

November 2nd, 2011

MF Global Daily Report

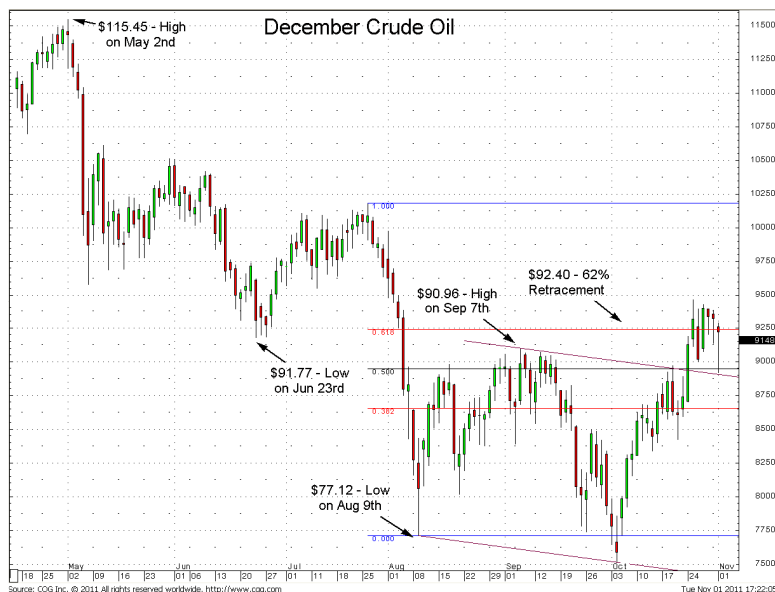
COMMODITIES | ENERGIES

Energy

MF Global
440 S. LaSalle
Chicago, IL 60605

Price Outlook

Energy prices could trade in a mixed-to-higher direction in today's session, with prices gravitating toward the upper end of the one-week trading range near \$94.65. Support will come from technical factors, the potential that the selloff tied to the Greek referendum unwinds, better Chinese imports, and the potential that weekly inventories continue to show improvement. Opposing pressure could come from European debt uncertainty and slowing economic activity. The FOMC meeting today and the likelihood of no change in policy aren't expected to offer much impact. The API data yesterday were slightly positive on the surface but negative in terms of API-EIA convergence. We were left unable on our buy recommendation in CLZ1 at \$89.00 yesterday but still favor trading the market as a buy on breaks.



Yesterday's trade finished \$1.00/bbl lower after trading down as much as \$4.02/bbl at the day's low. Weakness was prompted by follow-through pressure from news late on Monday that the Greek PM would put the European bailout efforts up for a referendum vote in a bid to achieve backing. Polls suggest that Greek citizens are 50%-60% against the bailout as they feel it will constrain their lifestyles and mean further pain going forward. As the day progressed yesterday, speculation grew that the Greek PM would not survive a confidence vote to be held on Friday because his majority in parliament was only 151-149. A loss of one additional vote would mean a runoff in 23 days. If no winner emerged from that election, a coalition government would need to be formed or the country would likely face several more months of elections. As grim as that is, the socialist party came to the rescue of risk markets by calling the referendum vote "basically dead." The news helped risk markets recover and energy prices surged. A meeting will be held today between Merkel, Sarkozy, Papandreou, and members of the EU & IMF and will be in focus for new developments.

Technical factors were also at play yesterday and partly responsible for the afternoon's rebound. The market bottomed at \$89.17 yesterday, which was just 17c/bbl above the top of the falling channel pattern drawn over the last three months of trade. The market broke out above the channel as resistance on Oct 24th, and technical analysis

suggests that it's natural to see a market fall back to test the breakout. The pattern is also favorable on the candlestick chart, where a bullish hammer reversal pattern was formed. Given the current sideways trend of the market, the reversal suggests that the market is working on forming a sideways consolidation range. Such a range may provide entry and exit points for short-term trades.

Fundamentals are also supportive of the market through improvements in inventories. API data showed declines across the three major categories, with distillates falling by 3.4 MB. The declines in inventories in recent weeks has tightened the supply/demand balance and should help energy prices remain buoyed in our opinion. Longer-term, U.S. supplies could remain tight as Chinese demand appears to be increasing again due to improving demand and a focus on easier monetary policy next year. The gov't is also filling strategic reserve tanks at a faster pace than previously planned. U.S. supplies may also remain in doubt as the Keystone XL pipeline faces headwinds from environment groups and the U.S. State Department. Failure to approve the pipeline would allow China to become a bigger customer of Canadian oil.

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

Upcoming Energy Events

Wed - Oil Inventories 10:30 am EST

Thu - Natural Gas Inventories 10:30 am EST

Tue - API Weekly Stats 4:30 pm EST

Dec 14-15 - OPEC Scheduled Meeting

Global Economic & Dollar News

The dollar traded higher again yesterday as markets continued to react to the Greek PM's call for a referendum on the European bailout of Greek debt. The bailout was around 50%-60% unfavorable according to recent polls of Greek citizens, and created the belief that the bailout would eventually disintegrate. Later in the day, the dollar fell a bit after a

- » **China's NBS MFG PMI** was 50.4 vs. 51.6 expected and 51.2 previously. Inflation fell 10.4 points to 46.2.
- » **The RBA** cut rates by 25 bps yesterday to 4.50%.
- » **Credit Suisse** will cut 1,500 additional jobs after already cutting 2,000 jobs in July.
- » **Greece** will hold a referendum on the bailout agreement within a few weeks. A vote of confidence on the Prime Minister will take place within a few weeks.
- » **A CNBC Report Later in the Day** suggested that PM Papandreou suggested that he may not survive the confidence vote on Friday. Papandreou has only a 151 vote majority out of 300 votes in parliament. If the gov't collapses, elections would be held within 23 days. If there's no winner and if no coalition is agreed upon, the country may conduct elections for several months or even a year to finally get a new leader.
- » **Even Later In the Day**, socialist party officials called the referendum "basically dead."
- » **French Pres Sarkozy** called an emergency meeting with his cabinet ministers yesterday.
- » **Sarkozy and Merkel** will hold an emergency today with Greek, EU, and IMF officials in Cannes France.
- » **UK Oct MFG PMI** was 44.1 vs. 50.3 previously and was the lowest since March 2009.
- » **UK Preliminary Q3 GDP** was +0.5% vs. +0.4% expected and vs. +0.1% previously.
- » **ISM MFG PMI** was 50.8 vs. 52.0 expected and 51.6 previously. Prices paid were 41.0 vs. 56.0 previously, while employment was 53.5 vs. 53.8.

Energy News Stories

- » **The IEA** said that they are not looking at another stocks release.
- » **Two Cargoes** of North Sea Forties oil for November loading were delayed by one day.
- » **Petrobras** will triple exports of crude oil to 1.5-1.6 mb/d by 2020, according to CEO Gabrielli. The firm expects to boost output to 3.9 mb/d by 2015 and 4.9 mb/d by 2020 from 2.1 mb/d this year.
- » **OPEC's Sec'y Gen'I** said that oil prices won't fall below \$100/bbl before year-end.

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	+2.2 MB	-0.2 MB	+2.7 MB
Gasoline		-0.5 MB	-1.0 MB	-1.2 MB	-1.4 MB	+3.7 MB	-1.1 MB	+0.2 MB
Distillates		-1.4 MB	-1.2 MB	-0.7 MB	-4.3 MB	-1.0 MB	-3.4 MB	-1.8 MB
Utilization		+0.1%	+0.3%	+0.9%	84.8%	-1.2%	83.6%	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

