

September 7th, 2010

MF Global Daily Report

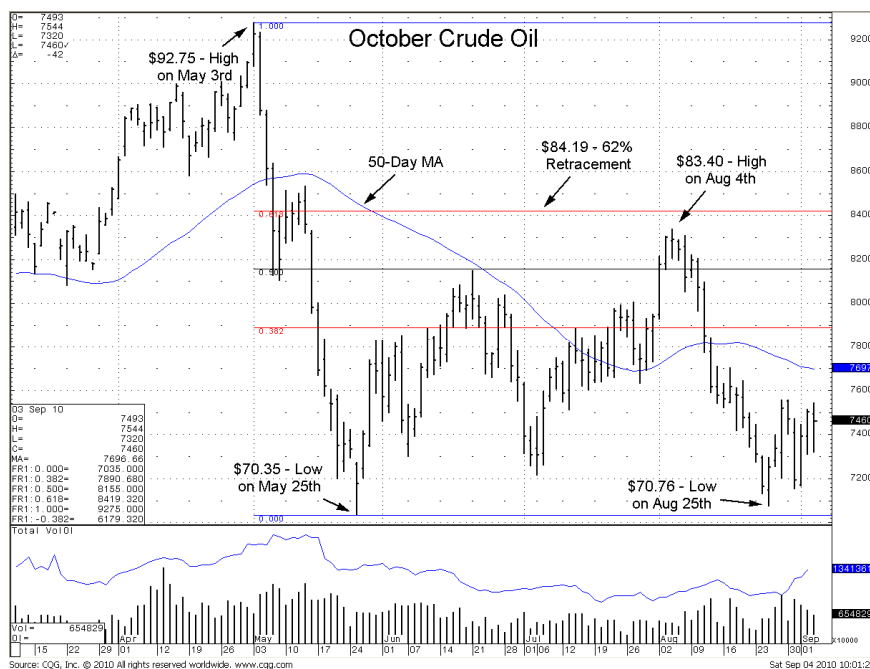
COMMODITIES | ENERGIES

Energy Weekly

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Price Outlook

Energy markets are expected to trade in a mixed-to-higher direction this week, with oil prices potentially advancing toward the \$77.00/bbl level. Gasoline should hold at resistance from its recent high at \$1.9650 while heating oil is expected to hold below \$2.10-\$2.15/gal. We anticipate some support being given by upside follow-through from Friday's payroll figures and by potential for continued improvement in the stock market. However, we feel stronger that prices will have trouble advancing above \$77.00 and still favor selling rallies. Pressure should come from weak supply/demand balances, investment withdrawals, and little hurricane impact thus far. It's a busy calendar in energies this week, with Saudi Arabia expected to raise its OSPs to Asia on Monday, the EIA's monthly report on Wednesday, the IEA's monthly report on Friday, as well as Chinese trade figures also on Friday. Weekly oil stocks will be delayed a day due to the Labor Day holiday but natural gas will be on its normal day and time. Our favorite trade is still selling CLV0 at \$77.00 and targeting a fall toward \$70.50 while risking \$78.50.



The oil market may still see benefit this week from Friday's upside action in the stock market. Oil prices have closely followed trends in the stock market recently both from a price and volatility perspective. Friday's payroll figures were better than anticipated and created the perception that risk markets had priced in too much negativity during the late-Aug selloff. The Dow ended 127.80 points higher on Friday while the S&P finished up 13.90, but it must be remembered that this has been a schizophrenic market for several months and recent strength could soon reverse once again. Despite the strong rallies in equities, the oil market was unable to maintain its earlier gains. Perhaps the lack of impact from Hurricane Earl played a role as did the fading TS Fiona and TS Gaston. However, the inability to maintain gains on positive news is worrisome for near-term trends.

Investment outflows should also play a role in trade this week. Friday's COT data showed that during a \$0.29/bbl rally in crude oil during the survey week, non-commercials liquidated 14,203 futures contracts in Nymex WTI while building only 7,792 in ICE WTI. The net outflows in crude have also been characteristic in gasoline and heating oil in recent weeks, and demonstrate reduced investor appetite for these commodities. Heating oil non-commercial positions moved to a net short posture two weeks ago.

Still, supply/demand balances haven't favored crude oil recently. The weekly EIA data has showed combined stocks of crude oil, gasoline, and distillates rising from a collective 77.39 MB above their five-year averages at the end of July to 96.25 MB above them as of last week. Demand rose only slightly during that period from 19.33 mb/d to 19.57 mb/d. Over the month-long period, the gain in demand equates to around a cumulative 6.8 MB, which is far short of the 14.74 MB increase in gasoline and distillate inventories during that period. The EIA and IEA will publish their monthly reports on Wed & Fri respectively. The EIA's 2010 supply/demand balance was a surplus of 120 kb/d while the IEA's was a surplus of 500 kb/d. Deficits were projected for 2011 of 320 kb/d and 500 kb/d respectively, but we think that with 5.6 mb/d in spare capacity, OPEC will have no trouble meeting that demand. Revisions to these numbers will be interesting this week and may offer at least some kind of impact.

TRADE: Sell CLV0 at \$77.00, target \$70.50, risk \$78.50

Upcoming Energy Events

Wed - EIA Monthly Report

Wed - API Weekly Stats 4:30 pm EST

Thu - Natural Gas Inventories 10:30 pm EST

Thu - Oil Inventories 11:00 am EST

Fri - Chinese Trade Figures

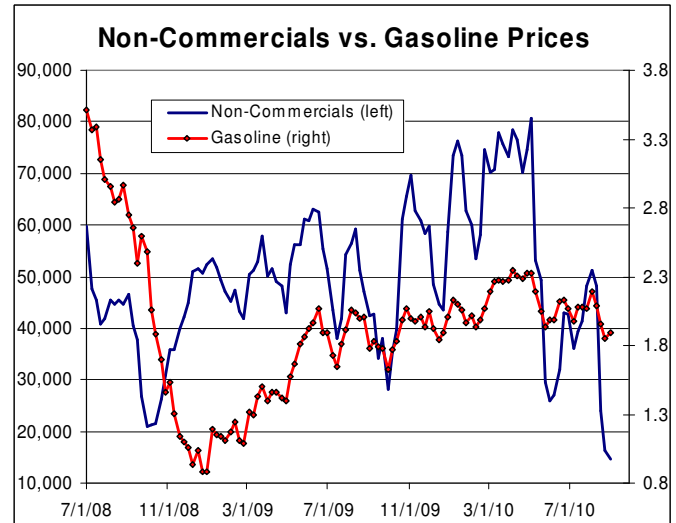
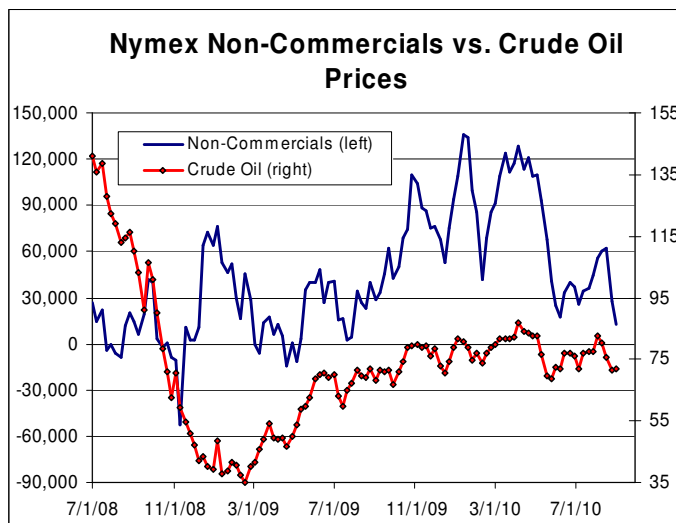
Fri - IEA Monthly Report

Oct 14th - Next Ordinary OPEC Meeting

Commitment of Traders Aug 24th-Aug 31st

Net non-commercial (large funds) (Legacy Report)

	Net Position	Change	Price Change
Crude Oil	12,120	-14,203	+\$0.29
ICE WTI	34,980	+7,794	+\$0.29
Heating Oil	-6,275	+3,679	+5.87c
Gasoline	14,593	-1,749	+4.00c
Natural Gas	-163,706	-510	-22.3c



Global Economic & Dollar News

The dollar fell during Friday's trade due to an increase in risk appetite following better U.S. payrolls. The payroll figures resulted in a moderate gain in equity markets, with some uncertainty about economic health still lingering due to the gain in the unemployment rate. Uncertainty also lingered from the ISM non-MFG PMI which fell in Aug and showed an employment reading below 50. The euro was supported by better-than-expected retail sales and Service PMI figures.

- » **Eurozone Aug Services PMI** was 55.9 vs. 55.8 previously.
- » **Eurozone Jul Retail Sales** were +1.1% vs. +0.6% expected. Jun sales were revised up to +1.2% from +0.4% previously.
- » **ECB's Wellink** said that it's irrelevant if the world economy sees a double dip recession.
- » **The FT Reported** that companies are avoiding EU banks due to skepticism over the stress test results.
- » **UK's Aug Services PMI** was 51.3 vs. 53.1 previously. It was the lowest since Apr '09.
- » **Non-Farm Payrolls** were -54K vs. -100K expected. July was revised up 77K from the initial reading while June was revised up 46K. Combined, the two revisions added 123K jobs to preliminary numbers. Private payrolls were +67K vs. +41K expected. There was a 36K upward revision to July's figures. Average hourly earnings were +0.3% vs. +0.1% expected. MFG payrolls were -27K vs. +10K expected.
- » **The Unemployment Rate** was 9.6% which was as-expected, and compared to 9.5% previously.
- » **Fed's Lockhart** said that the economy remains on a gradual recovery track, but is experiencing a temporary downshift. Said that the economy will look and feel better at year-end. He said that the Fed would consider expanding the balance sheet if the economy worsens, but added that there is no appetite whatsoever at the Fed to monetize the debt.
- » **ISM Non-MFG PMI** was 51.5 vs. 53.5 expected and vs. 54.3 previously. The price index was 60.3 vs. 52.7 while the employment index fell to 48.2 from 50.9.

Energy News Stories

- » **Hurricane Earl** is moving away from the U.S. east coast and is not expected to impact any refining activities in New Jersey or Pennsylvania.
- » **TS Fiona** is moving NNE and will not be a factor for energies. The remnants of TS Gaston were only given a 40% probability of formation back into a tropical storm.

ANALYSIS

EIA Oil Inventory Preview

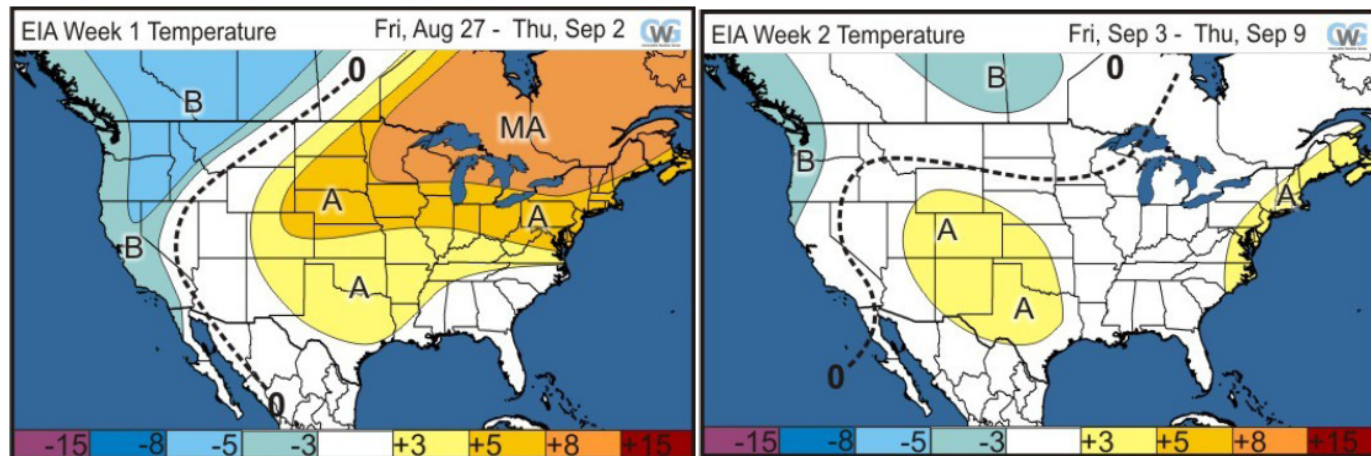
The EIA will report oil inventories on Thursday at 11am EDT this week due to the Labor Day holiday. They are expected to report a drop in oil inventories of 1.0 MB this week. The drop is only a fraction of the five-year average decline, which shows a typical fall of 3.0 MB this week. That drop is the fifth largest of the year, with next week's drop of 5.6 MB marking the largest. This is the time of year when imports fall due to increasing shipping disruptions caused by the Atlantic hurricane season, as well as projected maintenance on oil platforms. A drop in OPEC shipments was confirmed by Oil Movements, which said that seaborne shipments would fall 240 kb/d in the four weeks ending Saturday. Oil stocks are currently 34.23 MB above the five-year average, but are unlikely to converge with the average anytime soon.

We see gasoline and distillate inventories both advancing 0.5 MB with support coming from weak demand. This week will represent the last of the summer driving season, but this year's demand levels already peaked several weeks ago. Distillate demand levels have recovered, but inventories are still growing due to high refinery production sparked by high margins. Part of the refining boost has come from elevated demand for distillate exports, but we expect the level of exports to fall in the next several weeks. The API numbers are neutral for crude and gasoline, but will suggest EIA distillate inventories need to fall 7.5 MB to match the API.

Natural gas inventories are expected to see a build of 60 bcf this week, which is slightly above the five-year average of +54 bcf. The build is afforded by cooler temperatures over the population-weighted cooling regions, which began to take on fall-like temperatures at the end of last week. The pop-weighted CDD forecast is 72.0, which is 4.4 degree days above the 10-year average of 67.6. Some support for a build also comes from last year's comparison, which was +69 bcf, although temps were cooler-than-normal and lower than this year's. Looking to next week, we expect cooler temperatures to move into the Northwest and northern plains states, but normal temps to dominate the pop-weighted demand centers. The early CDD forecast is 49.4, which is 1.3 degree days below the 10-year normal of 50.7. That could result in a build of 88 bcf which would compare to +79 bcf in the five-year average. The numbers could keep pressure on gas prices this week, although it will be countered by the narrowing difference between current stocks and the five-year average. That difference is only +171 bcf now and compares to +333 bcf in the w/e May 7th.

	EIA Inventories - w/e September 3rd					API Inventories		
	Actual	Market Estimate	MFGR Estimate	Five-Year Average	Last Week	Converge with EIA	Actual	Previous
Crude Oil			-1.0 MB	-3.0 MB	+3.4 MB			+4.8 MB
Gasoline			+0.5 MB	-1.8 MB	-0.2 MB			-0.6 MB
Distillates			+0.5 MB	+1.1 MB	-0.7 MB			-1.9 MB
Utilization			-0.5%	-0.7%	87.0%			84.8%
Natural Gas			+60 bcf	+54 bcf	+54 bcf			

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



Weather Summary/Changes

Current Hurricane Forecasts			
	Storms	Hurricanes	Major
NOAA	14-20	8-12	4-6
CSU	18	10	5
WSI	19	11	5
Accuweather	16-18	5	2-3
CWG	15	9	4
EarthSat	16	8	5
2007 Season	15	6	2
2008 Season	16	8	4
2009 Season	9	3	2
2010 Season	7	3	1
Average since 1950	9.6	5.9	2.3

Geopolitical Tensions/Developments

Iran: Iran said that it will strike Israel's nuclear site if it is attacked.

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