



DAILY ENERGY COMPLEX COMMENTARY

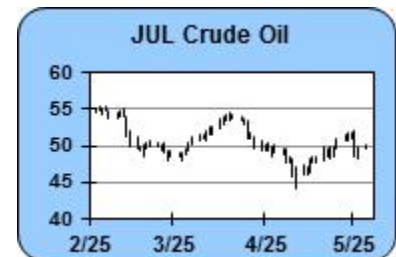
Tuesday May 30, 2017

DAILY ENERGY COMPLEX COMMENTARY

05/30/17

We would not chase the market with buy orders this morning

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
CRUDE -15, HEATING OIL -90, UNLEADED GAS -41



CRUDE OIL MARKET FUNDAMENTALS: The crude oil market ended last week with a sign of some value above the \$48.00 level and with a quasi-double low on the charts this morning around the \$48.75 level the bull camp might expect to see support come in just under early prices. The headline news item of last week came from another decline in US crude oil inventories but news of final confirmation of the extension of the producer cut agreement was also important to the trade. The markets also saw news that Amsterdam Rotterdam and Antwerp (ARA) gas oil stocks, Naphtha and gasoline stocks fell for the week but it is also possible that the magnitude of the break in crude oil and gasoline last week resulted in simple short covering off of last week's lows. However as expected the most recent weekly rig operating count showed another build (for the 19th straight week in a row) and that leaves the threat of supply hanging over the market. On the other hand drillers added only two Rigs to the count and the trade was quick to interpret that as a sign that the pace of Rigs coming back on line was slowing. Perhaps the sharp April and May washout in prices and the extreme pessimism thrown off by the spike down to \$44 discouraged fresh investment and therefore production interest was curtailed. In fact, the trade/Press are suggesting that the monthly pace of gains in rig counts have fallen to the lowest level in seven months and that highlights a leveling out of exploration efforts. The rig operating count stands at 722 compared to only 316 at the same time last year. With the US closed for holiday yesterday and Middle East crude oil grades showing weakness it is possible that oil prices in the second international trading session of the week are set to give back some of last week's short covering gains. In fact news that Iraq will possibly hedge its production would present the market with a major short selling theme and that could tip the balance back in favor of the bear camp. However, the Commitments of Traders Futures and Options report as of May 23rd for Crude Oil showed Non-Commercial and Non-reportable combined traders held a net long position of only 395,399 contracts and that positioning is probably overstated (due to the setback following that report mark-off) and therefore the futures market is not excessively vulnerable to corrective pressure especially considering that the record spec and fund long earlier this year was 603,000 contracts. In conclusion we think the \$48 level is strong value but given the string of rising rig counts and the passing of the Producer's meeting we think it will take clear evidence of better demand to see crude oil prices extend gains toward what we think is overvalued up at \$52.00.

PRODUCT MARKET FUNDAMENTALS: Somewhat low gasoline prices in regional areas, residual support from tighter European product stocks and the kickoff to the northern hemisphere seasonal demand improvement period should help to underpin nearby gasoline prices above and around \$1.60. As suggested the products should see some supportive from news that Amsterdam Rotterdam and Antwerp (ARA) gas oil stocks, Naphtha and gasoline stocks fell last week. Furthermore the Commitments of Traders Futures and Options report as of May 23rd for Gasoline (RBOB) showed Non-Commercial and Non-reportable combined traders held a net long position of only 34,596 contracts and that is probably overstated due to the break into last week's lows. We define the upcoming range in July RBOB to be \$1.590 to \$1.71. The Commitments of Traders Futures and Options report as of May 23rd for Heating Oil showed Non-Commercial and Non-reportable combined traders held a net long position of 17,236 contracts.

NATURAL GAS: While natural gas prices at times last week were cushioned by the prospect of warmer US

temps ahead the trade clearly understands that normal US temps aren't particularly helpful for the bull camp. From a technical perspective July natural gas prices enter the second international trading session of the week around failure point levels on the charts. With the US natural gas rig count for the week ended May 19th rising by 5 to reach the highest since early December 2015 the supply-side of the equation remains negative. In short natural gas faces generally negative supply-side forces and only average demand hopes. The Commitments of Traders Futures and Options report as of May 23rd for Natural Gas market showed Non-Commercial and Non-reportable combined traders held a net long position of 90,081 contracts which is just below the record long achieved in the prior trading week and therefore we suspect the figures are overstated due to the break in prices since the report was compiled. However, in the end the natural gas market remains vulnerable from the COT readings and it is also vulnerable from the charts given the early failure to respect the \$3.20 level. As indicated already the \$3.20 level in the July natural gas contract appears to be a key pivot point this week and the inability to hold above \$3.187 could set the stage for another probe below \$3.10. In fact with the net spec and fund long at some of the highest levels in modern trade history one has to assume ongoing vulnerability.

TODAY'S MARKET IDEAS:

All things considered the energy bears have to be emboldened by the price action last week. However the bull camp is not without ammunition as weekly crude oil stocks continue to decline and the trade has spun the slower rig addition pattern into a supportive theme. However prices into the second international trading session of the week appear to be sitting almost in the middle of the anticipated trading range. Therefore we would suggest traders wait for corrections below \$47.50 to get long or wait for a rally back up to \$51.22 get short. The crux of the bull case is that demand is improving seasonally and cyclically and international production restriction is capable of eating into US supplies. In the event of a macroeconomic letdown or risk off condition that could swing the pendulum in favor of the bear camp.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

Long August Crude oil \$50.00/\$47.00 bear put spread from 95. Use an objective of 225. Risk to 55.

Commitment of Traders - Futures and Options - 5/16/2017 - 5/23/2017						
Energies	Net Position	Non-Commercial	Net Position	Commercial	Net Position	Non-Reportable
		Weekly Net Change		Weekly Net Change		Weekly Net Change
Crude Oil	400,402	+18,965	-395,399	-3,916	-5,003	-15,049
Heating Oil	15,302	+2,167	-17,237	-6,561	1,934	+4,394
Natural Gas	53,365	-4,090	-90,082	+4,164	36,716	-74
Gas (RBOB)	35,506	+3,166	-34,596	-6,250	-910	+3,084

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) 05/30/2017: Momentum studies trending lower from overbought levels is a bearish indicator and would tend to reinforce lower price action. The market's close below the 9-day moving average is an indication the short-term trend remains negative. The upside closing price reversal on the daily chart is somewhat

bullish. The close over the pivot swing is a somewhat positive setup. The next downside target is 47.72. The next area of resistance is around 50.62 and 51.08, while 1st support hits today at 48.94 and below there at 47.72.

HEATING OIL (JUL) 05/30/2017: The market now above the 60-day moving average suggests the longer-term trend has turned up. Momentum studies are trending lower from high levels which should accelerate a move lower on a break below the 1st swing support. The close below the 9-day moving average is a negative short-term indicator for trend. The upside closing price reversal on the daily chart is somewhat bullish. The market's close below the pivot swing number is a mildly negative setup. The next downside target is 152.26. The next area of resistance is around 158.73 and 159.87, while 1st support hits today at 154.93 and below there at 152.26.

RBOB GAS (JUL) 05/30/2017: Daily stochastics turning lower from overbought levels is bearish and will tend to reinforce a downside break especially if near term support is penetrated. The market's short-term trend is negative as the close remains below the 9-day moving average. The upside closing price reversal on the daily chart is somewhat bullish. It is a mildly bullish indicator that the market closed over the pivot swing number. The next downside target is now at 157.90. The next area of resistance is around 164.56 and 165.67, while 1st support hits today at 160.68 and below there at 157.90.

NATURAL GAS (JUL) 05/30/2017: The market now above the 60-day moving average suggests the longer-term trend has turned up. Daily stochastics declining into oversold territory suggest the selling may be drying up soon. The close below the 9-day moving average is a negative short-term indicator for trend. The market has a slightly positive tilt with the close over the swing pivot. The next downside objective is 3.220. The next area of resistance is around 3.334 and 3.368, while 1st support hits today at 3.260 and below there at 3.220.

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	49.78	51.08	50.36	80.52	74.56	50.38	50.15	48.80	50.19	50.32
CLAQ7	50.03	51.12	50.38	80.44	74.48	50.63	50.41	49.08	50.46	50.58
HOAN7	156.83	54.94	53.71	82.70	77.97	1.59	1.57	1.52	1.56	1.56
HOAQ7	157.43	54.53	53.37	82.79	77.95	1.59	1.58	1.53	1.57	1.57
RBAN7	162.62	55.56	53.30	83.11	80.66	1.63	1.63	1.58	1.63	1.63
RBAQ7	161.47	54.25	52.53	83.07	79.79	1.63	1.62	1.58	1.62	1.62
NGAN7	3.297	46.03	47.76	35.59	27.56	3.30	3.32	3.34	3.33	3.29
NGAQ7	3.333	47.37	48.77	38.62	31.15	3.34	3.35	3.37	3.36	3.32

Calculations based on previous session. Data collected 05/26/2017

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	47.72	48.94	49.40	50.62	51.08
CLAQ7	Crude Oil	47.98	49.20	49.65	50.86	51.31
HOAN7	Heating Oil	152.25	154.92	156.06	158.73	159.87
HOAQ7	Heating Oil	152.91	155.54	156.68	159.31	160.44
RBAN7	RBOB Gas	157.89	160.67	161.78	164.56	165.67
RBAQ7	RBOB Gas	157.03	159.65	160.68	163.30	164.33
NGAN7	Natural Gas	3.220	3.260	3.294	3.334	3.368
NGAQ7	Natural Gas	3.260	3.298	3.329	3.367	3.398

Calculations based on previous session. Data collected 05/26/2017

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

***This report includes information from sources believed to be reliable and accurate as of the date of this publication, but no independent verification has been made and we do not guarantee its accuracy or completeness. Opinions expressed are subject to change without notice. Any information or recommendation contained herein: (i) is not based on, or tailored to, the commodity interest or cash market positions or

other circumstances or characterizations of particular investors or traders; (ii) is not customized or personalized for any such investor or trader; and (iii) does not take into consideration, among other things, risk tolerance, net worth, or available risk capital. Any use or reliance upon the information or recommendations is at the sole discretion and election of the subscriber. The risk of loss in trading futures contracts or commodity options can be substantial, and traders should carefully consider the inherent risks of such trading in light of their financial condition. Any reproduction or retransmission of this report without the express written consent of Lakefront Futures is strictly prohibited.