

Petroleum Week

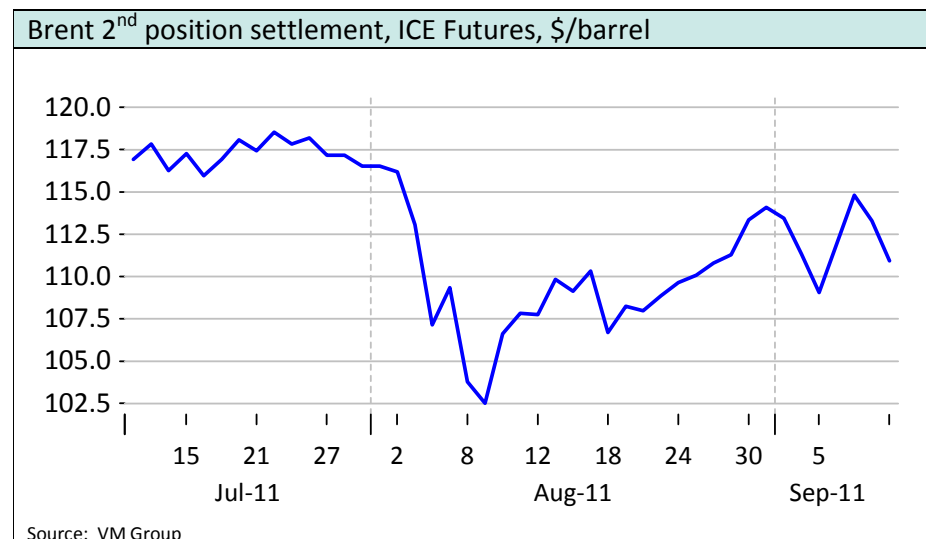
Week #36: 5-9 September 2011

Short-term review

Fresh Brent rally fades on economic fears

Short-term forecast for Brent (second-position): \$108-\$115/barrel

European petroleum markets were briefly wrong-footed in the week ending Friday 9 September as concern over economic strategy resurfaced and overwhelmed a midweek rally in prices. The benchmark ICE Brent second position contract (November) closed a troubled week at \$110.93/barrel, having hit a Wednesday close of \$114.81/barrel. Across the five trading sessions, Brent averaged \$112.00/barrel, compared with an average of \$112.70/barrel for the previous week. This trading performance was at the top end of our forecast for last week, which projected prices in a \$107-\$112/barrel range. While the Swiss National Bank made a valiant (and probably futile) effort to limit the damage of its currency's strength, the likelihood of currency wars moved a little bit closer. More immediate concern was focused on the European Central Bank, which saw the departure of a board member over the seemingly endless saga of the eurozone debt crisis. As lines are drawn in the sand, policymakers will find less room to manoeuvre, adding further uncertainty to economic prospects for Europe. For the week ahead, we expect this uncertainty to be reflected in more volatile trading and for intraday price movements of \$5/barrel. Brace yourself for oil between \$108-\$115/barrel.



The week in detail

Gasoil

Turbulent trading in crude oil markets was transferred to the European gasoil sector as prices peaked midweek and then fell back by Friday. The benchmark ICE September gasoil contract reached a high of \$967/tonne on Thursday and slipped to finish the week at \$939.50/tonne. Across the five trading sessions, the contract posted an average closing value of \$949.30/tonne, a fall of \$12.40/tonne compared with the average for the previous week. The October contract fared no better with a \$938.75/tonne price by the final bell on Friday.

In the European physical gasoil market, 20 barges changed hands during the week at steady premiums of \$2/tonne in each session even as the September-October gasoil backwardation evaporated on Wednesday and Thursday. By Friday afternoon, this backwardation had reappeared with a \$1.25/tonne spread as the September contract neared expiry while the October-November backwardation was \$3/tonne. Among the traders, Mabanaft and Gunvor were dedicated sellers while North Sea Group and Morgan Stanley were active buyers.

Gasoline

Hectic trading in the European gasoline product market coat-tailed the sharp rise in Brent crude prices on Wednesday and then stumbled backwards to finish the week a net \$20/tonne higher overall. More than 140,000 tonnes of benchmark Eurobob changed hands over the five sessions with Mabanaft and then Gunvor emerging as prominent sellers. On Monday, when 16 barges were sold, prices were firming at \$1,039-\$1,048/tonne fob ARA and then moved closer to the \$1,100/tonne barrier on Wednesday when nine barges traded ahead of the window at prices ranging between \$1,081-\$1,094/tonne. By Friday morning, when Glencore sold two barges to Shell, much of the heat had come out of the market with prices dropping back to \$1,068/tonne.

In the premium unleaded gasoline sector, Total took the honours on Wednesday when it bought 12 barges as prices were ratcheted progressively higher to \$1,090-\$1,100/tonne but these levels were trimmed back to \$1,080 by the end of the week when Shell resumed its buying.

At 535,000 tonnes, gasoline inventories in northwest Europe are now at their lowest point for the year and sharply down on the year-ago level of 947,000 tonnes. Imports from Poland, Russia and the UK did little to offset outward-bound cargoes to the US, Mexico, China and Togo. Refinery outages in Germany and

pent-up demand from Libya will keep inventories low even as the market switches away from summer grades. In the US, the Energy Information Administration reported on Wednesday that gasoline inventories, which reflected the run-up to the Labor Day weekend, had actually edged 200,000 barrels higher compared with mis-judged analysts' forecasts of a 1.7m barrel drawdown.

Meanwhile, the erratic naphtha market saw plenty of talk but little action with the exception of a Glencore cargo sale to Gunvor on Thursday at \$984/tonne cif NWE while BP offered a late-September cargo at \$960/tonne on Friday.

Jet fuel

Trading in the jet fuel sector was dominated by cargo-scale deals throughout the week with barge trades making an impact only on Monday and Wednesday. Morgan Stanley sold a cargo on Monday to BP at a \$71/tonne cif NWE premium to October ICE gasoil futures and was back again the next day to sell a cargo to Cargill at a \$73/tonne premium. By Thursday, cargo premiums had been pushed up to \$74/tonne. In Monday's barge market, Statoil and BP sold five barges to Shell and Morgan Stanley at premiums of \$63-\$64/tonne fob ARA to September gasoil futures. By mid-week premiums had been nudged higher to \$65/tonne with Lufthansa, BP and Shell finding eager buyers in Morgan Stanley and Vitol.

Premiums may have slipped recently, but compared with this time last year they are still substantial. According to a Reuter report from last September, cargoes were being offered then at a \$43/tonne cif premium. Part of the explanation for higher differentials may lie in the gradual erosion of inventories over the past twelve months. Last week, jet fuel held in the ARA complex rose by 21,000 tonnes to 573,000 tonnes at the Thursday inventory audit by PJK International. Supplies may have boosted by the arrival of cargoes from Japan, Bahrain and Kuwait but at this level, jet inventories are 24% lower than the year-ago 757,000 tonnes.

Diesel

Barge trade in the diesel market peaked on Wednesday when nine barges changed hands at premiums of \$26-\$28/tonne fob ARA to September gasoil futures. BP was the most active buyer throughout the five trading sessions, picking up 26 barges (or about 50,000 tonnes) during the week. By Friday, AIC, which had been a steady seller earlier in the week, sold two more barges to BP at premiums of \$23-\$24/tonne fob ARA. Meanwhile, the budding 50 ppm market saw steady turnover with AIC and Vitol selling three barges at \$23-\$23.50/tonne to Fina and DS Mineralöl. Premiums edged higher on Wednesday when AIC sold another two barges to Fina but, by the Friday close, differentials in this sector

dropped sharply to \$19/tonne with AIC finding invigorated buyers in Vitol and DS Mineralöl once again.

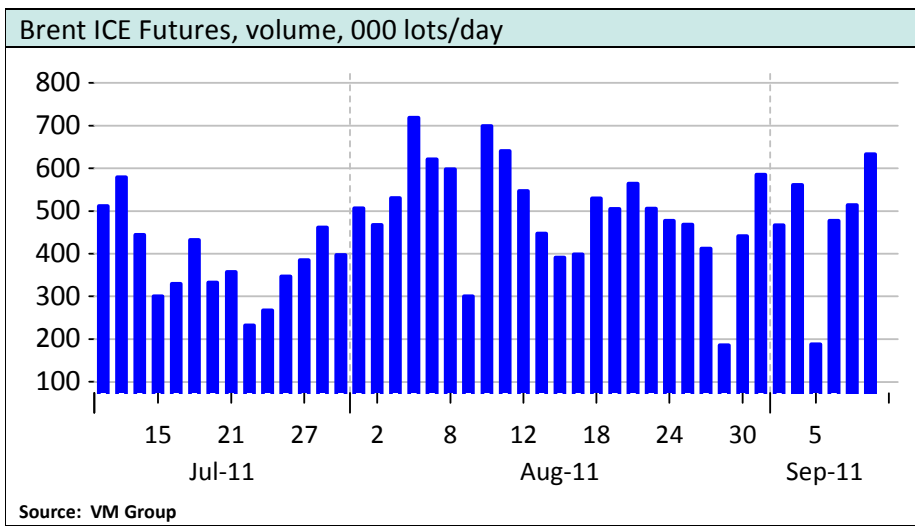
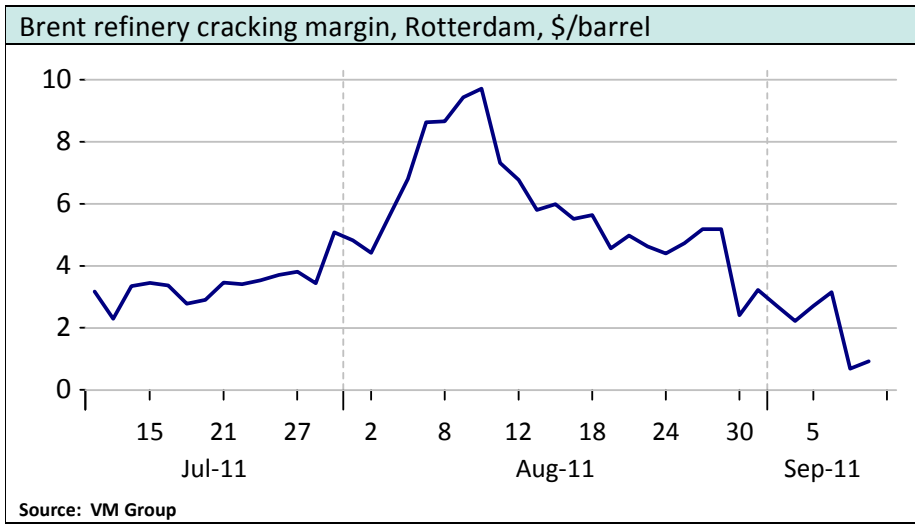
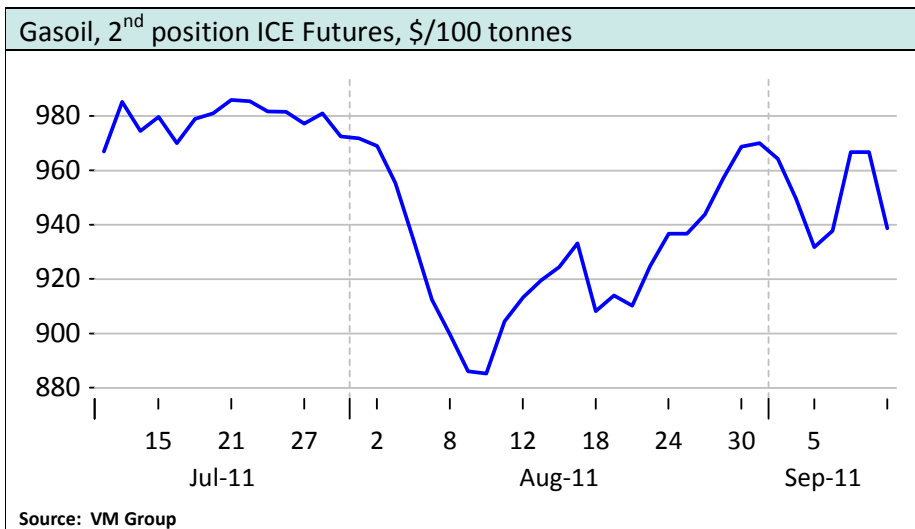
Elsewhere, barges of low sulphur fuel oil finished the week about \$12/tonne higher at \$648/tonne while high sulphur grades were about \$2/tonne stronger at \$630/tonne by Friday afternoon.

Outlook

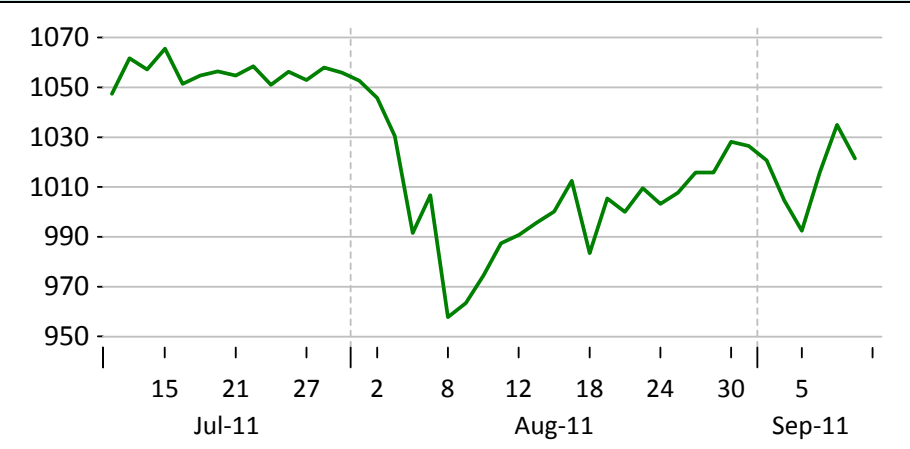
The Swiss are not normally considered belligerents, but they fired off the first shots in their own currency war last week in a pre-emptive move to set a minimum exchange rate of SwFr 1.20 against the euro. While the move certainly grabbed investor attention, the Swiss National Bank's desire for "a substantial and sustained weakening of the Swiss franc" is far from guaranteed, simply because the eurozone malaise continues to seep into Switzerland from all sides. Circling the wagons looks fairly futile when EU investors have long used Switzerland as an escape route to low but safe returns. What impact this move will have on prices in the Swiss property market and on the international gold price have already been the mainstay of water-cooler conversations in recent days.

Even as the Swiss move defensively and the European Central Bank squirms with the departure of Jürgen Stark, markets appear to have ignored the possible impact of the US plan announced on Thursday to inject a further \$447bn into creating jobs ahead of next year's election. This may be another sign of Barack Obama's skills at the poker table, because the stakes have just been raised higher than his political opposition can afford to shout down. Obama presented the proposal in a safe soundbite, hinting that higher taxes on the wealthy would be needed to offset a payroll tax cut for less-well-off families. Or in the words of his scriptwriters, Congress had to choose between millionaires and teachers. As the clock ticks away on the political career of many embattled Republicans, this type of billion-dollar bluff might just work.

In the meantime, we expect oil prices to continue near their current levels during September. We anticipate Q4 prices to be comfortably above \$110/barrel and the average price of Brent for the entire year to reach \$118/barrel.

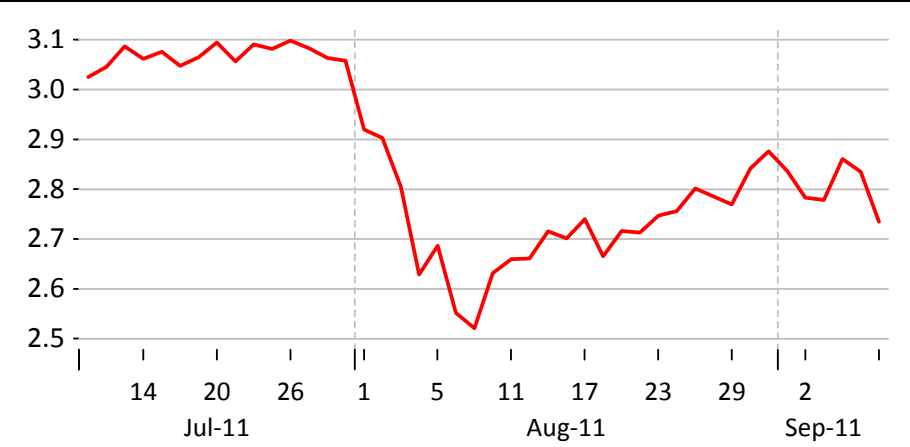


Amsterdam-Rotterdam-Antwerp kerosene-type Jet Fuel spot price, \$/tonne



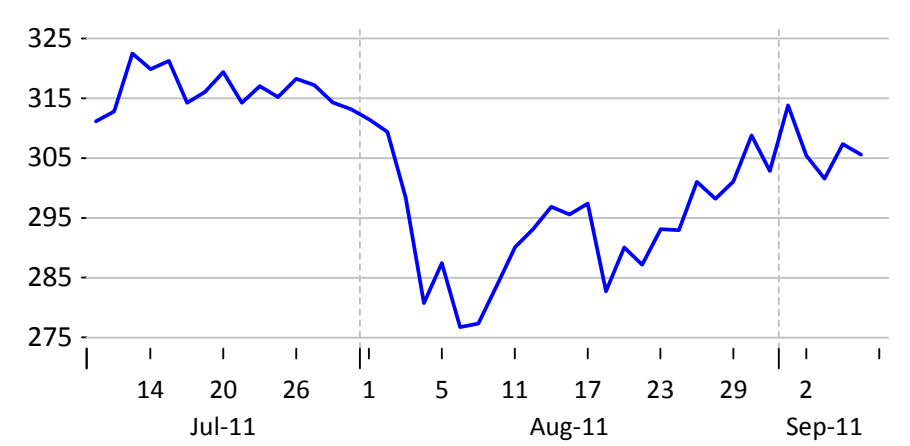
Source: VM Group

RBOB gasoline, 2nd position, \$/gallon

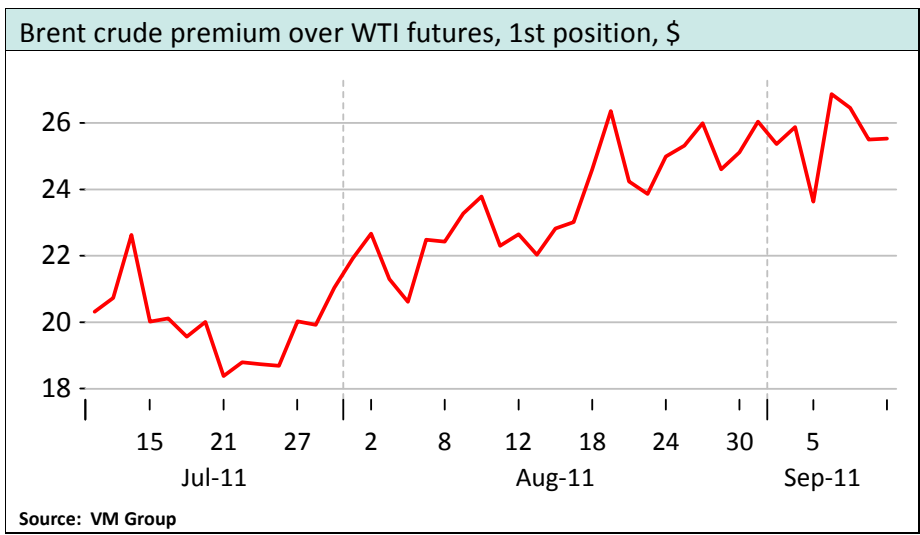


Source: VM Group

RBOB gasoline, FOB New York, c/gallon



Source: VM Group



BRENT TECHNICAL ANALYSIS

Close of Business: 09-Sep-11

BASIS : Nov 2011 A dip early in the week was propped up by the mid band average and Brent duly mustered another thrust higher but as is plainly evident on the daily chart (below left), this effort has still fizzled shy of the 117.7 channel ceiling. That is leading to some degradation of the one-month advance as the Dollar is meantime making life much tougher for commodities in general. One thing and another, there is duly the impression of

nearing a flashpoint as Nov is already beginning to gnaw away at its mid band. If similar events followed with regard to the broader spot continuation series and the 109's support were eroded, there would be a clearer sense of reversal from the upper reaches of the channel, setting the stage for a potential dive towards the lower end well down in the 90's. Only a quick boost back over 113 on Nov would keep the channel high within reach.

DAILY TECHNICAL INDICATORS

SUPPORT = 109.8/109, 105, 99, 96.7 (CHAN), 94.
RESISTANCE = 113, 115.5, 117.7 (CHAN), 120.

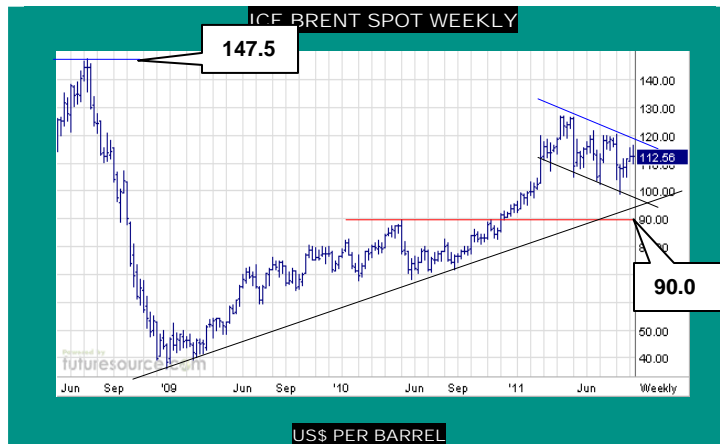
BOLLINGER BANDS

UPPER = 115.05
MID 20 DAY AV = 110.73
LOWER = 106.41

14 DAY RSI = 48 14 DAY ADX = 16

14 DAY STOCHASTICS
%K = 73
%D = 75

OPEN INTEREST = 874,824



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