



DAILY ENERGY COMPLEX COMMENTARY

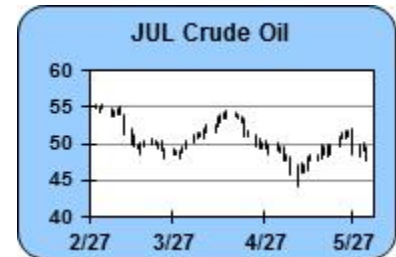
Thursday June 01, 2017

DAILY ENERGY COMPLEX COMMENTARY

06/01/17

Chances of a low increased by the inventory readings

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
CRUDE +3, HEATING OIL -11, UNLEADED GAS +94



CRUDE OIL MARKET FUNDAMENTALS: Clearly the crude oil market had the rug yanked out from underneath it yesterday by a key news headline as prices fell by \$1.80 per barrel in a span of two hours in the US trade action. We think the impetus behind the sharp washout was primarily news that OPEC oil output increased for the first time in 2017. Adding into the bearish flow of supply side news was the revelation that Saudi Arabia had yet to reach their promised output cut level, and that news was compounded by higher monthly output from both Nigeria and Libya. While the increase in May OPEC output was only 250,000 barrels per day, the fact that supply expanded clearly disappointed the trade and that in turn resulted in fresh chart damage. Apparently crude oil was unable to garner support from promises from OPEC and non-OPEC producers that they were working to ultimately reduce inventories back down to a five year average, as that would seem to suggest the production cut agreement could be rolled over perpetually until the supply targets are achieved. Another issue that was simply tossed aside by the market in the prior trading session was the revelation that OPEC was within striking distance of complete compliance of its production cut promises. After the close, a major private survey showed a weekly US crude oil stocks decline that was far larger than trade forecasts, which provided a moderate lift to prices late in the day but the lack of a noted corrective bounce off that news hints at some ongoing bearish control. In fact, Dubai crude oil reached the lowest level in 6 months overnight and the market also saw reports that certain Chinese refiners will import significantly less oil this month. Fortunately for the bull camp there are reports this morning that North Sea production will fall next month versus estimates. We continue to think that the \$48 level will eventually be seen as some form of value but continued declines in equities, an uptick in rate hike fears from the US and/or a risk off broad-based market event could temporarily result in a trade down toward \$47 in July crude oil.

PRODUCT MARKET FUNDAMENTALS: While the RBOB market was probably dragged down by the noted weakness in crude oil prices in the prior trading session, the product markets were also under delayed pressure from softer Japanese gasoline sales last month, the passing of the holiday weekend and fresh damage on the charts. After the close, a major private survey showed a larger than expected weekly decline in gasoline stocks and that combined with an outsized decline in US crude oil inventories (from a private source) should help to provide some support to RBOB around the \$1.60 level. However, that private survey also showed a modest increase in distillate stocks versus trade expectations of a moderate decline. While we think the \$1.60 level in July gasoline is some form of strong value, we can't rule out a temporary probe down to \$1.55 in the event that crude oil continues to slide and or there is a massive risk off event emanating from global equity markets or from US jobs news. The most important development today for the gasoline bulls is logically the prospect of a another weekly decline in crude oil stocks, but we would also suggest the weekly implied gasoline demand figure also needs to rise above the 9.7 million barrel per day level to begin to arrest the slide in RBOB prices.

Weekly EIA Petroleum Estimates - Week Ending 5/26/2017 - In Million Barrels

	High Estimate	Low Estimate	Stocks Last Week	Stocks Change Last Week
Crude Oil	-2.3	-2.7	516.3	-4.4

Distillates	-0.6	-1	146.3	-0.5
Gasoline	-0.9	-1.3	239.9	-0.8

NATURAL GAS: July natural gas extended lower yesterday and traded to down its lowest level since March 2nd which leaves the market short term oversold. However, the market took out and closed below the mid-March low of \$3.080 which would seem to leave the charts damaged. Furthermore with the National Weather Service 8-14 day forecast projecting below normal temperatures for the eastern two thirds of the U.S. through June 13th and the threat of the US leaving the Paris accord (that might deflate the global effort to use cleaner energy) the fundamentals remain bearish. While U.S. March natural gas output fell 0.2% to 89.64 bcf per day from 89.78 bcf per day in April inventories still totaled 2,444 bcf as of May 19th, which is 11% above the five year average. Support will be more prevalent around the \$3.000 but the market remains vulnerable from both technical and fundamental perspectives.

TODAY'S MARKET IDEAS:

While the July crude oil contract failed at the \$48 level yesterday, it has managed to reject that slide in another move that suggest some form of value is present at that level. However, it could be difficult for the weekly EIA crude stocks report to live up to the expectations created off the API crude stocks decline overnight. On the other hand, the decline in crude oil stocks yesterday was massive as well as an attention "getter" and that should thicken up support just under the market. In our opinion, another decline (not necessarily a large decline) in weekly crude oil stocks should mean a low is in place. However as indicated already, even lower pricing could be seen than the previously mentioned value zone in the event that global equities are down sharply and commodities as a group are under very aggressive attack.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

Long August Crude oil \$50.00/\$47.00 bear put spread from 95. Bank a profit this morning.*

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) 06/01/2017: Stochastics trending lower at midrange will tend to reinforce a move lower especially if support levels are taken out. The market back below the 18-day moving average suggests the intermediate-term trend could be turning down. The market is in a bearish position with the close below the 2nd swing support number. The next downside objective is 46.55. The next area of resistance is around 49.31 and 50.50, while 1st support hits today at 47.34 and below there at 46.55.

HEATING OIL (JUL) 06/01/2017: Momentum studies trending lower at mid-range could accelerate a price break if support levels are broken. The market back below the 18-day moving average suggests the intermediate-term trend could be turning down. The market's close below the 1st swing support number suggests a moderately negative setup for today. The next downside objective is 146.86. The next area of resistance is around 154.56 and 157.97, while 1st support hits today at 149.00 and below there at 146.86.

RBOB GAS (JUL) 06/01/2017: Momentum studies trending lower at mid-range should accelerate a move lower if support levels are taken out. The market's short-term trend is negative as the close remains below the 9-day moving average. The close below the 1st swing support could weigh on the market. The next downside target is now at 154.66. The next area of resistance is around 162.27 and 165.05, while 1st support hits today at 157.08 and below there at 154.66.

NATURAL GAS (JUL) 06/01/2017: Momentum studies are still bearish but are now at oversold levels and will tend to support reversal action if it occurs. A negative signal for trend short-term was given on a close under the 9-bar moving average. The close below the 1st swing support could weigh on the market. The next downside objective is 2.987. The next area of resistance is around 3.134 and 3.208, while 1st support hits today at 3.024 and below there at 2.987.

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	48.33	40.23	42.96	69.87	55.69	49.17	50.11	49.02	50.20	50.14
CLAQ7	48.56	39.98	42.76	69.61	55.22	49.42	50.36	49.29	50.46	50.40
HOAN7	151.78	40.50	43.97	72.26	58.72	1.55	1.57	1.53	1.56	1.55
HOAQ7	152.56	40.58	43.97	72.35	58.86	1.56	1.58	1.54	1.57	1.56
RBAN7	159.68	46.02	47.33	77.78	69.88	1.61	1.63	1.59	1.63	1.63
RBAQ7	158.46	44.48	46.33	76.67	67.60	1.60	1.62	1.59	1.62	1.62
NGAN7	3.079	30.06	36.05	24.04	12.04	3.20	3.28	3.32	3.33	3.29
NGAQ7	3.117	28.99	35.35	25.33	11.83	3.24	3.31	3.35	3.36	3.32

Calculations based on previous session. Data collected 05/31/2017

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	46.54	47.34	48.52	49.31	50.50
CLAQ7	Crude Oil	46.79	47.57	48.76	49.54	50.73
HOAN7	Heating Oil	146.85	149.00	152.41	154.56	157.97
HOAQ7	Heating Oil	147.72	149.84	153.16	155.28	158.60
RBAN7	RBOB Gas	154.65	157.07	159.85	162.27	165.05
RBAQ7	RBOB Gas	153.62	155.92	158.69	160.99	163.76
NGAN7	Natural Gas	2.986	3.023	3.097	3.134	3.208
NGAQ7	Natural Gas	3.029	3.064	3.134	3.169	3.239

Calculations based on previous session. Data collected 05/31/2017

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