

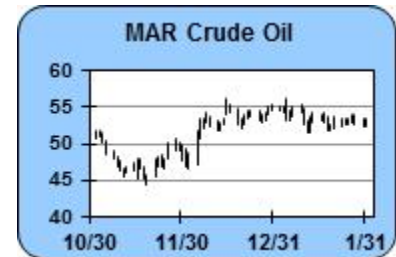


DAILY ENERGY COMPLEX COMMENTARY Wednesday February 01, 2017

DAILY ENERGY COMPLEX COMMENTARY 02/01/17

The path of least resistance is down

**OVERNIGHT CHANGES THROUGH 6:05 AM (CT):
CRUDE +29, HEATING OIL +103, UNLEADED GAS +172**



CRUDE OIL MARKET FUNDAMENTALS: All things considered, the action in the crude oil market yesterday and again overnight is impressive as the markets yesterday were facing risk-off sentiment and this morning the energy market is facing a much bigger than expected US crude oil inventory build from the EIA.

Like other physical commodities, crude oil is probably seeing some support and lift from the noted breakdown in the Dollar this week and we also think that the market is benefiting from upbeat commodity views from Goldman. We also think that favorable Chinese PMI manufacturing readings overnight help keep demand views a little supportive. Unfortunately for the bull camp Chinese January oil arrivals came in slightly lower than the prior month and that could keep Chinese demand views tempered in the wake of the PMI news. Limiting gains today is news from the EIA yesterday that November US monthly crude oil production rose by 105,000 bpd over the prior month. However, offsetting the news of higher production from the EIA yesterday was the fact that total oil demand in November was up 2.7% versus the prior month. It does seem as if the trade continues to think global oil producer cutbacks are capable of tightening supply even in the face of rising US production. In looking ahead, traders should fear another potentially large build in US weekly oil inventories from the EIA today. While March crude oil posted what appeared to be a technical reversal yesterday, there would appear to be rather thick consolidation resistance up around the \$54.06 level and the March contract has potentially critical support this morning from the 50 day moving average of \$52.70 to start today.

PRODUCT MARKET FUNDAMENTALS: Despite burdensome supply news from the API yesterday (stocks rose by 2.9 mb) the gasoline market has managed to reject the Monday lows and return quickly to its 50 day moving average. While the US remains within a weak seasonal demand period, it is possible that positive global data overnight and ongoing declines in the US refinery operating rate (88.3 last week down from a high of 93.6 over the last five weeks) could offset the slack seasonal demand argument. Some of the support in the gasoline market might also be the result of news from the EIA that US November gasoline demand was up 1.4% and that US refined oil product exports increased to 3 million barrels per day from 2.7 million in October. In other words, while upcoming US product demand is expected to be soft, demand at the end of last year was healthy. In short the gasoline contract has shown impressive recovery action and we find it difficult to throw off the bearish tilt. A key pivot point today might be seen up at the 50 day moving average at \$1.5760.

Weekly EIA Petroleum Estimates - Week Ending 1/27/2017 - In Million Barrels

	High Estimate	Low Estimate	Stocks Last Week	Stocks Change Last Week
Crude Oil	3.3	2.9	488.3	2.8
Distillates	-0.7	-1.1	169.1	0.1
Gasoline	1.1	0.7	253.2	6.8

NATURAL GAS: Apparently Japan intends to build 40 to 45 coal-fired electricity plants in an effort to replace the power generated by risky nuclear power plants. While the shift in Japanese power generation feedstocks might have direct influence on natural gas the impact on the petroleum markets is probably less significant. In the monthly EIA report, November natural gas production climbed to 89.5 bcf, up 2.2% from 87.6 bcf in October. Alaska boosted production by 11.7% to 9.799 bcf which was the largest gain of any state. Pennsylvania's natural gas production increased by 7.0% to 14.56 bcf, while Ohio's gained 1.3% to 4.1 bcf. Given the noted builds in US gas production and the mild outlook for the entire US through mid-February we aren't sure that the March contract has found a bottom yet. In fact, talk that the peak heating season might be coming to an end sooner than later leaves open the prospect of a return to the November consolidation lows. The early estimates for Thursday's inventory report have stockpiles falling by 76 bcf last week compared to the five year average of a 166 bcf decline for the same period.

TODAY'S MARKET IDEAS:

A potential critical pivot point today in March crude oil is seen today up at \$52.58, but we can't rule out a retest of the mid-January low of \$51.72 in the event that a risk off psychology returns through a heavy report slate, inventory data and the FOMC decision. However, energy prices have been able to respect the early January lows but that might be the result of significant weakness in the Dollar. While we can't rule out a temporary retest of the \$54.00 level ahead seeing the rise in API crude stocks yesterday should ratchet up expectations for the EIA crude stock build today and that probably means the bull camp will need very favorable US scheduled data and a conclusive risk-on vibe to respect the 50 day moving average in March crude oil at \$52.70.

NEW RECOMMENDATIONS:

None.

PREVIOUS RECOMMENDATIONS:

None.

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 (MAR) 02/01/2017: Momentum studies are trending higher from mid-range, which should support a move higher if resistance levels are penetrated. A negative signal for trend short-term was given on a close under the 9-bar moving average. The daily closing price reversal up on the daily chart is somewhat positive. With the close higher than the pivot swing number, the market is in a slightly bullish posture. The near-term upside objective is at 54.21. The next area of resistance is around 53.54 and 54.21, while 1st support hits today at 52.22 and below there at 51.57.

HEATING OIL (MAR) 02/01/2017: Daily stochastics are trending lower but have declined into oversold territory. 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. It is a mildly bullish indicator that the market closed over the pivot swing number. The next downside target is 159.04. The next area of resistance is around 165.52 and 168.11, while 1st support hits today at 160.98 and below there at 159.04.

RBOB GAS (MAR) 02/01/2017: The major trend could be turning up with the close back above the 60-day moving average. 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. A positive setup occurred with the close over the 1st swing resistance. The next downside target is now at 150.15. The next area of resistance is around 158.21 and 160.68, while 1st support hits today at 152.95 and below there at 150.15.

NATURAL GAS (MAR) 02/01/2017: The downside crossover of the 9 and 18 bar moving average is a negative signal. The daily stochastics gave a bearish indicator with a crossover down. Momentum studies trending lower at mid-range should accelerate a move lower if support levels are taken out. The close below the 9-day moving average is a negative short-term indicator for trend. The swing indicator gave a moderately negative reading with the close below the 1st support number. The next downside target is now at 3.029. The next area of resistance is around 3.196 and 3.278, while 1st support hits today at 3.072 and below there at 3.029.

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										
CLAH7	52.88	48.05	49.23	39.86	43.15	53.12	52.94	53.10	53.04	51.64
CLAJ7	53.50	47.31	48.73	35.10	36.75	53.72	53.60	53.83	53.76	52.34
HOAH7	163.25	43.68	45.72	20.90	18.94	1.64	1.64	1.65	1.66	1.62
HOAJ7	163.92	43.33	45.69	21.48	18.69	1.64	1.65	1.66	1.67	1.62
RBAH7	155.58	39.93	43.20	17.05	14.43	1.55	1.57	1.59	1.59	1.54
RBAJ7	177.35	43.70	46.50	22.62	19.25	1.77	1.78	1.79	1.79	1.74
NGAH7	3.134	36.20	40.60	41.36	33.80	3.28	3.29	3.29	3.41	3.30
NGAJ7	3.180	37.59	42.17	49.86	39.82	3.31	3.31	3.29	3.34	3.24

Calculations based on previous session. Data collected 01/31/2017

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						
CLAH7	Crude Oil	51.57	52.22	52.89	53.54	54.21
CLAJ7	Crude Oil	52.22	52.84	53.52	54.15	54.82
HOAH7	Heating Oil	159.03	160.98	163.57	165.52	168.11
HOAJ7	Heating Oil	159.95	161.76	164.26	166.07	168.57
RBAH7	RBOB Gas	150.14	152.94	155.41	158.21	160.68
RBAJ7	RBOB Gas	172.25	174.88	177.18	179.81	182.11
NGAH7	Natural Gas	3.028	3.071	3.153	3.196	3.278
NGAJ7	Natural Gas	3.085	3.123	3.197	3.235	3.309

Calculations based on previous session. Data collected 01/31/2017

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.