output.

## ANALYSIS

### EIA Oil Inventory Preview

Last week’s EIA numbers were a surprise to markets and to us, where we thought that a rebound in imports following the passage of two tropical events was a near certainty. Now four weeks after Hurricane Irene and three weeks after TS Lee, we still expect a recovery in imports but we can’t say with certainty that it will happen this week or next. The five-year average gains 0.8 MB this week and we put our estimate at +2.5 MB. An early-Fall bottom in oil inventories is typically made during last week’s survey week, and they usually increase through late-November when refiners begin playing the LIFO tax game. The build between Sep-Nov is usually caused by the Fall refinery maintenance season. Imports recover in some weeks during Fall but fall on balance, as the tropical season takes its toll. The five-

year average in utilization falls 3.1% this week but given the light amount of tropical-related shutdowns, we expect only a fall of 0.5%. Product inventories will be a tough call as pressure from lower refinery output this week will go against last week's sharp drop in gasoline output. A recovery in gasoline output could be assisted in building inventories by relatively weak demand and continued come-down from the summer driving season. We look for a build in gasoline of 1.0 MB and in distillates of 0.5 MB.

Natural gas inventories are expected to build 110 bcf this week, as temperatures were slightly below-normal in pop-weighted consumption areas and CDD forecasts moved further into the shoulder month of September. Our CDD forecast is 28.9 and less than the 10-year normal of 37.1. A build of 110 bcf this week would compare to a five-year average build of 68 bcf. Looking to next week, temperatures warm a bit across the country. Our early CDD forecast is 30.7 and much closer to the 10-year norm of 30.1. Such a reading would create a build in inventories of around 105 bcf and compare to a five-year average build of 74 bcf.

EIA Inventories - w/e September 16th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		-0.2 MB	+2.5 MB	+0.8 MB	-7.3 MB			+2.6 MB
Gasoline		+1.2 MB	+1.0 MB	+1.6 MB	+3.3 MB			+0.06 MB
Distillates		+0.6 MB	+0.5 MB	+0.7 MB	-0.9 MB			+0.08 MB
Utilization		-0.8%	-0.5%	-3.1%	88.3%			84.4%
Natural Gas		+93 bcf	+110 bcf	+68 bcf	+89 bcf			

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

