DTN — Energy Market Analysis

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Quote of the day:

"Dreams are the touchstone of our character." – Henry David Thoreau

EMI QuickView Short Term Market Overview				
8/22/2011	Impact on Energy Prices			
Price Drivers	Crude	Gasoline	HO/Diesel	Nat Gas
Supply	N	N	N	CBr
Demand	N	N	N	N
Inventories	N	N	N	CBr
US Dollar	CBr	CBr	CBr	CBr
Global Equities	CBr	CBr	CBr	CBr
10 Yr Treasuries	CBr	CBr	CBr	CBr
Geopolitics	CBu	CBu	CBu	CBu
Technicals	CBr	CBr	CBr	CBr
Market Sentiment	CBr	CBr	CBr	CBr
Overall View	CBr	CBr	CBr	CBr
Bias	CBr	CBr	CBr	CBr

N - Neutral Bu - Bullish Br- Bearish CBu - Cautiously Bullish CBr - Cautiously Bearish

After a negative start to trading on Sunday evening, there are a few feel good things happening at the moment. First, the Libyan civil war is just about over as the rebels overtook Gaddafi's stronghold...Tripoli. He is not yet in custody, but two of his sons are, and it is only a matter of time when yet another MENA despot will have been completely displaced. While the celebration continues in the center of Tripoli, the hard task of re-instituting the rule of law and moving toward a democratic government has not even begun. As such, it is too early to say exactly when oil will flow out of Libya. However, last week the rebel group indicated that about 250,000 to 300,000 of oil could start flowing in weeks. ENI, a major international oil player in Libya, has some staff back and are starting to work to resolve their facilities. Full production will take some time as parts of the Libyan oil infrastructure was damaged from the civil war. That said, a portion (not exactly known) of oil will hit the markets in a relatively reasonable period of time.

The result of Libyan oil returning to the marketplace will have a much larger impact on Brent and North Sea oil prices than on WTI. The huge premium of Brent over WTI will begin to ease and the long awaited correction of this spread will begin (if it has not already started). The October or front month spread has already lost about $2/bbl since Friday's close but the spread is still significantly overvalued. How quickly the spread retraces will be a direct function as to how quickly and how much oil flows from Libya into the export market. The spread will react quickly to the oil flow news out of Libya as it goes from Libya into the export market. The spread will react quickly to the oil flow news out of Libya as it is the mail value driver at the moment. For now, one has to play this spread from the short side with a stop around Friday's close.

The second feel good event that is evolving is a sort covering rally in equities after an absolutely negative week for risk asset markets. There isn't anything new, rather the markets are now moving on a perception that U.S. Fed Chairman Bernanke's speech at Jackson Hole on Friday will hint that the Fed may be ready for some form of quantitative easing to jump start the U.S. economy. As I said last week, this is likely to be the most important macro event of the week as the 10 am EST speech is slowly taking on rock star status for the Fed Chairman as the world will be watching and dissecting his every word. All of the speculation as to what he will say is likely to have an impact on both equity and commodity markets throughout the week, while the actual outcome of the speech will certainly have a significant impact on next week's trading in one direction or the other.

For the moment, all markets are getting started in a corrective pattern. Brent is falling as a result of Libya, while WTI is rising as traders start to bail out of the Brent/WTI spread, thus providing support for WTI. On the financial front, equities are strictly in as short covering rally as are several other commodity markets. Gold is still bid as it is higher by over one percent so far today, indicating the market is not yet sold on a turnaround move in equities. Everything remains in a state of uncertainty as the main overriding item in the market is the faltering global economy. Like all macro events that have hit the media airwaves over the last month or so…as they pass market players quickly revert back to focusing on the global economy and, unfortunately for the bulls, it is not a pretty picture. Unless the macroeconomic data turns positive and/or some sort of artificial stimulus like another round of quantitative easing is announced, market participants are going to continue to view the risk in the market as a double dip recession and equity and commodity values will continue to trade under that cloud until proven otherwise.

The main event in the tropics is Hurricane Irene that is currently impacting Puerto Rico. The latest analysis from the National Hurricane Center suggests that Irene will maintain its hurricane status throughout the upcoming week as it moves north eastward. At the moment, the projected path shows Irene working its way up the eastern coast of Florida with landfall someplace around southeastern Georgia. It is early and many things can happen to change the exact path and landfall location. However, it looks like Irene will not impact the oil and Natural Gas producing operations in the Gulf of Mexico rather this is turning out to be an east coast storm.

In addition, there is another wave out in the eastern Atlantic about 300 miles from the Cape Verde Islands that has a zero percent change of forming into a tropical cyclone over the next forty eight hours. The wave can dissipate sooner than later.

The tropics do not require any action in the energy markets at this time. So far the tropical season has been a non-event but, unfortunately, we are just entering the most active part of the tropical weather season and, as such, we must keep the tropics on our daily radar.

Needless to say, last week was yet another wild week in most all trading markets with unprecedented volatility as many markets experienced huge price swings. However, when the dust settled and the end of the week arrived, most risk asset markets were lower but the losses were a lot less in the oil and commodity markets versus what was experienced in the global equity markets. The plethora of negative news circulating around the media airwaves has cast a negative cloud over all markets around the world. WTI depreciated in value on the week (while everything else in the oil complex actually gained value). Financial markets lost value on the week mostly driven by the aforementioned gained value. Financial markets lost value on the week mostly driven by the aforementioned headwinds. Equity markets were lower in both the developing and emerging market world as uncertainty engulfed the entire global economy and continues to do so as the trading week just gets underway. Precious metals gained ground ending the week with huge gains.

	EMI Weekly Price Board			
	Current Price 8/22	Change From Prev Day	Change for Week	% Change For Week
Sep WTI	$82.26	($0.12)	($3.12)	-3.65%
Oct Brent	$108.62	$1.63	$0.86	0.80%
Sep HO	$2.9045	$0.0297	$0.0008	0.03%
Sep RBOB	$2.8412	$0.0580	$0.0190	0.67%
Sep NG	$3.940	$0.048	($0.120)	-2.96%
Sep 11 Cracks				
RBOB Crack	$37.07	$2.56	$3.92	11.82%
HO Crack	$39.73	$2.56	$3.15	8.62%
321 Crack	$37.95	$2.56	$3.67	10.69%
Key Financials				
EMI Global Index	12376	(229)	(359)	-2.40%
DJ Index	10818	(173)	(451)	-4.01%
Nasdaq	2038	(35)	(144)	-6.59%
10 Yr US Treasuries	130.80	0.02	0.92	0.71%
Aug Gold	1848.90	30.00	108.70	6.25%
US Dollar Index	74.045	(0.2700)	($0.6550)	-0.88%
Euro/$	$1.4382	0.0062	$0.0144	1.01%
Yen/$	0.01308	0.00000	0.00005	0.35%

Over the last week the oil complex increased modestly with Brent rising marginally while WTI finished the week with a modest loss. The Oct Brent contract ended the week with a gain of 0.8% or $0.86/bbl. WTI declined about 3.65% or $3.12/bbl. The spot WTI contract depreciated strongly versus Brent even as the situation in PADD2 improved yet again. WTI remains below the key technical resistance level of $90.00/bbl level while the spot Brent contract closed just below the $110/bbl mark.

On the distillate fuel front, the NYMEX HO contract increased even as distillate fuel inventories increased modestly versus an expectation for a small seasonal build. Spot NYMEX HO increased by 0.03% or $0.0008/gal. Gasoline process also increased on the week as gasoline shocks decreased modestly versus an expectation for a small build. The spot NYMEX gasoline price increased by 0.67% of $0.0190/gal this past week.

Natural Gas lost ground on the week. The spot Natural Gas contract ended the week trading below the $4.00/mmbtu technical support level and so far this morning prices are falling and hovering around the next key technical support level of $3.90/mmbtu. Natural Gas lost 2.96% last week or $0.12/mmbtu. I know it sounds boring but not much has changed for Natural Gas across the week. The short-term weather has been milder than the previous couple of weeks and the six to ten day and eight to fourteen day temperature forecast has pretty much been the same all week. The same being a major portion of the eastern half of the U.S. will be experiencing colder than normal temperatures while a major portion of the less populated western half of the U.S. will experience above normal temperatures and the mid-section of the country will be normal. Extreme temperatures are not forecast for anywhere in the U.S. At least for the next several weeks temperatures will not be a major factor on Natural Gas consumption as cooling demand is likely to be normal at best when looking at the entire country.

On the financial front, equity markets around the world ended the week lower. Global equity values decreased as shown in the EMI Global Equity Index table shown mostly driven by the growing view that recession is becoming more likely for the developed world. The EMI Index lost 2.4% on the week for the fourth weekly loss in a row. The EMI Index is lower by 18.5% for the year with all ten bourses still in negative territory. The U.S. Dow is still in the top spot of the loser's column in that it is showing the smallest loss (so far) of the other nine bourses in the Index. Eight of the ten bourses in the Index are now showing double-digit losses for the year. Last week the global equity markets were a strong negative for oil prices as well as the broader commodity complex.

EMI Global Equity Index

	8/22/11 2010 7:46 AM	Change From Yesterday	Change From Yesterday %	2011 YTD Change %
US/Dow Jones	10,818	(173)	-1.57%	-6.6%
Can/S&P-TSX	12,007	(179)	-1.47%	-10.7%
Lon/FTSE	5,041	(51)	-1.01%	-14.6%
Paris/Cac 40	3,017	(59)	-1.92%	-20.7%
Germany/Dax	5,480	(123)	-2.19%	-20.7%
Japan/Nikkei	8,719	(225)	-2.51%	-14.8%
HongKong/Hang Seng	19,400	(616)	-3.08%	-15.8%
Aussie/All Ordinaries	4,172	(147)	-3.41%	-12.1%
China/Shanghai A	2,654	(26)	-0.98%	-9.7%
Brazil/Bvspa	52,448	(686)	-1.29%	-24.3%
EMI Global Equity Index	**12,376**	**(229)**	**-1.81%**	**-18.5%**

The U.S. Dollar Index depreciated in value on the week and was mildly supportive for oil and commodity prices. The currency markets are still int he midst of a major realignment as I have been warning for months. Cash flowed into gold (and the rest of the precious metals complex) which increased by 6.25% on the week.

For today, I am keeping my oil view and bias as cautiously bearish as not much has changed from last week except for oil as the end of the Libyan civil war has to have a bearish impact on oil prices as more oil will eventually flow into the market. Prices in the oil complex may look misleading at the moment as WTI is in positive territory while everything else is negative. That is simply because participants are starting to unwind the long Brent/WTI spreads.

Although I am keeping my overall oil view at cautiously bearish, I will warn all that any strong rally in global equities and/or a strong decline in the U.S. dollar are likely to trump the additional oil coming from Libya and result in oil prices also moving into a short covering rally. The oil complex is very oversold just like the rest of the risk asset markets. In fact, I am not changing my until I see how the Libyan situation plays into the markets today. Also expect another week of above normal levels of volatility and very choppy trading.

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I am keeping my Natural Gas view as cautiously bearish after the week's bearish inventory report and keeping my bias at cautiously bearish as prices are once again trading below the key technical level of $4/mmbtu. With prices now below the $4/mmbtu level, the market now seems ready for another attempt of testing the next support level of $3.90/mmbtu to $3.75/mmbtu.

Currently most markets are mixed as shown in the table.

Current Expected Trading Range	8/22/11 - 7:46 AM	Change From Yesterday	Expected Trading Range Low End Support	High End Resistance
Sep WTI	$83.57	$1.31	$80.00	$90.00
Oct Brent	$107.71	($0.91)	$105.00	$110.00
Sep HO	$2.9053	$0.0008	$2.8000	$2.9475
Sep RBOB	$2.8192	($0.0220)	$2.7500	$2.8600
Sep NYM NG	$3.901	($0.039)	$3.900	$4.415
10 YR Treasuries	130.39	(0.41)	126.00	131.00
Dow Futures	10,960	140	10,750	11,250
US Dollar Index	73.88	(0.226)	72.500	76.000
Euro/$	1.4426	0.0038	1.4000	1.4650
Yen/$	0.01303	(0.00005)	0.0121	0.0135

Best regards,
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