



DAILY ENERGY COMPLEX COMMENTARY

Monday June 05, 2017

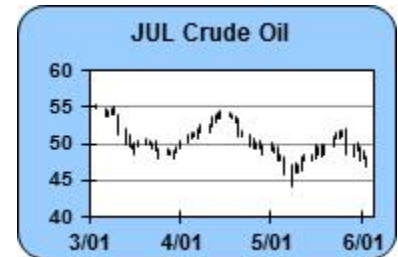
DAILY ENERGY COMPLEX COMMENTARY

06/05/17

Washout mode could exhaust itself after more large declines

OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
CRUDE -19, HEATING OIL -81, UNLEADED GAS -116

CRUDE OIL MARKET FUNDAMENTALS: The bear camp will suggest the crude oil market was under noted pressure at the end of last week because of fears that slack growth in the US could dent energy demand in the months ahead. In fact given softer than expected US auto sales last week, disappointing US payroll results last Friday and the possibility of risk off psychology due to terrorist activities over the recent weekend, the energy demand equation as a whole favors the bear camp to start the new trading week. As if the negative demand track isn't enough to pressure prices, the fact that the oil producer's production cut plan has now been put in the rear view mirror could leave compliance as the next focal point of the energy trade. Adding into the bearish supply side case is news that US horizontal drilling rigs rose by five in the week ending June 2nd and that is the 20th straight weekly rise in a row. On the other hand, the bull camp will suggest that the market rejected large portion of the Friday declines as if prices below \$47 were too cheap, and it is also possible that Middle East tensions will be fanned by the severing of diplomatic and economic ties between Qatar and 4 other Arab countries. In the end the energy markets have lost respect for production restraint and some might argue that OPEC will now have to do even more to support prices. In a caution to the bear camp, there has been a pattern of declining crude oil inventories in the US, US gasoline demand is already at record levels and US refiners are ramping up production to meet surging demand and that can result in surprise outages. Furthermore, the Commitments of Traders Futures and Options report as of May 30th for Crude Oil showed Non-Commercial and Non-reportable combined traders held a net long position of only 411,586 contracts and clearly that positioning is overstated given the slide following the report of \$3.00 per barrel! The market might not be fully liquidated but the risk of further sharp declines has shrunk.



PRODUCT MARKET FUNDAMENTALS: Clearly the gasoline market was undermined as a result of spillover pressure from crude oil last week. Like crude oil, the gasoline market also rejected the brunt of the washout last Friday to leave a formation that hints at a bottom. In fact, with a decline in US gasoline stocks last week and a record implied gasoline demand figure posted early in the summer driving season there are several fundamental arguments in place for a bottom around \$1.55 basis the July RBOB contract. As indicated in the crude oil coverage, increased refinery activity to meet the upswing in seasonal demand and more specifically, record demand increases the prospect of refinery glitches and outages ahead. In fact, rumors late last week suggested some difficulty at an Illinois refinery and that type news should make the bear camp a little nervous. We doubt unleaded gasoline will managed to bounce without positive leadership from crude oil, a shift back into a risk on environment globally and another new all-time high in US implied gasoline demand readings in this week's EIA figures. The Commitments of Traders Futures and Options report as of May 30th for Gasoline (RBOB) showed Non-Commercial and Non-reportable combined traders held a net long position of 42,731 contracts. The Commitments of Traders Futures and Options report as of May 30th for Heating Oil showed Non-Commercial and Non-reportable combined traders held a net long position of 23,885 contracts.

NATURAL GAS: From a technical and fundamental perspective, the bear camp retains the edge in natural gas. Without a distinctly warmer US temperature trend, ongoing risk-on sentiment in global equities and less spillover pressure from crude oil, thin double bottom low support down at \$2.9880 from late April might not be able to hold

up prices for long. On the other hand, US natural gas drilling counts last week actually declined by 3 and for some that suggests low prices are starting to reduce exploration efforts. Unfortunately, it could take months of level to falling rig counts before any impact on US storage levels is seen. Therefore, the bull camp clearly needs to see much hotter than expected temperatures in key US gas cooling areas, evidence of rising US gas exports and or better charts to call off the bear track. In fact, the market doesn't seem to be liquidated yet with the Commitments of Traders Futures and Options report as of May 30th for Natural Gas showing Non-Commercial and Non-reportable combined traders still holding a net long position of 66,494 contracts. However, into May 30th the net spec and fund long position showed a decrease of 23,587 contracts in the net long position held by these traders over the prior week and with the market since May 30th down another 14 cents, the July contract is probably getting closer to a "washed out" condition. Those that attempt to pick a bottom in July natural gas probably have to risk those positions to a trade below \$2.88, and that represents too much risk relative to reward.

TODAY'S MARKET IDEAS:

The inability to hold above \$47 in July crude oil at the end of last week leaves the technical set up bearish for crude oil. However, July crude oil from the low Friday was able to engineer a bounce of roughly \$1.10 per barrel and that might suggest some form of exhaustion washout has taken place. On the other hand with a sustained risk off market mentality (because of global terrorism concerns & slack economic data), further downside can't be ruled out in the short term. In fact, those looking to get long July crude oil probably have to risk those positions to at least \$45.67 on a closing basis. Fortunately for the bull camp, the net spec and fund long in crude oil has come down significantly which could increase the odds of stronger value at the \$46 level.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

Commitment of Traders - Futures and Options - 5/23/2017 - 5/30/2017						
	Non-Commercial		Net Position	Commercial		Non-Reportable
	Net Position	Weekly Net Change		Weekly Net Change	Net Position	
Energies						
Crude Oil	405,052	+4,650	-411,585	-16,186	6,534	+11,537
Heating Oil	15,874	+572	-23,885	-6,648	8,011	+6,077
Natural Gas	30,971	-22,394	-66,495	+23,587	35,523	-1,193
Gas (RBOB)	41,668	+6,162	-42,730	-8,134	1,063	+1,973

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) 06/05/2017: Declining momentum studies in the neutral zone will tend to reinforce lower price action. A negative signal for trend short-term was given on a close under the 9-bar moving average. The market tilt is slightly negative with the close under the pivot. The next downside objective is now at 46.20. The next area of resistance is around 48.54 and 49.09, while 1st support hits today at 47.10 and below there at 46.20.

HEATING OIL (JUL) 06/05/2017: Stochastics trending lower at midrange will tend to reinforce a move lower

especially if support levels are taken out. The market's short-term trend is negative as the close remains below the 9-day moving average. It is a slightly negative indicator that the close was under the swing pivot. The next downside target is now at 144.72. The next area of resistance is around 150.43 and 152.05, while 1st support hits today at 146.77 and below there at 144.72.

RBOB GAS (JUL) 06/05/2017: Momentum studies trending lower at mid-range should accelerate a move lower if support levels are taken out. The close under the 18-day moving average indicates the intermediate-term trend could be turning down. The close below the 1st swing support could weigh on the market. The next downside objective is now at 153.53. The next area of resistance is around 159.90 and 161.82, while 1st support hits today at 155.76 and below there at 153.53.

NATURAL GAS (JUL) 06/05/2017: Momentum studies are declining, but have fallen to oversold levels. The market's close below the 9-day moving average is an indication the short-term trend remains negative. It is a slightly negative indicator that the close was lower than the pivot swing number. The next downside target is now at 2.951. With a reading under 30, the 9-day RSI is approaching oversold levels. The next area of resistance is around 3.036 and 3.074, while 1st support hits today at 2.974 and below there at 2.951.

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	47.82	36.87	40.59	53.06	36.40	48.54	49.65	49.17	50.12	49.98
CLAQ7	48.01	35.55	39.60	52.30	34.79	48.74	49.87	49.43	50.38	50.24
HOAN7	148.60	33.49	38.78	53.45	34.25	1.51	1.56	1.54	1.56	1.55
HOAQ7	149.44	33.59	38.83	53.69	34.54	1.52	1.56	1.54	1.57	1.56
RBAN7	157.83	40.84	43.90	65.25	50.64	1.60	1.62	1.60	1.63	1.62
RBAQ7	156.56	39.10	42.74	62.88	47.29	1.59	1.61	1.59	1.62	1.61
NGAN7	3.005	26.30	32.95	14.51	6.38	3.06	3.21	3.29	3.31	3.29
NGAQ7	3.050	25.48	32.41	15.10	6.02	3.09	3.24	3.32	3.34	3.32

Calculations based on previous session. Data collected 06/02/2017

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	46.19	47.09	47.64	48.54	49.09
CLAQ7	Crude Oil	46.41	47.29	47.85	48.73	49.29
HOAN7	Heating Oil	144.71	146.76	148.38	150.43	152.05
HOAQ7	Heating Oil	145.57	147.58	149.29	151.30	153.01
RBAN7	RBOB Gas	153.52	155.75	157.67	159.90	161.82
RBAQ7	RBOB Gas	152.39	154.55	156.40	158.56	160.41
NGAN7	Natural Gas	2.950	2.974	3.012	3.036	3.074
NGAQ7	Natural Gas	2.997	3.021	3.054	3.078	3.111

Calculations based on previous session. Data collected 06/02/2017

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