



DAILY ENERGY COMPLEX COMMENTARY Monday May 22, 2017

DAILY ENERGY COMPLEX COMMENTARY 05/22/17

Hope for an extension helps the bulls maintain control

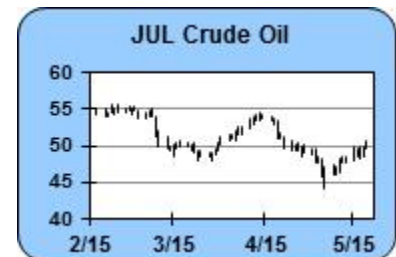
**OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
CRUDE +43, HEATING OIL +157, UNLEADED GAS +88**

CRUDE OIL MARKET FUNDAMENTALS: While the markets have been aware of the potential for a May 23rd extension of the producer cut agreement for weeks, talk that the cuts might be even deeper than were contained in the first deal provides a fresh bullish wave of potential buying interest. Furthermore, with the most recent COT positioning report for crude oil registering the lowest net long positioning in seven months, it would seem that the April and May washout truly balanced the technical positioning which in turn increases the prospect that \$48 is some form of technical value. We would also suggest that the \$48 level is some form of fundamental value zone, as the threat of increased production restraint combined with the general pattern of declining US crude oil inventories means the US oversupply condition is for the time being effectively countered. Unfortunately for the bull camp, US operating rig counts continue to rise which in turn increases the prospect of rising production in the near future. In fact, with the pattern of rising rig counts extending into quarters instead of weeks some higher production should be showing up in weekly data. Therefore, the bull camp really needs to see forward progression in the global economy, increased US exports and perhaps even expanded production restraint from OPEC and non-OPEC players. While a weaker dollar should ultimately benefit the sales of US crude to foreign customers, that development alone probably isn't enough to usher in a return to \$53.00 oil unless global demand is rising.

Weekly rig operating counts for the US showed a rise of 16 on the week. Petroleum rigs increased from 712 to 720 while gas rigs operating went from 172 to 180. The Commitments of Traders Futures and Options report as of May 16th for Crude Oil showed Non-Commercial and Non-reportable combined traders held a net long position of 391,483 contracts. This represents a decrease of 19,767 contracts in the net long position held by these traders.

PRODUCT MARKET FUNDAMENTALS: Clearly strength in crude oil and a weaker US dollar helped add to the gains in gasoline prices at the end of last week. As in crude oil, we think the lows in early May were unsustainable and that the \$1.60 level in July gasoline is some form of technical and fundamental value. It is also possible that a minor refinery glitch at a Texas refinery at the end of last week added some temporary support as well as strengthening Asian demand for gasoline blending. Another issue that should lend some support going forward is a transition into a stronger US summer demand period, especially since that seasonal demand expansion period is expected to be mirrored by an expansion of air passenger miles flown. However as in the crude oil market to usher prices back to the \$1.75 level probably requires ongoing spillover buying in crude oil, an even weaker US dollar and lastly ongoing improvement in the US and global economies. The Commitments of Traders Futures and Options report as of May 16th for Gasoline (RBOB) showed Non-Commercial and Non-reportable combined traders held a net long position of 28,346 contracts. The Commitments of Traders Futures and Options report as of May 16th for Heating Oil showed Non-Commercial and Non-reportable combined traders held a net long position of 10,675 contracts.

NATURAL GAS: Several issues look to create problems for the bull camp at the start of the new trading week. With gas rigs operating rising from 172 to 180 last week, the combined net spec and fund long hitting a new record at 94,245 contracts and weather mild to bearish, the market will have to prove it can hold the bounce off last week's lows. In fact, if US temperatures continue to be below normal in many areas and with the July natural



gas contract into the recent highs sitting roughly \$0.15 off the bottom of a three-month-old consolidation zone the market looks and feels vulnerable. As suggested the "combined" spec and fund Net Long position in natural gas has hit a new record level! The Commitments of Traders Futures and Options report as of May 16th for Natural Gas showed Non-Commercial and Non-reportable combined traders held a net long position of 94,245 contracts and that more importantly represents an increase of 40,529 contracts in the net long position held by these traders within 1 week! Therefore natural gas prices would seem to be nearing an expensive trading range and natural gas prices at current levels appear to present unattractive risk and reward conditions for the bull camp.

TODAY'S MARKET IDEAS:

While the short-term technical picture would seem to favor the bull camp, the rate of gain off the May lows would seem to factor in a large portion of the recently accepted bullish arguments. As indicated already, the bull camp clearly needs not only an extension of the production cut agreement (perhaps into 2018) but the market might also need definitive prospects of a deepening in the production hold back. Unfortunately, a continued pattern of reduced output from OPEC and Russia is effectively relinquishing market share to the US, and therefore more cuts could be very difficult to engineer. In fact with crude oil rebounding sharply from the May low and venturing back above the \$50 level the pressure might be off some low cost Middle East producers and that might make them less likely to extend and deepen the cuts. Pushed into the market, we would be a bear put purchaser using August just out of the money options.

NEW RECOMMENDATIONS:

Buy August Crude oil \$50.00/\$47.00 bear put spread for 95. Use an objective of 225. Risk to 65.

PREVIOUS RECOMMENDATIONS:

None.

Commitment of Traders - Futures and Options - 5/9/2017 - 5/16/2017						
	Non-Commercial		Net Position	Commercial		Non-Reportable
	Net Position	Weekly Net Change		Weekly Net Change	Net Position	
Energies						
Crude Oil	381,437	-6,169	-391,483	+19,767	10,046	-13,598
Heating Oil	13,135	+2,783	-10,676	-2,825	-2,460	+41
Natural Gas	57,455	+37,130	-94,246	-40,531	36,790	+3,399
Gas (RBOB)	32,340	+2,821	-28,346	-4,538	-3,994	+1,718

OTHER ENERGY CHARTS:



ENERGY COMPLEX TECHNICAL OUTLOOK:

Note: Technical commentary is based solely on statistical indicators and does not necessarily correspond to any fundamental analysis that may appear elsewhere in this report.

CRUDE OIL (JUL) 05/22/2017: The cross over and close above the 60-day moving average is an indication the longer-term trend has turned positive. The upside crossover (9 above 18) of the moving averages suggests a developing short-term uptrend. Momentum studies are trending higher but have entered overbought levels. A positive signal for trend short-term was given on a close over the 9-bar moving average. The market setup is supportive for early gains with the close over the 1st swing resistance. The near-term upside target is at 51.66. The next area of resistance is around 51.33 and 51.66, while 1st support hits today at 50.13 and below there at 49.27.

HEATING OIL (JUL) 05/22/2017: The market now above the 60-day moving average suggests the longer-term trend has turned up. Momentum studies are trending higher but have entered overbought levels. The close above the 9-day moving average is a positive short-term indicator for trend. With the close over the 1st swing resistance number, the market is in a moderately positive position. The near-term upside objective is at 162.67. The market is approaching overbought levels with an RSI over 70. The next area of resistance is around 161.24 and 162.67, while 1st support hits today at 156.62 and below there at 153.43.

RBOB GAS (JUL) 05/22/2017: The cross over and close above the 60-day moving average is an indication the longer-term trend has turned positive. Studies are showing positive momentum but are now in overbought territory, so some caution is warranted. The market's short-term trend is positive on the close above the 9-day moving average. With the close over the 1st swing resistance number, the market is in a moderately positive position. The next upside target is 168.34. The next area of resistance is around 167.04 and 168.34, while 1st support hits today at 162.38 and below there at 159.03.

NATURAL GAS (JUL) 05/22/2017: The major trend could be turning up with the close back above the 40-day moving average. Stochastics trending lower at midrange will tend to reinforce a move lower especially if support levels are taken out. The intermediate trend could be turning up with the close back above the 18-day moving average. Market positioning is positive with the close over the 1st swing resistance. The next downside target is 3.249. The next area of resistance is around 3.394 and 3.426, while 1st support hits today at 3.306 and below there at 3.249.

DAILY TECHNICAL STATISTICS

	CLOSE	9 DAY RSI	14 DAY RSI	14 DAY SLOW STOCH D	14 DAY SLOW STOCH K	4 DAY M AVG	9 DAY M AVG	18 DAY M AVG	45 DAY M AVG	60 DAY M AVG
ENERGY COMPLEX										
CLAN7	50.73	67.07	58.51	71.77	86.19	49.70	48.70	48.44	50.06	50.66
CLAQ7	51.01	54.26	52.65	71.32	90.70	49.98	44.10	46.27	49.35	50.18
HOAN7	158.93	71.97	62.34	71.23	86.29	1.55	1.52	1.50	1.55	1.56
HOAQ7	159.65	71.82	62.16	71.38	86.51	1.56	1.52	1.51	1.56	1.57
RBAN7	164.71	69.07	59.92	70.54	85.86	1.61	1.58	1.56	1.63	1.64
RBAQ7	163.98	69.39	60.22	71.15	86.37	1.61	1.57	1.55	1.62	1.63
NGAN7	3.350	51.52	51.62	49.06	40.08	3.31	3.37	3.34	3.32	3.27
NGAQ7	3.387	52.20	52.19	50.59	42.23	3.34	3.40	3.37	3.35	3.30

Calculations based on previous session. Data collected 05/19/2017

Data sources can & do produce bad ticks. Verify before use.

DAILY SWING STATISTICS

Contract		Support 2	Support 1	Pivot	Resist 1	Resist 2
ENERGY COMPLEX						
CLAN7	Crude Oil	49.26	50.13	50.46	51.33	51.66
CLAQ7	Crude Oil	49.42	50.37	50.70	51.65	51.98
HOAN7	Heating Oil	153.43	156.62	158.05	161.24	162.67
HOAQ7	Heating Oil	154.15	157.35	158.74	161.94	163.33
RBAN7	RBOB Gas	159.02	162.38	163.68	167.04	168.34
RBAQ7	RBOB Gas	158.31	161.66	162.94	166.29	167.57
NGAN7	Natural Gas	3.248	3.305	3.337	3.394	3.426
NGAQ7	Natural Gas	3.271	3.337	3.371	3.437	3.471

Calculations based on previous session. Data collected 05/19/2017

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