Market Commentary | **US**
EDWARD MEIR +1 203-656-1143
Senior Commodity Analyst
emeir@mfglobal.com

ENERGY

Close as of Aug 20	HIGH	LOW	CLOSE	CHANGE ($)	SUPPORT*	RESIST*
WTI Oct 2010	74.99	73.44	73.82	-.95	71.09	77.00
ICE Brent Oct 2010	75.77	74.00	74.26	-1.04	71.00	77.80
Nat Gas Sept 2010	4.177	4.109	4.117	-.054	4.20	4.70
ICE Gas Oil Sep 2010	641.25	628.25	630.25	-8.25	630	660
Heating Oil Sep 2010	2.0181	1.9682	1.9710	-.0297	1.90	2.09
NY Harbor RBOB Sep 2010	1.9374	1.9085	1.9251	-.0036	1.90	2.03

This report was written on Sunday, August 22, at 8:00 p.m. US EST; the nearby CME contract was called to open at +$.07 at this time.

Although there were no US macro reports to speak of on Friday, the overhang of disappointing numbers out from earlier in the week continued to weigh on the markets, as did the stronger dollar. As a result, oil prices fell for a third straight session on Friday, with prices tumbling to a six-week low on a closing basis. Base metals also pushed lower, as did US equity markets, although both managed to pare their losses by the close.

Energy prices were also pressured by the expiring September WTI contract, while weather disturbances in the Gulf hardly had much bullish impact perhaps because the last three systems fizzled out uneventfully. This time around, the U.S. National Hurricane Center said Friday that a low pressure system southwest of the Cape Verde Islands was given a 40% chance of developing into a tropical depression over the next 48 hours. SInce then, the Center has upgraded its assessment, saying that Tropical Storm Danielle has officially formed, and could become a hurricane by Tuesday. Danielle is carrying sustained winds of 40 miles per hour, but as of now, it is posing no threat to energy assets and is expected to curve northwards and onto the open seas later in the week, which is why we are seeing a rather restrained price response in Asian trading.

As we start the new week, we do not expect much to happen in Monday's session, since there are no major releases out of the US to lend markets any direction. Consequently, we suspect last week's weaker tone will likely prevail at least through mid-week, at which point the markets will have a few more macro reports to digest. In this regard, we get July existing home sales out on Tuesday (expected up 4.7 5 million units annualized), while Wednesday brings us July durable goods orders (expected at 3.1%). We get July new home sales data out Thursday (expected at 330,000 units annualized), as well as weekly initial claims data (expected at 485,000). Readers remember that last week's initial claims data unexpectedly hit the key 500,000 mark, pummeling a number of markets in the process, and so this week's figure will likely assume additional importance. Finally, on Friday, we get a second estimate of second-quarter GDP (now expected to come in at 1.4%, downwardly revised from last month's 2.4% reading). University of Michigan sentiment numbers also come out Friday (expected at 69.4, and only slightly lower from last month's 69.6 reading).

Technically, our charts do not look that inspiring, with most complexes either punching through short-term support levels, or hovering slightly above them. (See our commentary on pp. 4-5). More disturbing for the bulls in our view, is the fact that the net noncommercial crude position actually *increased* this past week, this at a time of sharply declining prices. (See our charts on page 3). Although the managed money net position did fall relative to last week, we do not see either number reflecting the appropriate amount of long liquidation that could potentially signal a near-term bottom.

While we have been negtaive on the markets in recent commentary, we have maintained that crude oil prices should hold $70 given the fact that we are entering the most critical part of the hurricane season. However, the calendar reveals that the weather window is closing, with only one officially formed hurricane so far in the bag in what was supposed to have been a relatively busy season. Despite this sluggish start, we suspect weather should lend an element of support to prices at least through September, but the market is in danger of breaking down if the hurricane tally remains minimal by September's end.

IN OTHER NEWS .....

* **Noncommercial net long positions** in the week ending Aug 17 rose to 62,056 lots from 60,336 lots the week before, while open interest fell to 1,267,340 lots from 1,274,605 lots. The rise in the net position was somewhat surprising, but was offset by a decline in the managed money net long position. Net length in RBOB fell to 23,914 lots from 48,145 lots, with open interest rising to 251,053 lots from 244,527 lots. Net longs in heating oil fell sharply to 2,926 lots from 28,956 lots the week before, with open interest falling to 298,369 lots from 301,750 lots. Net longs in nat gas rose to 160,712 lots from 156,482 lots, while open interest fell to 828,693 lots from 842,038 lots.

* There is an excellent article in this month's *Atlantic* written by Jeffrey Goldberg analyzing the current **US-Israeli thinking** vis-a-vis **Iran's nuclear program**. The author concludes that if "things remain on the current course", an Israeli air strike will likely unfold over the next twelve months. Readers can access the article by clicking here; it is a lengthy piece, but well worth the read. In a related item, **Iran** said it began fueling its first nuclear power plant on Saturday, a project decades in the making despite international concerns over the program. "Despite all the pressures, sanctions and hardships imposed by Western nations, we are now witnessing the start-up of the largest symbol of Iran's peaceful nuclear activities," Iran's nuclear chief was quoted as saying. The country also test-fired an unmanned drone system this weekend.

* **Japan's transport ministry** issued a warning to ships moving the Strait of Hormuz following an explosion that damaged a tanker last month. "Ships passing through (the Strait of Hormuz) should be sufficiently alert and need to pay attention to moves by small-sized ships especially during transit in the night," the Japanese transport ministry said in a statement.

* **AccuWeather.com** expects temperatures in the Northeast to remain near normal for this week, while the Midwest will see mostly above seasonal readings.

* **US demand for crude oil and petroleum products** increased 3.8% in July over a year ago, with total petroleum deliveries averaging 19.327 mbpd, up 701,000 bpd from a year ago, this according to **API's monthly report** out Friday. Gasoline demand was nearly even from the same month last year at 9.257 mbpd. Deliveries of distillates increased 9.8% to 3.726 million bpd. Demand for jet fuel was up 6.9%.

* **European oil refinery** output slipped by more than 3% in July from June as refiners reduced run rates, **Euroilstock data** showed. July’s total refinery output in 16 European countries was 11.529 mbpd. Fuel oil output fell by 5% over June, while gasoline output fell by 2.7% to 2.802 mbpd.

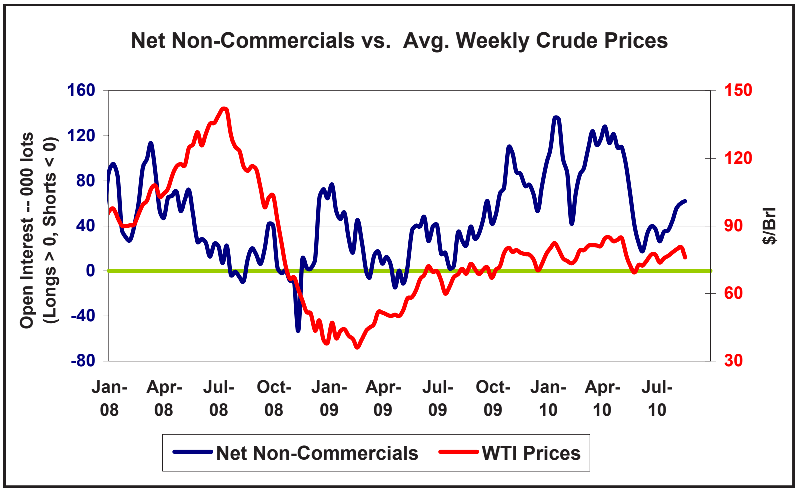
* **Pemex** is reviewing a plan to import crude for the first time in over 30 years in an effort to improve the profitability of its refineries. Specifically, the plan calls for the importing of up to 40,000 bpd of crude.

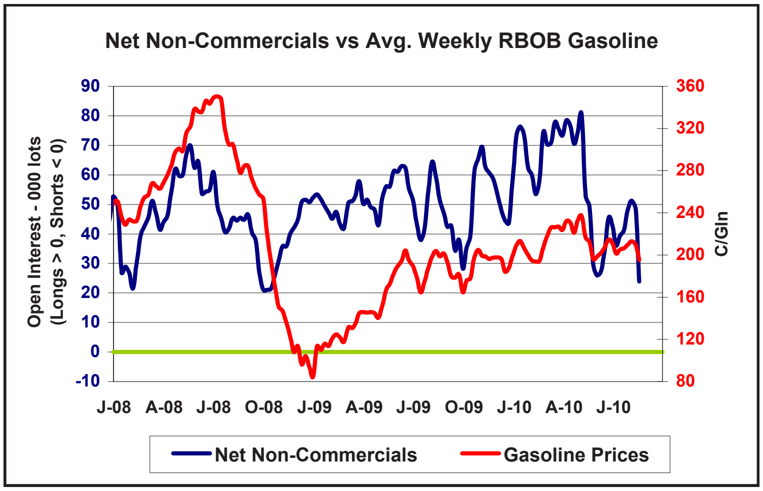
European North Sea crude oil quotes as reported by Reuters: A Forties cargo for Sept. 6-8 sold at dated plus 30c. A Statfjord cargo for Sept. 13 was at plus $1.90 and two Gullfaks cargoes for Sept. 14-16 at plus $2.90 . In Rotterdam, complex margins for Brent averaged $4.47 per barrel up from the average of $3.19 over the past year. There was no **US report** on Friday.

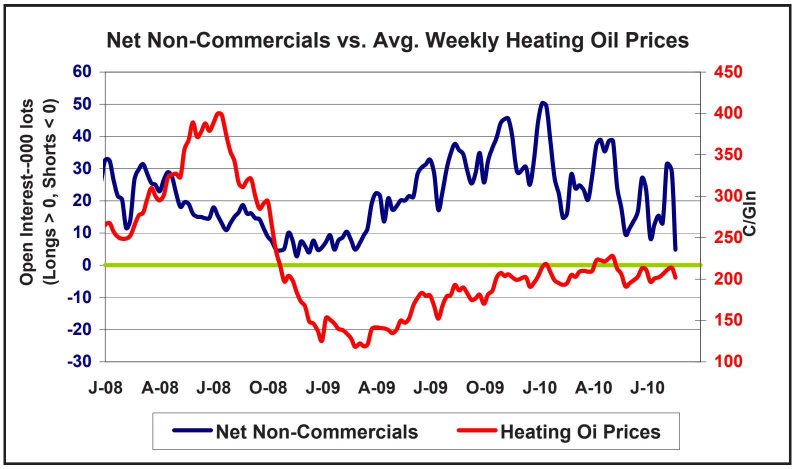
LONDON OFFICE	**+44 207-144-5525**	**NEW YORK OFFICE**	**1 212-589-6400**
Access/ Globex	+44 207-144-5751	Crude	1 212-738-7334
Brent/ Gas Oil	+44 207-480-7980	Heat	1 212-590-1480
Uranium	+44 207-144-5999	Gas	1 212-590-1380
		Options	1 212-590-1388
		Nat Gas	1 212-590-1485
		ACCESS	1 212-589-6417

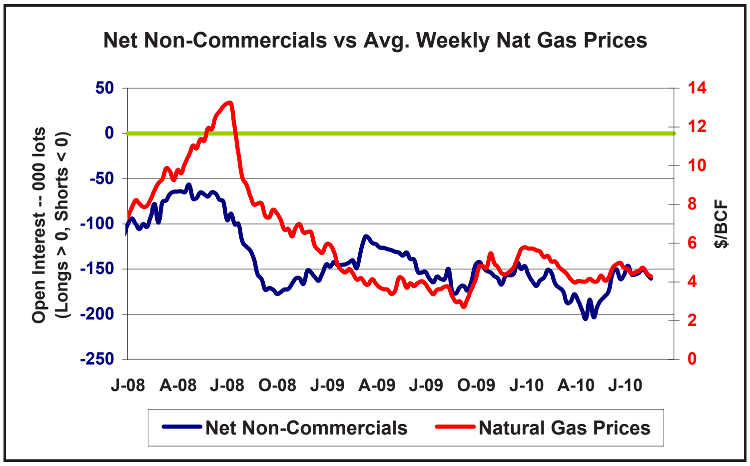
MF Global UK Limited
Sugar Quay, Lower Thames Street
London, EC3R 6DU

Comment: Surprisingly, we saw net noncommercial length build slightly over the past week, although the managed money category fell. However, given the extent of the weekly price decline in crude, we would have thought that much more length would have fled the market, similar to what was seen in the product complex, where net long positions have dropped by half in gasoline and have practically evaporated in heating oil. The persistence of lingering longs in crude tells us that we may have a little bit more to go on the downside before this current decline finally runs its course. Natural gas shorts increased on the week.





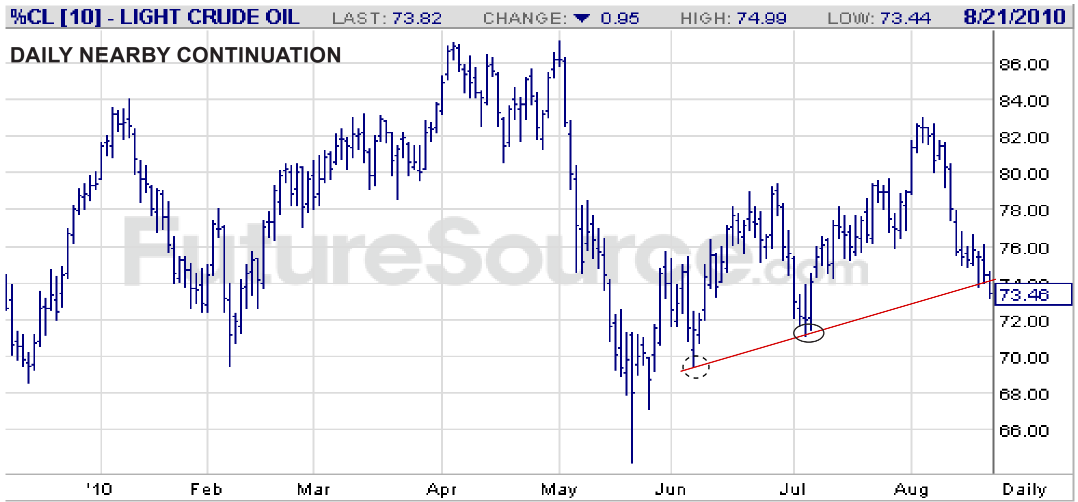




Data: CFTC/ Charts prepared by MF Global©

WTI CONTINUATION

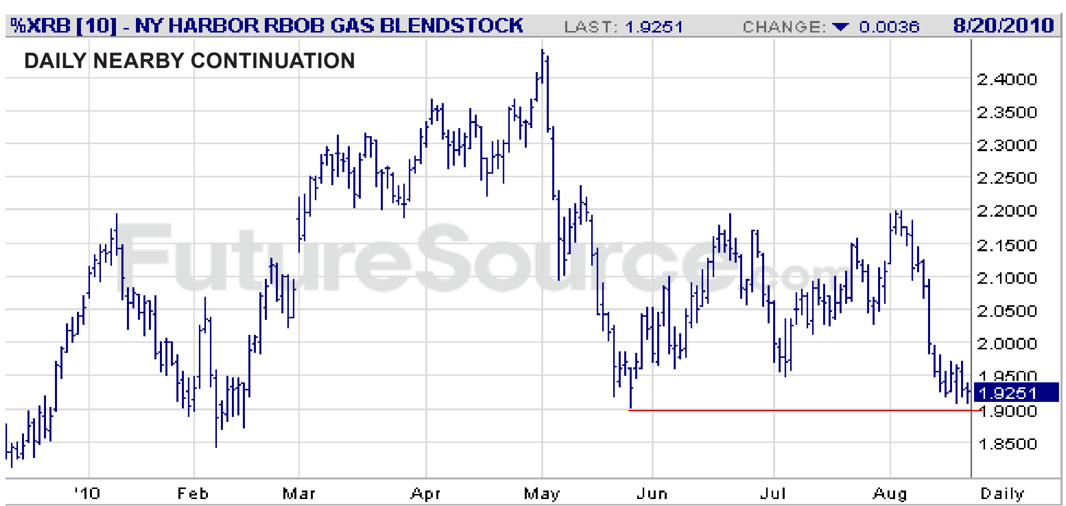
WTI prices seem to have broken the short-term upchannel, and prices now look like they are heading to early July support of $71.09, (solid circle), with $69, the early June low, below that (dashed circle). Given the surprising increase we noted in the net noncommercial position this week and only a slight decrease seen in the "managed money" position, we suspect that more selling could lie ahead over the next few days. However, we maintain our view that prices should hold the $70 mark, at least through September, which is when hurricane jitters will be at their most prominent. On the upside, a short-covering rally could take us to $77, but we would use an advance to this level as a selling opportunity.



BRENT CONTINUATION: Brent is resting at support at the $74 mark, which lies along a key short-term upchannel that goes back to late May (red line). The complex is holding up relatively better than WTI due in part to the fact that the arb has moved in Brent's favor in recent days given the recent stock increases seen in Cushing. Despite all this, we suspect that Brent will eventually break through trendline support, and possibly sink to $71, roughly equivalent to the $70 level that we expect will hold in WTI. Resistance is at $77.80.

RBOB CONTINUATION

We are closing in on the $1.90 level, which marks key trendline support that goes back to late May (red line). A breach of this level could send prices to a low of $1.80 level, as there is very little in terms of support until then. More than any of the other products in our view, gasoline prices have been vulnerable to perceptions of slowing US economic growth and a lackluster job market, and we do not expect this to change anytime soon. Hurricane-related jitters have the potential to turn the complex around, but the window is closing, and we could see a break set in by the end of September if weather prospects remain tame. Resistance is at the $2.03 mark.



HEATING OIL CONTINUATION

Heating oil is on the verge of breaking lower, particularly if it takes out $1.97, which delineates support going back to early July (red line). If we breach this level on a closing basis, we could sink to just below $1.90, (circled), a level we suspect will hold given the relative strength in distillate demand. Resistance is at $2.09, where there is a gap that could potentially be filled.

GAS OIL CONTINUATION

Gas oil is on the verge of breaking below support if it were to take out $630 on a closing basis. If that level is breached, we are looking at $605 next, with $585 below that. It seems that we likely will push lower over the short-term given the dearth of weather-related concerns in the Gulf. Resistance is at $660.

NATURAL GAS DAILY CONTINUATION

It seems that the natural complex has been overwhelmed by the rise in inventories and the turn that weather has taken towards more cooler conditions, particularly after July's searing heatwave across much of the US. It now seems that we likely will push down to the $4 mark. A break below that level should be used as a sell-stop to liquidate exiting long positions, as we take stock of the market at that time. Resistance is at $4.40.