

November 1st, 2011

MF Global Daily Report

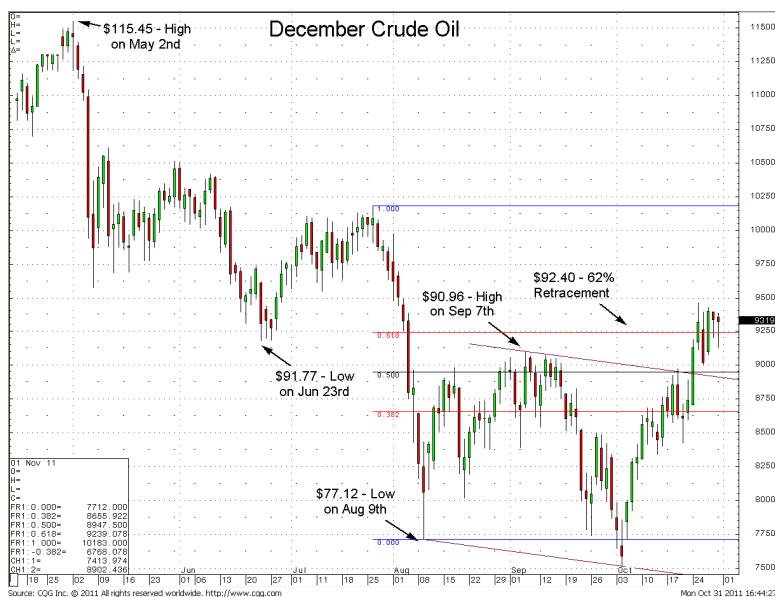
COMMODITIES | ENERGIES

# Energy

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## Price Outlook

Oil prices may turn the mixed direction seen over the last four days into a lower one, in our opinion. Prices could fall toward the top of the falling channel pattern at \$89.00 over the next few days, with pressure offered by worries over European sovereign debt, the possibility that a lack of easing by the FOMC and ECB this week creates worries over slowing economic activity, and from technical factors. Opposing support will be offered by improving oil inventories, the possibility that China soon begins to import more crude oil, and from adverse developments on the Keystone XL pipeline. We favor trading energies as a negative trading affair today but favor buying a correction in CLZ1 at \$89.00.



Yesterday's trade in WTI fell 13c/bbl while Brent lost 35c/bbl. While Thursday's trade in WTI rebounded on euphoria surrounding the European bailout of Greece, it failed to make a new high or create anything that appeared constructive from a technical perspective. Last Tuesday's high at \$94.65 remains in place as short-term resistance and will offer near-term pressure on the market. The focus on Europe will continue as confidence surrounding the EU's bailout of Greece wanes. An article in the UK's Telegraph summed up some of the concerns over the bailout including uncertainty over who will lend to the expanded EFSF, who will repay the loans if Greece can't, who will enforce austerity in Greece when privatization programs are already behind schedule, and whether Eurozone governments or private investors should take the biggest losses. There may also be some question as to whether Portugal should take haircuts, and whether Greece and Portugal both should be expelled from the euro. It's likely that some participants in the market hoped that both would happen in the final package.

Longer-term, the oil market appears to remain under support. Refinery throughput in China is scheduled to increase 8.5% y/y in 2012, according to the China Petroleum and Chemical Industry Association. Imports of oil to China have been lagging prior years so far this year, however, that could soon change based on this report as well as a Reuters report on Friday regarding faster filling of China's Phase 3 SPR tanks. Longer-term support may also be applied by

news yesterday regarding the Keystone XL pipeline. Canada's oil minister said that if the U.S. does not approve the pipeline, Canada will have to "intensify efforts to sell oil sands oil elsewhere." That's diplomatic code for creating a pipeline flowing westward to the Pacific Ocean where China will be able to ship Canadian oil back home. This should put pressure on the U.S. State Department to make a decision on the pipeline. It has already gone through impact scrutiny but is being held up by environmentalists fearful of an accidental leak. Failure to approve the pipeline will fail to create marginal security in both energy supplies and U.S. jobs.

**TRADE:** Buy CLZ1 at \$89.00, target \$94.00, risk \$88.20

### 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

### Global Economic & Dollar News

The dollar traded sharply higher yesterday after a pullback in enthusiasm for the bailout of Greece and its sovereign debt concerns. The reduced enthusiasm seemed more tied to natural decay of enthusiasm than any one news event. That is until late in the day when the Greek PM said that a referendum would be held on the European bailout agreed to last week. A small amount of dollar support was offered by the Japanese intervention to sell the yen.

- » **The BOJ** intervened to sell yen for a third time this year.
- » **Chinese Premier Wen** refuted reports that the government will cut back on its property curbs.
- » **Chinese Inflation** could drop sharply to 2.8% in 2012 compared to a year-end 2011 forecast of 5.5%, according to PBoC advisor Li Daokui.
- » **China** is considering Beijing bonds to help fund the new leveraged EFSF.
- » **The Greek PM** requested a referendum on the Eurozone bailout agreement. There were no details with regard to when it would be held, but it would likely take a couple months.
- » **The Chicago PMI** was 58.4 vs. 59.0 expected and 60.4 previously. Prices paid were 66.0 vs. 62.3 previously while employment was 62.3 vs. 60.6.

### Energy News Stories

- » **China's Oil Throughput** will increase 8.5% y/y to 460 mln tonnes this year or 9.2 mb/d, according to the China Petroleum and Chemical Industry Association. China produced 333.5 mln tonnes of crude in the first nine months of the year or 8.92 mb/d, up 6% on the year.
- » **The IEA** said that they see no need for OPEC to cut its output at its Dec meeting. Affirmed that they project a call on OPEC of 500,000 b/d in 2012.
- » **Ex-IEA's Tanaka** said that \$100/bbl Brent prices would derail the economy and create as much damage to the global economy as the record prices of 2008.
- » **The UAE** said that \$80-\$100/bbl is reasonable.
- » **Canada's Oil Minister** said that if the U.S. does not approve the Keystone XL Pipeline, Canada will "simply have to intensify efforts to sell oil sands oil elsewhere."

## ANALYSIS

### EIA Oil Inventory Preview

The EIA is expected to report oil inventories near unchanged following last week's 4.7 MB surge. Imports grew 1.45 mb/d last week but aren't expected to be maintained, as the trend is generally lower through the remainder of the year. A decline in inventories is also encouraged near year-end due to tax issues and the LIFO accounting system, but that may be less of a problem now, as prices and inventories are only slightly higher than they were at the start of

the year. A drop in inventories may also be possible due to the contraction that's taken place over the last several months relative to the five-year average. Inventories have fallen from 28.3 MB above the average in May '11 to 5.5 MB above it last week. Gasoline inventories are expected to fall 1.0 MB which is roughly in line with the five-year average, while distillates could fall slightly more than the -0.7 MB average due to strong demand. Our estimate is -1.2 MB.

Natural gas inventories are anticipated to build 47 bcf this week which compares to a five-year average build of 51 bcf. Temperatures in the northern half of the country were near-normal while the southern half was split between above- and below-normal. The HDD forecast is 74.9 which compares to a 10-year normal of 79.5. Over the last three weeks, our model has under-predicted the build twice and over-predicted it once by somewhat large margins after several weeks of being very near the actual figure. Averaging our estimates however, shows that our model still predicted the overall trend despite the week-by-week volatility. Looking to next week, temperatures turn a bit below-normal in the south and east, while the northern and western portions of the country remain near-normal. The HDD forecast is 104.8 and would argue for an inventory inflow of about 5 bcf. Those compare to a 10-year HDD average of 92.1 and a five-year inventory build of 31 bcf.

EIA Inventories - w/e October 28th						API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil		+1.2 MB	Unch	+0.9 MB	+4.7 MB			+2.7 MB
Gasoline		-0.5 MB	-1.0 MB	-1.2 MB	-1.4 MB			+0.2 MB
Distillates		-1.4 MB	-1.2 MB	-0.7 MB	-4.3 MB			-1.8 MB
Utilization		+0.1%	+0.3%	+0.9%	84.8%			83.2%
Natural Gas		+70 bcf	+47 bcf	+51 bcf	+92 bcf			

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

