Global Macro Research | US

TOM PAWLICKI

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MF Global Daily Report

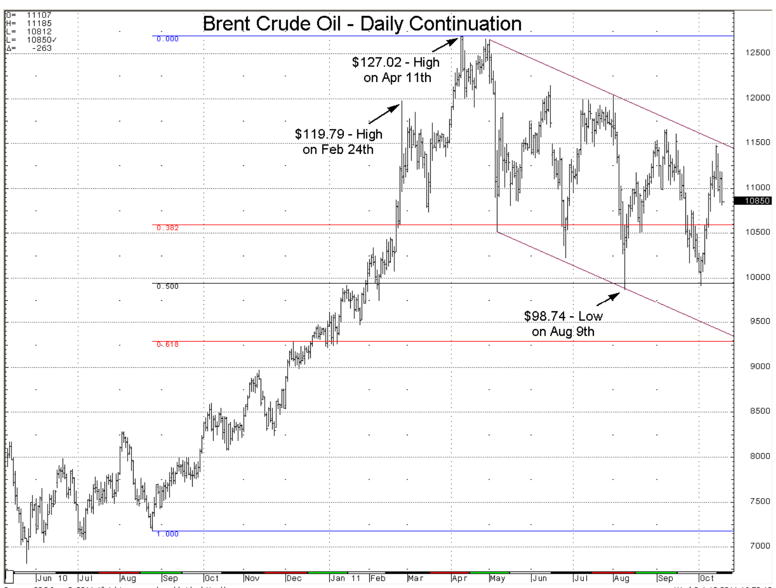
COMMODITIES | ENERGIES

Energy

MF Global
440 S. LaSalle
Chicago, IL 60605

Price Outlook

Oil prices may trade a bit heavy today, as the uncertainty over Europe continues to grip risk markets. December WTI may fall toward $85.00 today and $83.40 over the next few days with additional pressure coming from technical factors, disappointing Beige Book, and from Tuesday's weaker Chinese GDP figures. Those figures should be negative in the near-term, but could eventually turn positive for energies if the PBoC begins easing monetary policy. The upside of trade today will look to the dovish comments made by Fed's Rosengren and Evans and from yesterday's oil inventory figures. We favor trading the market as a negative trading affair today.



Yesterday's trade was one of those sessions where technicians would say that technicals forecasted the fundamentals. December Brent futures closed -$2.63/bbl while WTI finished -$2.24/bbl after WTI tested and held at resistance from a falling channel pattern drawn off the Aug & Oct lows and the Sep high at $89.45. The market an actual high at 89.69 before trade reversed and closed near the day's low. Of course, technicals don't forecast the actual event to cause a selloff, which yesterday was prompted by a report that French Pres Sarkozy would fly to Germany to meet with Chancellor Merkel because talks were breaking down. There was also a report in the FT that the size of the bank recapitalization plan would not be large enough. Minor pressure was applied to risk markets from the Beige Book, which highlighted a stagnant economy and the resulting caution that businesses have about spending and retailers have about building inventories before the holiday season. A reduction in the risk-appetite trade could weigh on metals prices in the near-term. This uncertainty could create pressure for energy prices, which may be enough to send CLZ1 back down toward the $80.00/bbl level over the next couple weeks.

The positive side of the trade will focus on yesterday's inventory figures for support. The EIA reported a decline in crude oil stocks of 4.7 MB which surpassed the figures reported by the API on Tuesday as well as all analysts expectations. In a Reuters survey, 12 of 13 analysts expected an increase in crude oil stocks with a consensus gain of about 1.8 MB. The surprise in the numbers has been imports, which fell 1.17 mb/d last week and have been near the low end of the five-year range for most of this year. That has now caused crude oil stocks to fall to within 118,000 bbls of the five-year average after falling to 7.31 MB above it last week and after having reached 28.30 MB above it at its high point this year. Demand fell 408 kb/d in yesterday's data but the four week average only declined by 174 kb/d, so we believe that the inventory numbers will carry more bullish weight than the demand numbers will do to counter them.

TRADE: None

Upcoming Energy Events

Thu - Natural Gas Inventories 10:30 am EST
Tue - API Weekly Stats 4:30 pm EST
Wed - Oil Inventories 10:30 am EST
Dec 14-15 - OPEC Scheduled Meeting

Global Economic & Dollar News

The dollar traded mostly lower yesterday as the stock market held near unchanged or slightly higher levels. There was some disappointment with the EFSF expansion announced on Tuesday, but the euro was higher for most of the session. Pressure was applied to risk markets by the Fed's Beige Book and by a report that talks between Sarkozy and Merkel were breaking down. The dollar rose in the afternoon and closed only a few ticks lower.

» **There was General Disappointment** with the EFSF expansion announced Tuesday on the expectation that it won't be enough to backstop Italy and Spain. Germany's FinMin said that the actual expansion will take it to €1.0 trillion instead of the €2.0 trillion reported on Tuesday.
» **ECB's Nowotny** said that Greece is not about to go bankrupt or be forced out of the EU because of its financial problems.
» **The EU's Top Trade Official** said that the response to the crisis has been too little, too late.
» **German 10-year Auction** failed to sell the full amount targeted of €5.0B. Instead, bids were received for only €4.55B and €4.1B were actually sold.
» **U.S. Housing Starts** were +15.0% to 658K vs. 590K expected and 572K previously.
» **U.S. CPI** was +0.3% vs. +0.2% expected. It was +3.9% y/y vs. +3.8% previously. The core was +0.1% vs. +0.2% expected.
» **Foreclosure settlements** may come by month-end according to state AGs and Reuters. Banks would receive relief from state lawsuits in return for financing underwater mortgages and a $25B penalty.
» **Fed's Rosengren** said that if deflation worries increased, it would be highly appropriate to ease Fed policy more.
» **The Beige Book** showed that the economy kept growing in Sep but the pace was "modest" or "slight" in most regions. The weaker outlook on the economy has made businesses cautious about spending and retailers reluctant to build inventories before the holiday season.
» **French Pres Sarkozy** said that Eurozone talks are stuck and that he will travel to Germany to meet with Merkel.
» **The FT** reported that EU bank recapitalization funds are well under expectations.

ANALYSIS

EIA Oil Inventory Review

EIA Inventories - w/e October 14th							API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week		Converge with EIA	Actual	Previous
Crude Oil	-4.7 MB	+1.8 MB	+1.5 MB	+2.5 MB	+7.3 MB		-0.3 MB	-3.1 MB	-3.8 MB

Gasoline	-3.3 MB	-1.3 MB	-0.5 MB	-0.5 MB	+3.7 MB		-0.03 MB	-1.6 MB	-1.2 MB
Distillates	-4.3 MB	-1.5 MB	-0.5 MB	-1.1 MB	+5.0 MB		-4.3 MB	-2.2 MB	-3.1 MB
Utilization	83.1%	-0.2%	+0.5%	-1.5%	84.2%		-0.8%	83.4%	83.4%
Natural Gas		+110 bcf	+110 bcf	+61 bcf	+112 bcf				

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